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The American Proposals **For a Collectivist World System**

By Garet Garrett

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Seizure of the Word

A Study of Government by Propaganda

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Notes on the Contents

The American Proposals for a Collectivist World System. This is a study of the State Department's Charter for an International Trade Organization, the implications of which have been lost in the dimness of a language understood only by experts. It is followed by a strong statement on the same subject by J. Howard Pew.

Seizure of the Word. This is a description by our Washington Correspondent of the American propaganda machine, now the biggest in the world, together with illustrations of how it works both here and abroad.

Villain: American Capitalism, from *The Economist*, and the *Anglo-American Complex*, a statement by the British Prime Minister in the House of Commons, will give the reader some understanding of the feeling that now rises in socialist England against the United States as a capitalist country and its so-called "dollar imperialism."

The New Economic Weather Bureau. Edna Lonigan's critical article on the new experiment with an Advisory Economic Council in the office of the President is followed by some wise meditations from the Bank of International Settlements on the history and vanities of economic forecasting.

Reflections on Real Estate. Professor Raymond Rodgers is a kind of *enfant terrible* among the economists. Never does he leave the ground on the wings of theory.

Some Myths of Labor Unionism. Dr. Walter Sulzbach taught at the University of Frankfurt and wrote for the Academy of Commerce in Berlin a book on "Manipulated Gold Currency" which could not be published in Hitler's Germany. He came to this country in 1937 and has been teaching and writing here since. He is now doing a book entitled "Democracy and Economic Liberty" from which this paper is abstracted.

Reactionary Liberals. Towner Phelan has appeared in *AMERICAN AFFAIRS* before. He is vice president of the St. Louis Union Trust Company and author of its notable monthly Letter. His next essay will be devoted to the influence of Communism on American political thought.

* * *

American Affairs is a quarterly journal of thought and opinion. In that character it is obliged to touch many subjects that by nature are controversial. Its pages are intentionally open to views and ideas that provoke debate. By printing them the National Industrial Conference Board does not endorse them; it undertakes only to acknowledge the integrity of the contributors and the good faith of their work.

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American Affairs

GARET GARRETT, *Editor*

JANUARY, 1947

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VOL. IX, No. 1

Review and Comment

By the Editor

A PAPER entitled "Is an International Society Possible?" by Dr. Isaiah Bowman, is published in pamphlet form as a supplement to this number of *American Affairs*. It will be painful reading for wishful thinkers. Dr. Bowman helped to write the Dumbarton Oaks Plan, out of which came the United Nations Charter. Much has happened since then. The line that divides the world is more visible. The nature of the conflict is increasingly clear. He is an optimist still, obliged by faith, but an optimist without delusions.

THE idea has been very widely implanted that the aim of the State Department's foreign trade policy is to liberate trade and that the Socialist government of Great Britain, with a contrary philosophy, is resisting; or that the British, as Demaree Bess writes from England in *The Saturday Evening Post*, are fearful of "American efforts to restore private enterprise all over the world." But in the shadow there is a very different shape of things. What appears in the American Proposals for an International Trade Organization, within the framework of the United Nations, is a planned world in which the role of free private enterprise would be allegorical. The British have accepted these proposals in principle—the principle being that the trade of the world shall be planned and administered by one supreme international authority. In the planning of it, however, one side or the other may gain some advantage. That becomes a higgling matter. In this issue of *American Affairs* will be found a study of the proposed International Trade Charter. The implications of it are not generally understood by the American

people, and how to bring them home without shock is a very delicate problem. In a recent radio speech the Assistant Secretary of State for Economic Affairs touched it gently for the first time saying:

"If the markets of the world are opened more freely to the products of various countries, certain groups, small groups, in every country, including the United States, may have to work harder, compete more intensively and perhaps for a while accept smaller profits. But this is, after all, the American way."

What he is saying here is that a planned world economy administered by an international authority would mean competition between unequal standards of living; it would mean that for a while at least we should have to accept a lower standard in order that other people might be able to raise theirs, with the hope that in the far-off sequel, owing to the better living of the whole world, we, too, should be better off. This is the New Deal on a planetary scale—a redistribution of the world's wealth in favor of the underprivileged nations. Who is going to decide whether or not the American people shall share their standard of living?

UNDER strain of common sense the fiction that borrowing and lending between governments or by governments can be nonpolitical is breaking down. The State Department has been making some guarded statements about it. The moral and political attitudes of nations queuing up for American loans will hereafter be more regarded. How strange that American capitalism should be assisting its political enemies all over the world. There is a pretense that this is not so; that all we are doing is to help the world to recover its economic balance. Nevertheless the most arrogant borrowers are nations who at the same time denounce American capitalism as an evil.

And now it appears that nothing can save the loans of the World Bank from becoming unfortunately involved in this confusion of investment with ideology. The American Government made the principal contribution to the capital of the World Bank, and practically the only market for the World Bank's securities will be the American market. But the board of directors is one-half European and of the six European countries represented three are Socialist. Russia has contributed nothing to the capital of the World Bank and yet her satellite nations are in and clamoring for loans. Mr. Molotov says cynically that Russia needs American capital and American capitalism needs the high rate of interest that Russia will pay for it. The World Bank has not yet offered any securities to the American investor. Misgivings about them are nevertheless rising. The State Banking Commission of Wisconsin has taken positive action. In response to a letter from *American Affairs* asking what its reasons were, the Chairman of the Commission replied briefly: "This Commission took such action as we saw necessary to protect the reserves of our banks in Wisconsin and also to protect the depositors of those banks as regards the International Bank."

UNEASY thoughts keep turning up in the mind of Great Britain's Socialist Government. One of them occurred recently to the Minister of Supply at a moment when he should have been happy, for he was visiting the scene of an experiment with industrial planning and was expected to say something in total praise of it to his press conference. But instead, he startled the newspaper reporters by wondering out loud why there was an apparent conflict between social justice and production. This he went on to explain. As a member of the Labor Government he was bound to be interested first of all in social justice. As Minister of Supply, on the other hand, he was bound to be interested in production. Now what struck him was the strange fact that between these two desirable ends there was conflict. If one were to ask him, "How shall we get the greatest amount of production in the shortest possible time?" the right and honest answer would be "profoundly anti-social." And why was that? The reporters took down his words. He said:

"In the present circumstances no doubt the greatest quantity of production could be achieved by letting speculators have their head, allowing more and more factories to be built on the outskirts of London to cater for luxuries and semi-luxuries, thus skimming the milk of the available purchasing power

in the hands of demobilized soldiers and others who would have nothing else to spend their money on. That would not spread over the country the prosperity which postwar production ought to bring. They would not get fair shares for all if they allowed such a district as Tyneside to go to rack and ruin just because businessmen reckoned they could make a bigger profit by setting up elsewhere and producing for the luxury market."

What the Minister of Supply is saying here is that if people are let alone they will do what they ought not to do. They will make things they ought not to make. They will buy things they ought not to buy. Purchasing power will be wasted as it ought not to be and prosperity will not be distributed as it ought to be. And since they do not know better, their lives will have to be planned for them. Moreover, if a Socialist government may not resolve this conflict by saying that social justice comes first and shall not be frustrated by people's wilful way of wanting what they want, why, what is a Socialist government for?

IF ALL the basic problems of the world were piled one upon another you would need something like a basic base and then a base for that base, and so on until a little wind of basic fact might come along and blow it all down, basically speaking. In the basic plan for a World Food Board, which is one of the basic projects of the United Nations, the United Nations being the basic hope of mankind, you will read this: "The basic problem is the financial one of increasing the purchasing power of the people who are unable to obtain sufficient food for their needs." Therefore, simple lack of money is the basic evil and the cause of hunger, and so basic nonsense. Where now in the world is there a people who, under conditions of political and social order, will be unable to provide itself with food by either producing the food for itself or producing the things which in an orderly world may be freely exchanged for food? Disorder is the cause of hunger, and the cause of disorder is not a want of purchasing power.

IN THE New Deal's book of planning the first formula naturally was one for prosperity, and it was reasoned as follows. We had the means and the know-how to produce unlimited abundance. On the other hand there was a great unsatisfied demand for things. What was the

trouble? What hindered prosperity? The trouble was that the great unsatisfied demand for things was wishful only, not effective, and the reason why it was not effective was that the people were in want of purchasing power. They had not the money to buy what they wished for. Therefore, let the government increase the money supply by deficit spending and mind that the purchasing power thus created should go to the people in the lower brackets where the wanting was. Thus their wishful wanting would become effective demand and call forth production. As production increased, employment would rise; as employment rose the payroll would expand, and so a new cycle of prosperity. Always before we had believed it was production that generated buying power. Here was a new theory, saying it was buying power that generated production. The only flaw in it was that it didn't work. The apologists ever since have been saying that it failed because the New Deal faltered; it had not the daring to do it on a very big scale. But what the New Deal did in multiples of one billion the war has done in multiples of ten. By wartime and postwar deficit spending the money supply has been expanded in a fantastic manner and the distribution of a swollen national income has been such as to increase purchasing power in the lower brackets beyond anything hitherto imaginable. A statistical picture of the case shows that the bottom bracket, which always was the largest one, is but a ghost of its former self. The two next higher brackets have been devouring it. And now we are saying, at least many are saying, that given (1) a great unsatisfied demand for things, and (2) plenty of money in the hands of the people to make their demands effective, there is bound to be ahead of us a time of wonderful expansion. The idea is that production must be up and doing in a prodigious manner to overtake purchasing power; and it sounds very plausible, only that much more than we realize this is the New Deal purchasing power theory returned in a magnificent aspect—the theory, namely, that purchasing power alone generates production. Obviously now this is going to be tested in a big way, and if it works who will say that we have not discovered the secret of perpetual prosperity? If it is necessary only to distribute purchasing power, every government knows how to do that. It is, in fact, the easiest thing a government does.

A PUBLIC opinion poll disclosed the shocking fact that 49% of the people had no idea of what you meant when you spoke of balancing

the Federal budget; only one college graduate in four could define the thought. And so we are a nation of economic illiterates. Is that the conclusion? It happened quite by accident that at about the same time the White House reporters polled the President on balancing the Federal budget. He said it was going to be balanced this fiscal year. That was news, because the Secretary of the Treasury had said that there would be a deficit of nearly \$2 billion. So the reporters went over and polled the Secretary of the Treasury, who said that a deficit was a deficit and there was no help for it; if the President had said what the reporters said he said he must have been thinking of something else. That was news of another kind. They went back to poll the President again. Did he disagree with his Secretary of the Treasury? He said no, there was no disagreement at all; if the Secretary of the Treasury had said what the reporters said he had said he must have thought they were talking about the weather. But at last it was all cleared up. The explanation was as follows. What balancing the Federal budget meant to the President was not what it meant to the Secretary of the Treasury. The President was thinking only of the Federal Government's importunate creditors, as you might yourself be thinking of the grocer, the gas station man and the banker, who all want their money when they want it, but there is also the undertaker who is usually willing to take an IOU for his. The Secretary of the Treasury put the undertaker down for \$2 billion on the next page over, in red ink, and so on that page the budget was unbalanced.

THE question addressed to public opinion was imprecise. No wonder the response was ignorant. It should have been a question like this: "Shall the Federal budget be balanced on the odd-numbered page while the black ink lasts or shall it be carried to an imbalance in red ink on the next page? Answer yes or no without thinking." The next question should have been: "In that case would you favor balancing the Federal budget by abolishing red ink? Think twice." That would be an ideal question on which to poll Congress. How many members of Congress know what you mean when you speak of balancing the Federal budget could perhaps be found out by taking a poll, and although it might be interesting it would be hardly worth the trouble since we are already sure that the Congress does not know what causes the Federal budget to be unbalanced. It thinks it is something the govern-

ment does. It blames the government for spending too much money but never itself for voting the appropriations.



IF THE poll-takers want to prove that we are a nation of economic illiterates they waste their time by not beginning at the top. At the top is theory. As you come closer and closer to the ground you find a kind of common sense which is economic wisdom. The theorists at the top thought the people could not be trusted with too much money and that unless they were controlled and minded by the government they would go on a demented spending spree. As it turned out, the strongest anti-inflationary force was one the government could not have imagined, and that force, quite simply, was a feeling people had about money. They held fast to a sense of the customary value of the dollar. The housewife obstinately refused to pay a dollar a pound for meat. Why? She had the dollar and she wanted the meat. You may say she refused because she thought meat at that price was too dear. That is so; but there is another way to say it. Without knowing it she was thinking all the time that a dollar ought to be worth more than that. If only the government had had that feeling about money, that sense of the customary value of the dollar, the Federal budget, balanced or unbalanced, would not be the economic nightmare it is.



The thought of compulsion now occurs in the mind of government with increasing frequency and sudden glimpses of it, like heat lightning on a summer night, no longer startle us. In his message to the people on deciding to set the meat market free, the President said: "Some have even suggested that the government go out on the farms and ranges and seize the cattle for slaughter. This would indeed be a drastic remedy. But we gave it long and serious consideration." And the decision at last not to do it was upon the

ground that "it would be wholly impracticable because the cattle are spread through all parts of the country." And for what was it the government might have employed the remedy of compulsion if only it had been practicable? It was to uphold a theory of price control, and, as the sequel proved, the theory was wrong. One would like to believe that the cattle owners, whose immunity from compulsion this time was geographical, were fighting for a free market on principle. The probability is that it was a matter of price and not a matter of principle at all. They thought prices would be higher in a free market. And now if the price of meat should fall very far the same cattle owners no doubt would be soliciting government to support the price by laying consumers under some form of compulsion to pay a reasonable price for meat. The fact is that the cattle people were never heard to object in principle to the cash subsidy the government paid to them during price control—a subsidy the consumer was compelled to pay if he wanted meat. The only objection to it was that it was not enough. To say this is not to be cynical. It is only to recognize the fact that compulsion direct or indirect now has been generally accepted as one of the methods for achieving the social and economic ends of government. And as this method is more and more employed people become unable to perceive principles clearly; the thing that is principle becomes confused with the thing that will work. Compulsion becomes a prerogative of majorities. The rights of the individual and the rights of the minority, hitherto inviolable in principle, now are feebly defended and tend to be forgotten. Consider the rising intolerance of minorities in the labor movement, both here and in Great Britain. If the government may say, as it was about to say, "For the good of society you shall work in the mines whether you want to or not," so organized labor may say, "For the good of unions you shall join the union whether you like it or not." It is in either case the same thing. It is power. All forms of political power derive from this one—the power to compel the individual.

IF THE statesmen and philosophers of the past made mistakes, which are now visible to us, how do we know we are not making equally gross mistakes, which somebody will expose a century hence?

—William Graham Sumner

Winds of Opinion

An armed Communist advances upon you and you react against him. Therefore, you are a reactionary.—*Winston Churchill, in the House of Commons.*

The criterion by which these people judge their action is a simple one. If in any part of the world the Communist Party, by no matter what means, is in power, that is democracy. If anywhere the Communists fail, then, however fair the conditions, it is regarded as fascism.—*Prime Minister Attlee.*

Men stand frozen in a fog of fear, and racial currents of hate threaten once again to envelop not only continents but whole hemispheres.—*Francis Cardinal Spellman.*

It will not be easy for workers in a nationalized industry to see that their claims to improved conditions, better wages and shorter hours of work must be balanced in a consideration of the general social interests.—*Charles Duke, Chairman of the British Trades Union Congress.*

Dislodge the money god called Mammon from the throne and find a corner for a poor god. I think America has a very big future, but, in spite of what is said to the contrary, it has a dismal future if it swears by Mammon.—*Mohandas K. Gandhi's message to America.*

To the outside world, America's real economic intentions are every bit as enigmatic as Russia's real political objectives. And unfortunately they cannot be cleared up by a single decisive utterance from a Government fully equipped to achieve its purpose.—*The Economist, London.*

Western Europe is now hemmed in between the two real major powers of this decade—the United States and Russia. I see the United States rushing at express speed towards its old liberal capitalistic policy, a process which probably has been accelerated by President Roosevelt's death. I see Russia as the bearer of collectivism with an at least temporary overemphasis of the community's importance in itself even if its

ultimate goal is to secure a fair chance for humanity.—*Premier Willem Schermerhorn of the Netherlands.*

Capitalism remains in only one or two countries. You must either accept a system of state intervention and controls or lose everything by way of communism. One road today leads toward the abolition of private property by collectivization. The other road leads toward state intervention in the regulation and organization of everything that constitutes the economy of the country.—*Juan Peron, President of Argentina.*

A policy of active intervention that appeared likely to increase the obligations of the United States, or to demand substantial sacrifices of American property, lives or sovereignty, would appeal, in the Republican party, only to the liberal minority, which was weakened by the death of Mr. Willkie.—*The Economist, London.*

Wendell Willkie is dead and Henry Wallace is editor of a weekly paper. Bricker and Taft have won and the stage is set, as the President of the U. S. Chamber of Commerce has now made clear, for dollar expansionism. He camouflages it as "an invasion of American dollars, machinery, industrial efficiency and technical talent" which "will be welcomed in other nations as true liberators," and as the only effective way to meet "the challenge of Russia."—*The New Statesman and Nation.*

I tell my American friends that if sixty pounds of newsprint per head per year—which is the present rate of consumption in the U. S. A.—is necessary and needed to instill and maintain the present way of life, there is only sufficient newsprint in the world for two hundred million democrats. The other two thousand millions of the world's population must presumably be totalitarians.—*Sir Walter Layton, Chairman of the Rationing Committee of the British Newsprint Supply Organization.*

We have become so accustomed to a rising standard of living in the United States that we take it for granted. We are now facing the possibility, if not the probability, of a long reversal in those factors that have made our standard of living what it is. These new trends are rising unit costs caused by wages and salaries rising faster than production per man hour. The recent prac-

tice of paying for wage increases on time—by borrowing against future improvements in productivity to pay current wages and salaries—is a new technique that will confirm and accelerate this trend.—*H. H. Rogge, Vice President of Westinghouse Electric Corporation.*

The outstanding threats to the successful functioning of free enterprise in the United States during the postwar era come from two directions. One of these is interference with the fluctuations that take place in free markets, which are the automatic regulators of the free-enterprise system. The other is impairment of the opportunity for profits, which is the mainspring of the system. Unless these dangers are prevented, no amount of lip service to free enterprise will help to preserve it.—*The Guaranty Trust Company of New York.*

There seems to be widespread discontent on the part of workers with wages, customers with prices and investors with the prospects for the profitable operation of their properties.—*K. T. Keller, President of Chrysler Corporation.*

One fact which we have got to face—now—is that the Federal Government plays an important part in our capitalistic system. Those who claim that all we have to do is “unshackle free enterprise” are guilty of loose, irresponsible talk. Men

who say that the role of Government should be merely that of an “umpire” have their heads in the sand.—*Paul G. Hoffman, Chairman of the Committee for Economic Development.*

We need to guard against the developing depression psychology in this country which might, if unrestrained, see us literally talk ourselves into at least a temporary period of hard times.—*John W. Snyder, Secretary of the Treasury.*

The question then is not whether the short-term rate should be pegged at $\frac{7}{8}\%$ or permitted to fluctuate up and down, but whether it should be pegged at 1 per cent, $1\frac{1}{4}\%$ or $1\frac{1}{2}\%$, or some other level. There is no natural level.—*Chairman of the Board of Governors of the Federal Reserve System.*

If there were no discrimination in the world where would we be? There must be discrimination; you cannot run amok with a word like “equality.”—*Jan Christiaan Smuts, Prime Minister of South Africa.*

The issue of an isolationism forced on America by Europe is already looming just over the political horizon.—*Felix Morley in “Human Events.”*

Fear of Freedom

I DO not add to my touchstone the famous precept on freedom from fear. I incline to the teaching that fear is frequently a constructive force. It was fear of the storm that made us build shelters; it was fear of cold that made us clothe ourselves; it was fear of starvation that made us dig into the earth. And now it is fear of war that causes us to seek a way to peace. . . . We must bring reassurance to those countries where there is a real and existing fear of freedom. It is to be seen in their disposition towards forms of paternalistic government in which thought and action flows from a higher level than the people themselves. It was this fear of freedom present among the newly liberated peoples of Europe after the First World War that caused them without a struggle to surrender their independence.—*Bernard M. Baruch.*

The American Proposals for a **Collectivist World System**

By **Garet Garrett**

BY ITS direct loans to foreign borrowers, by contributions to international monetary bodies, by the open hand of its lend-lease settlements, and by further moral commitments to provide dollars, the American Government may be said to have already invested something like twenty billions in the good will of nations toward the idea that grows where the Atlantic Charter was—the idea, namely, that the economic soul of the world shall be saved by a new religion of multilateralism. Then hopefully it sat down with its reluctant debtors at a table in London to bargain for their conversion.

This was a conference that had been several times postponed. It began in the middle of October and moved obliquely through the news. *The New York Times* correspondent could not help regarding it as a sporting event. The American Government was playing a lone hand; nevertheless, he wrote, it had never begun “an international poker session with more chips in its stack.” He named three of the blue ones. The one on top was the fact that all but two of the other player nations had committed themselves beforehand by what was in the lend-lease papers they signed with the United States during the war. But if he had turned that one over he would have seen that it was white on the other side. Neither in the lend-lease papers that all the debtors signed nor in the papers that were signed in the American loan to Great Britain was anybody committed beyond a promise to think of the American idea sympathetically and to agree if possible.

Liability of Blue Chips

His second blue chip was the fact that the American Government could threaten to keep a tariff wall around the biggest and richest market in the world. What he apparently did not understand was that if that bluff were called the game would end, and then what would happen to the twenty billion in the kitty? Nor did he realize that a blue chip is a liability, not an asset, when

the game is such that you are the only one who can lose.

His third blue chip was illusory. In fact, all the chips were illusory. They were markers only. This was practice play, not for keeps, which is to say that what sat in London was merely the Preparatory Committee getting things ready for the International Conference on Trade and Employment that is to be held sometime in 1947 for the purpose of creating an International Trade Organization of the United Nations, agreeably to a resolution adopted by the Economic and Social Council of the United Nations, acting on a White Paper issued by the State Department entitled “Proposals for Expansion of World Trade and Employment.”

What Was on the Table

So around about we come to what was on the table, namely, the American Proposals. What are they? Every conscious citizen ought to know what they are and understand them. Not for the reason only that the twenty billions will be in jeopardy if they fail, but for such other reasons as (1) that they call for a transfer of governmental powers to a world economic authority, and (2) that if they are adopted and take effect as the law of the world we shall be deeply touched in our daily lives, even to the point of being no longer free to do as we would with our own things, no longer free to act upon our own problems in our own way.

Speaking recently to a Rural Life Conference in Green Bay, Wisconsin, Robert H. Shields, Administrator of the Production and Marketing Division of the Department of Agriculture, declared that the solution of such problems as local farm surplus must be found hereafter at the international council tables; and this, he said, was simply to recognize “the basic fact that our national feet today, as never before, are in the world’s boots.”

But for the earthy idiom, he might have been speaking also for the State Department. *Inter-*

national Council Table now is the word of revelation; it is also the euphemism for a world authority invested with governmental powers.

The American Proposals were dramatically disclosed in the form of a White Paper issued by the State Department, December, 1945. This White Paper was pinned to the Anglo-American Financial Agreement and bore on its face these words: "*Developed by a technical staff within the Government of the United States in preparation for an International Conference on Trade and Employment and presented for consideration by the peoples of the world.*"

One of the conditions on which Great Britain got a loan of \$3¾ billions from the American Government was that she should support the American Proposals; and in the joint statement put forth by the two governments at that time it was said: "Equally the Government of the United Kingdom is in full agreement on all important points in these Proposals and accepts them as a basis for international discussion."

What Did Britain Sign?

But when the Congress, under strong persuasion by the State Department, had approved the loan to Great Britain there arose immediately a bitter controversy over what it was Great Britain had signed. Two opinions developed in England. One was that she had signed away her economic freedom, and the loan was not worth it. The other was that she had committed herself to nothing really; she had undertaken only to sign something in the future provided it was something that could be agreed upon all around. The American Government took no part in this dispute. There was no doubt as to which of the two opinions the British Government entertained officially because it went right on in the old bilateral way making trade agreements with Canada, Argentina and other countries, contrary to the spirit of the American Proposals.

You might call this sinning against the light, but you could hardly call it backsliding, since the spirit had not yet been baptized into the body. It may have been forethought, or that dread of religion, which is the instinct of all flesh. Between the American and British governments notes were exchanged, expressing on one side disappointment and hurt, and on the other side pain and regret. Precise minded people who demand clarity in words forget that diplomacy does its best fishing in opaque waters. Anyhow, so it was, and only the experts would know why. There was already the possibility that Lord Keynes was the only

British economist who had ever really understood the American Proposals, and he was dead.

The careful London *Times* said: "In essence they envisage the earliest and most comprehensive return to the free system of world trade that prevailed before 1914."

No one could have written that who had read the American Proposals. What they envisaged was a world that was going to be, not one that was or ever had been.

Sir Stafford Cripps, Socialist President of the British Board of Trade, was much nearer to it when he said that the American Proposals meant: "A new conception of national responsibility in economic matters. Hitherto it has been considered sufficient if each nation regulated its conduct in accordance with the bilateral treaties it entered into. It was no one else's concern as to what those treaties contained or how they would affect others, and beyond that it was accepted that each country could do as it liked with its own market."

Seeing what the trouble was—that people were discussing not the American Proposals but only one another's interpretation of them—the State Department issued another document entitled "*SUGGESTED CHARTER FOR AN INTERNATIONAL TRADE ORGANIZATION OF THE UNITED NATIONS. An elaboration of the United States Proposals for Expansion of World Trade and Employment prepared by a technical staff within the Government of the United States and presented as a basis for public discussion.*"

Irreducible Obscurities

This document appeared shortly before the opening of the Preparatory Committee's conference in London. The foreword was written by W. L. Clayton, Under Secretary of State for Economic Affairs, who hoped that this document would "clarify possible obscurities and remove any misunderstandings to which the condensed language of the Proposals may have given rise."

The authors were the same as before, namely "persons of competence and experience in the agencies of the United States Government," meaning the experts. And now they were going to clarify their work. Here, at any rate, was the authentic source, and there was no other.

The Charter opens with the familiar statement of "general purposes." Members of the International Trade Organization will agree to solve their economic problems by neighborly collaboration, the fences that have hitherto hindered the exchange of wealth among them will disappear so

far as possible, discriminatory practices whereby one nation favors another will be abhorred and ultimately forbidden, and the trade of the world shall be set free. When it is free it will increase in a prodigious manner and, as it increases, the standard of well-being everywhere will rise, full employment will become universal and peace will be more profitable than war.

That is all on less than one page. If you stop there you will never know more about the American Proposals than what somebody says they are; but if you go on and begin to turn the pages, looking first perhaps for the subject of tariffs, which would be the most troublesome subject of all, you come to a paragraph like this:

"All negotiated reductions in most-favored-nation import tariffs shall operate automatically to reduce or eliminate margins of preference, so that, in respect of any product on which the most-favored-nation rate of duty is reduced or bound against increase pursuant to the negotiations, the margin of preference which may apply to such product may not exceed the margin by which the most-favored-nation rate, as reduced or bound against increase, exceeds the preferential rate in force on July 1, 1939."

It is possible to translate this paragraph into the language commonly employed among us to impart meaning, but to do it would take several thousand words of rather dull writing and when you had done it for all of the seventy-eight paragraphs of the Charter you would have a book nobody would ever read. That is why popular discussion is limited to the beatitudes of the first page.

Language of the Experts

The Charter, to begin with, was written by experts for experts.

Secondly, their task was to devise one global plan under which (1) a totalitarian state like Russia, (2) a socialist state like Great Britain, and (3) the United States, which represents the paramount industrial power of the world and is at the same time the last refuge of free enterprise, all could act and trade together for the universal good.

Thirdly—and this will be the point—they had to achieve a feat of concealment. The thing to be concealed, from the American public at least, was that a fair statement of the meaning of the American Proposals would read: "*A plan developed by a technical staff within the Government of the United States to impose upon the trade of the world a collectivist system.*"

Description is the only method by which one may hope to arrive at an understanding of the Proposals, using analysis for illustration only; and for purposes of description it will be necessary to take three points of view, because they have three aspects—one romantic, one practical and one political.

In Three Aspects

In the romantic aspect, the Proposals aim to lay upon the trade of the world a new law which shall be: Consider thy neighbor as thyself. No member nation shall conduct its foreign trade in a way to injure another or to put another at a disadvantage. No member nation, the United States for example, shall, as we now say, export unemployment. A nation will be supposed to be exporting unemployment when it forces its goods upon the markets of the world merely in order to keep its own labor busy. On the contrary, if there is unemployment in the world as a serious economic evil, member nations shall share it with one another instead of trying to unload it; and from this it follows that they shall in fact share employment.

This is specific. The Charter says that if a member nation finds it necessary to limit imports of a competitive agricultural commodity it shall at the same time and in the same proportion limit its own production of that commodity so that the ratio of imports to its domestic production shall be the same as before.

The idea behind this provision is fundamental. It represents the law: Consider thy neighbor as thyself. Two of its implications are revolutionary. The first one is that a nation may no longer do what it likes with its own market, not even to protect its own people. If, for example, there is a world surplus of a competitive agricultural commodity we cannot say: "We shall stop buying it from abroad and so keep our whole market for our own farmers." We must remember that if we stop buying it from abroad farmers in other countries will be hurt. We shall have to say: "We reduce our own production of this commodity one-tenth and our imports of it one-tenth, so that the evils of surplus and unemployment may be equitably distributed to the world."

The second implication is that as the trade of the world is planned and controlled by an international authority, so the American economy must be planned and controlled, for unless the government did plan and control production in this country it could not fulfill its obligations under the Charter.

Moving to the practical point of view, one will ask two questions. What are the inducements? What are the penalties?

The principal inducements are—*one*, that members of the International Trade Organization shall have by right much freer access than ever before to the American market, which is the richest market in the world, and, *two*, that all member nations shall have means of protection against American competition, which is the competition most feared in the world. The United States, briefly, offers to open its market in a neighborly way to the goods of other nations and to compete with them in their own markets not in a ruthless manner, but tenderly and with consideration.

To these inducements you add the advantages that may be imagined to exist in a mutual society of trading nations governed by an international authority with power to plan, organize and control the flow and exchange of wealth—a kind of Hanseatic league, not for private profit, nor for selfish national profit either, but for the total good of all.

The sad reality is that all nations cannot be equally trusted to keep the faith. They have a bad history that way. So therefore you must have penalties. What are they? What shall be done to a nation that abuses the privileges of membership?

International Boycott

The penalties are of two kinds—*discrimination* and *boycott*.

The mortal sin defined in the Charter is national discrimination. A nation may conduct its foreign trade as an absolute state monopoly, as Russia does, and still be a member in good standing; a nation may practice state trading, as England does, and still be a member in good standing; each nation may fix its own tariffs and regulations and taxes and all that, and it may under certain circumstances impose quota restrictions—only provided that in every case it shall treat all other member nations exactly alike. This goes even to the spirit. Such a thing as a popular slogan, *Buy American* or *Buy British*, would be regarded as an emotional boycott against foreign goods and each nation would be obliged to “discourage such campaigns by political entities within its jurisdiction.” This could mean that if for example the Republican Party launched a protectionist campaign the American Government, under the Charter, would be obliged to discourage it.

Yet the economic weapons of discrimination

and boycott are not abolished. They are reserved for use by the International Trade Organization itself, or by a member nation that is authorized to employ them. The principle aimed at here seems to be that of economic disarmament by the separate nations, with the world authority to be in possession of the arsenal.

Observe how it works. One member nation may complain that another has broken faith with the Charter, either in the letter by discriminatory acts or in the spirit by declining to negotiate a reciprocal reduction of tariffs; and if its complaint is upheld by the International Trade Organization the complaining member nation may retaliate with discriminations against the guilty member, or all other member nations may join to discriminate against that one, boycott it if they please, and cast it into outer darkness.

Economic Sin Redefined

Touching economic sin, as you may see, there are distinctions. It is wrong for one nation to do what it likes with its own market or to discriminate against another in a nationalistic spirit, but by sanction of the International Trade Organization one nation may discriminate against another or many nations may gang up against one that flouts the Charter, and that will be righteous discrimination. There would be of course no other way to do it.

This distinction about sin is clearer when you come to the sensitive subject of cartels. Each member nation must obligate itself not to harbor private combinations that restrain competition, fix prices and limit production or engage in other “restrictive business practices.” Against all such practices the International Trade Organization will entertain complaints, not only from member nations but from “persons and business entities” anywhere; and if it finds the private cartel guilty, it will recommend “remedial measures, including but not limited to abrogation and termination of agreements and arrangements, dissolutions, reorganizations, business divestitures and licensing of patents.”

And a member nation that refuses to take such measures against combinations of its own citizens will presumably itself be guilty of breaking the Charter. But under the eye and with the sanction of the International Trade Organization it is all right for member nations to combine for the purpose of controlling commodities. When they do this it will be called an “intergovernmental commodity agreement” administered by a Commodity Council which will limit production,

fix prices and regulate the trade; and the justification will be that the situation was one in which "the free play of market forces" could not be trusted.

On its own initiative any member nation may request another to negotiate its tariffs down and if the request is repelled a complaint may be made to the International Trade Organization. If the International Trade Organization sustains the complaint the unaccommodating nation, for having refused to negotiate its tariffs down, may be excommunicated. By this provision several countries might say to the United States: "Your tariffs are still so high we cannot profitably sell our goods in the American market. Let's negotiate, please, to write them down." And if the United States, meaning to protect the domestic market from foreign competition, should say no, it could be tried on the charge of having failed in its obligations under the Charter. If it were found guilty it could be expelled from membership.

To World Government

For the political meaning of the American Proposals there is no text to be either read or analyzed. You will find it on the directional signs of the time. The signs read: "*This way to world government.*"

There was probably never a stranger political fact than this—that the one nation in which free enterprise is still a fighting term should lead the movement to create a planned world economy; nor a more ironical fact than this—that what strongly recommends its Proposals to other nations is their fear of American competition if free enterprise survives in this country.

Will it survive? That question is in heavy labor of debate, and yet the planners already know the answer. Their answer is logical, not speculative. If the world economy is planned by an international authority invested with governmental powers, so also national economies will have to be planned. It cannot work in any other way. And that is why all the ideology of planning has been transferred from the national to the international plane.

The experts now writing the book for a planned world economy are those who a little while ago were planning on a national scale. National planning does not force world planning, but world planning does entail national planning.

The answer therefore is that in a planned world, covered by such a thing as the International Trade Organization, acting as an agency

of the United Nations, free American enterprise as we knew it would belong to history.

And what a history that was! All that may be done with it here is to call it in witness against certain of the assumptions on which the idea of world planning is founded. Take first the assumption that in a planned world you would have a great increase of trade.

WITNESS: During the Nineteenth Century the world was unplanned. That was the century of free enterprise. Production, distribution, banking, credit and trade were all free. Some governments had tariffs and some didn't, but anybody was free to come over your tariff wall, if you had one; and more than to administer a national tariff policy government hardly touched trade at all.

And yet this is what happened to the commerce of the world—all exports and all imports of all nations trading together:

In 1800 it was \$1,479,000,000 or \$2.30 per capita
In 1870 it was 10,663,000,000 or 8.14 per capita
In 1900 it was 20,105,000,000 or 13.02 per capita
In 1919 it was 75,311,000,000 or 49.28 per capita

The American share in world commerce was:

In 1870 \$828,730,176
In 1920 13,387,470,113

During half a century from 1870 the increase of world commerce was more than sevenfold; during the same time the increase of American foreign trade, imports and exports together, was more than fifteenfold, the high American tariff notwithstanding.

Where is the planner who will undertake to match this record by planning international trade?

Memories of a Free World

The second assumption of the planners is that in a planned world the exchange of wealth among nations will be greatly facilitated by forethought, intelligence and reciprocal arrangements.

WITNESS: John Maynard Keynes. In the book that lighted the wick of his fame, entitled "The Economic Consequences of the Peace," published in 1919, he wrote:

"What an extraordinary episode in the economic progress of man that age was which came to an end in August, 1914! The greater part of the population, it is true, worked hard and lived at a low standard of comfort, yet were, to all appearances, reasonably contented with this lot. But escape was possible, for

any man of capacity or character at all exceeding the average, into the middle and upper classes, for whom life offered, at a low cost and with the least trouble, conveniences, comforts, and amenities beyond the compass of the richest and most powerful monarchs of other ages. The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could despatch his servant to the neighboring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself aggrieved and much surprised at the least interference. But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable.

" . . . The interference of frontiers and of tariffs was reduced to a minimum, and not far short of three hundred millions of people lived within the three Empires of Russia, Germany, and Austria-Hungary. The various currencies, which were all maintained on a stable basis in relation to gold and to one another, facilitated the easy flow of capital and of trade to an extent the full value of which we only realize now, when we are deprived of its advantages. Over this great area there was an almost absolute security of property and of person.

" . . . Europe was so organized socially and economically as to secure the maximum accumulation of capital. While there was some continuous improvement in the daily conditions of life of the mass of the population, Society was so framed as to throw a great part of the increased income into the control of the class least likely to consume it. The new rich of the nineteenth century were not brought up to large expenditures, and preferred the power which investment gave them to the pleasures of immediate consumption. In fact, it was precisely the *inequality* of the distribution of wealth which made possible those vast accumulations of fixed wealth and of capital improvements which distinguished that age from all others. Herein lay, in fact, the main justification of the Capitalist System. If the rich had spent their new wealth on their own enjoy-

ments, the world would long ago have found such a regime intolerable. But like bees they saved and accumulated, not less to the advantage of the whole community because they themselves held narrower ends in prospect.

"The immense accumulations of fixed capital which, to the great benefit of mankind, were built up during the half century before the war, could never have come about in a Society where wealth was divided equitably. The railways of the world, which that age built as a monument to posterity, were, not less than the Pyramids of Egypt, the work of labor which was not free to consume in immediate enjoyment the full equivalent of its efforts.

" . . . There were two pitfalls in this prospect; lest, population still outstripping accumulation, our self-denials promote not happiness but numbers; and lest the cake be after all consumed, prematurely, in war, the consumer of all such hopes."

What Happened to that World?

So there was once such a world as the planners now think they dream of. It was an unplanned world produced by free enterprise, with no benefit of government. What happened to it? Keynes buried it with the following epitaph:

"I seek only to point out that the principle of accumulation based on inequality was a vital part of the prewar order of Society and of progress as we then understood it, and to emphasize that this principle depended on unstable psychological conditions, which it may be impossible to recreate. It was not natural for a population, of whom so few enjoyed the comforts of life, to accumulate so hugely. The war has disclosed the possibility of consumption to all and the vanity of abstinence to many. Thus the bluff is discovered; the laboring classes may be no longer willing to forego so largely, and the capitalist classes, no longer confident of the future, may seek to enjoy more fully their liberties of consumption so long as they last, and thus precipitate the hour of their confiscation."

A brilliant piece for the headstone, but a conclusion more compatible with Keynesian doctrine than with the truth.

What really happened to that 19th century world of free enterprise—a world in which liberty, wealth, human well-being and freedom from the fear of war advanced further and faster than in any period before in all history, a world in which could arise for the first time the idea that poverty might be abolished—what happened to it was government. For 100 years government had been pursuing the independent power that was free enterprise, pursuing it timidly, afraid to lay hands upon it, doubtful of its ability to manage

the consequences if it did, yet always thinking of the kill and moving toward it.

It was a power that got free at the beginning of the Industrial Revolution and from then on developed so fast that government had never been able to overtake it. It was a power that limited government, and for that reason government was bound to hate it and to overcome it if it could. During the Nineteenth Century, for example, the power of government to make war was limited. No government could make war without the bankers to provide the credit. But in World War I government learned the secrets. It learned how to control banking and credit and was no longer beholden to private finance in either peace or war. Then it learned how to control prices and production and how to manipulate the value of money for purposes of economic policy. Economists became statesmen. Economic thinking became political thinking.

The Global Experiment

In twenty years the independent power of free enterprise was conquered everywhere in the world. There is no longer an important government in the world that does not assume responsibility, direct or indirect, for unemployment, production, and prices and for the distribution of the national income, nor one that does not manipulate money and credit for social and political ends. Nor is there one important government in the world that has not during these twenty years repudiated the word engraved upon its money and its bonds. Repudiation, too, becomes an instrument of social policy.

Now in the same sign you see world government becoming. Economic theories still unproved on the national scale shall be tried on the international plane. The theory named full employment policy has yet to be demonstrated in any but a totalitarian state, like Russia; nevertheless, it takes its place in the articles of the proposed International Trade Organization. In the American Proposals it appears rather far down. The British would put it first. Indeed at the London Preparatory Conference on the American Proposals the suggestion was made that the International Trade Organization should have power to take sanctions against any member nation so neglectful of its social responsibilities as not to have a proper full employment policy.

What that might mean you may guess. It might mean some way of visiting penalties on the United States in the event of a depression for which the American Government would be

blamed. The United States Government might not like it, but as a member of the International Trade Organization it would have only one vote about that or about anything else. If, in the event of a depression and serious unemployment, it should undertake for that reason to increase its exports beyond its allotted share of the world's total it would be accused of *exporting unemployment*, in violation of the Charter.

Since the triumph of government over the power of free enterprise, international trade has become increasingly an instrument of foreign policy. It is no longer in a primary sense an economic activity, and now its economic distortions correspond to the changing shapes of power politics.

The planners keep talking of the freedom of trade. But a free economy and a planned economy are opposite things and irreconcilable. Therefore what do they mean by freedom of trade? Certainly they do not mean that people shall be again free to buy and sell what they will, where they will and with whom they will, and make their own bargains in the market places of the world; nor do they mean that commerce shall be free to make its own trade ways.

They talk of removing barriers, restrictions and discriminations, but by these terms they mean national controls only and the right of each nation to do as it will with its own markets.

When under the Charter the trade of the world becomes subject to international control, barriers, restrictions and discriminations will be called sanctions and sanctions shall be invoked only by the authority of the International Trade Organization.

What Is an Export?

The planners may say that freedom of trade means that every nation shall have the right to sell its goods in every other nation's domestic market without favor or discrimination; but on the other hand, every nation must agree not to export unemployment—that is, not to sell its goods aggressively in a country that cannot meet the competition, as, for example, when American goods displace British goods in the British market or British goods displace American goods in the American market.

Speaking for Great Britain, Herbert S. Morrison, Lord President of the Council, says: "We aim never again to export unemployment. Our full employment policy means that for a long time we shall have a shortage of labor. That is one of the biggest contributions a country can make to

sound, prosperous world trade and therefore to world peace."

The shortage of manpower in Great Britain is probably temporary. If again there is a surplus of manpower and so, unemployment, will Great Britain refrain from pressing her goods in the American market or elsewhere? And if she does press her goods for sale who will say just at what point her exports cease to represent goods and begin to represent the export of unemployment? Formerly it was that each nation was free in its own discretion to raise tariffs against foreign goods that became too competitive. Under the Charter, apparently, the nation finding itself unable to absorb competitive foreign goods without injury to its own labor will have to appeal to the International Trade Organization, saying: "Such a nation is exporting her unemployment to us and we can't take it." The International Trade Organization will consider the complaint, and, finding it valid, will recommend measures; and if the exporting nation declines to act on a recommendation to cease and desist or to restrain its competitive passion it will be expelled from the economic brotherhood of nations.

Again, freedom of trade, as the planners understand it, may mean that trade shall be free from "wasteful and uneconomic competition." That phrase has already been embedded in the Charter of the International Aviation Authority. Who shall say what is wasteful and uneconomic competition? Shall the determination be based on the world's least efficient industry, or upon its most efficient industry, or upon some calculation of a mean?

There is a further difficulty, somewhat acute between Great Britain and the United States. Great Britain's exports are a primary quantity because she lives by exports. The American export quantity, on the other hand, is a by-product. The difference may be made clear. Great Britain's export quantity is from the first turn of the wheel and the cost of it therefore must bear the full burden of overhead. The American export quantity, being a by-product, is from the last turn of the wheel. It bears therefore almost no overhead cost. Sooner than to idle its machines American industry can well afford to sell its exports at a price to cover only labor and materials, forgetting the overhead. It follows, not always but generally, that in foreign trade American industry can afford to sell like goods of like quality at prices with which British industry finds it very hard to compete.

The American power of surplus production is the dread of the world. If only it could exist as a kind of miraculous potentiality, appearing sud-

denly to help put the aggressor down, continuing afterward only so long as it was needed to mend a broken world, and then retire from competition, all economic solutions would be relatively simple. Unhappily it cannot work that way. What to do with it in time of peace—that is the problem. It is a problem that deeply concerns the British because now Great Britain and the United States are the principal competitors for the markets of the world. Their goods are similar in kind and quality and therefore highly competitive, but their economic situations are very different. Great Britain must buy both food and raw materials and in order to buy them she must continuously sell her manufactured goods overseas. That is how she lives; that is how she feeds herself.

The United States on the other hand is a surplus nation, able to produce largely out of its own resources a surplus both of food and manufactured goods for sale in foreign countries. The British thesis is that except in time of war the American surplus is a chronic menace to the economic equilibrium of the world.

To Its Logical Absurdity

All British economists are agreed upon one solution. It is that the United States must buy from other countries more than it sells to them. In no other way can equilibrium be restored and maintained; and they add that unless the United States is willing to buy more than she sells the world cannot pay back what it owes. It cannot pay back the money; it can pay us back only in goods. Therefore we must be willing either to receive the goods or forego payment.

The trouble with this solution is that you cannot think it through. It seems only to postpone a sequel of economic absurdity. What the world's debt to the United States represents is not money. The money is only a measure of the amount of American surplus the world has already borrowed and consumed.

So now the world cannot pay us back unless we stop being a surplus nation while the debt is being paid; when the debt has been paid then presumably we can resume being a surplus nation. But this American power of surplus production is not an intermittent phenomenon. It cannot be turned on and off with a valve. It is continuous by nature. There comes never a time when we can say: "Now we may rest awhile, consume more and produce less, because the surplus we loaned away is coming back to us." If we did that, what would happen to our own full employment policy?

The one brilliant solution that has been offered is that we shall regularly and in a systematic manner give our surplus away instead of lending it and expecting ever to receive it back. This suggestion comes from *The Eastern Economist*, New Delhi:

"The U. S. lend-lease plan of helping the Allies in the recent war has been acclaimed as an act of unparalleled generosity, and so it was. But it was also a brilliant and ingenious way of solving what would otherwise have been an intractable problem resulting in a world malaise.

"The productive power of America has multiplied itself so fast that it is now admitted that she cannot continue to give 60 million jobs unless she is able to have a large export trade. But in the long run—not so long as even a decade—exports cannot continue unless imports are allowed to flow in. But U. S. economic organization is such that the possibilities of her being paid in imports are not very bright. Lending her surplus would mean only a postponement of the day of reckoning and accounting. Sooner or later imports should enter America in a flood. But imports will or at least might create unemployment. In such circumstances it would not be such a foolish thing (as some might imagine) to give away goods to other countries, for on balance it would be better to part with surplus goods than to create unemployment.

"It is not to be assumed that America has reached that stage today or will do so in a year or two. But it is not far off. A new economic policy based on the new conditions and circumstances will have to be devised. What is needed is a peace-time machinery on a semi-permanent basis by which the ideas underlying lend-lease and UNRRA may be made the basis of an orderly scheme of transfer of goods and equipment from America to the rest of the world.

"We suggest that from now onwards, besides loans to countries through the International Bank which would have to be on the usual commercial basis, a machinery should be set up by America whose purpose would be to provide *gifts* of loans to countries on certain conditions. These loans, euphemistically so called, would be granted both for consumption needs of the poorer communities in the world and for development. In the case of the former, it should be an essential condition of such grant that the goods bought with such money should be used by public development departments for specified purposes. For example, if President Roosevelt's famous Freedom from Want is not to be a pious wish and a slogan empty of content, it should be the duty of America to organize systematically the outflow of goods to the poorer countries so that the consumption of the poorer sections of the people may reach

a certain basic minimum. Of course, this does not mean that any individual American who parts with his goods will not get the full price therefor. The U. S. Government will buy the goods, give them as gifts and reimburse itself by additional internal taxation.

"The second type of free loan is for the development of the regions now inhabited by the poorer races. Such gifts should be made to Governments for specified purposes which may compendiously be termed public works. Those industries which would not compete directly with American products but which would only improve the general economic well-being of the country as a whole should be entitled to receive them. It should also be made a condition that the proceeds of such gifts would not be used to benefit any private capitalist in any country. There may be other safeguards necessary and several other details requiring to be filled in. But the main outlines should be clear to all."

Here you see, raised to an international dimension, the original Communist doctrine paraphrased thus: From each nation according to its ability; to each nation according to its need.

And yet, this idea is not to be treated lightly. Whether we so intend it or not, that is what will happen in fact to a great part of the surplus we have loaned to foreign countries. We shall find in the end that we did give it away. Moreover, this idea points the shortest way to arrive at the two principal ends of the complex American Proposals, namely, that the American power of competition shall be laid under restraint of the Golden Rule and that the American power of surplus shall be devoted to the common good of mankind with an international economic authority, exercising governmental powers, to see that we do not falter.

NOTE: (From the News) LONDON, Nov. 26

—In the final plenary session of its London meeting, the Preparatory Committee of the International Conference on Trade and Employment unanimously approved its report today. The report contains nine-tenths of the agreed draft of the world trade and employment charter and an agreement on the principles to be incorporated in most of the rest. The next meeting was officially set for April 8, 1947, in Geneva. Meanwhile, the interim drafting committee in New York will be polishing the document and preparing alternative drafts of unsettled sections relating to the organization of the ITO.



Strategy of the World Planners

**By J. Howard Pew*

UNDERLYING the multitude of proposals in behalf of so-called international economic collaboration is the concept that foreign trade no longer can be left to the enterprise of individuals but must be controlled and directed by government.

There is nothing new or progressive about this idea. It is a revival of the reactionary mercantilism of the Eighteenth Century—the system under which the kings of that time and their nobles sought to impose monopolistic restraints of trade upon the world.

Our American Revolution was fought to throw off the shackles of mercantilism. Inspired by that success, the European nations, too, turned loose the initiative of men and in the Nineteenth Century they recorded their greatest economic progress.

But out of Germany came a movement back to the principles of mercantilism. It was a movement fashioned in the diabolical brain of Karl Marx and given form and force by Bismarck. Its aim was control by the all-powerful State over the economic affairs of men through cartels, government trading, edicts and directives. Soon men's political and personal activities became the object of the State's control until it culminated in the National Socialism of Adolf Hitler.

This virus spread beyond the borders of Germany. For twenty-five years and more the germs of economic collectivism or socialism have been fermenting throughout the whole world. Governments have exerted pressures, in varying degrees, to fetter the free functioning of markets and to restrict the activities and opportunities of men.

Sources

Russia, Germany and Italy succumbed to absolute Statism or totalitarianism in which individual freedom for all practical purposes was extinguished. In England much of the collectivist philosophy of pre-Nazi Germany has become imbedded. In other European countries, in the Far East, in Latin America, the trend has been toward State corporations, cartels, both private and governmental, monetary manipulation, subsidies, unduly high tariffs, import quotas, bartering and governments trading with other governments.

*From a speech before the American Petroleum Institute at Chicago.

Our United States, too, has been afflicted with this rise of bureaucratic power over the economic activities of people, and with it we see the lessening of competition and the restriction of individual freedom. Excursions into collectivism in recent years have been frequent. While we have traveled a long way down the road toward the compulsory State, there is still time to return to the faith of our Founding Fathers.

For 150 years our country was a land of opportunity for all persons to achieve the rewards of their initiative, ingenuity, skill and industry. We had a system which created and multiplied wealth through encouraging men to exercise their initiative. Here, as a result, for the first and only time in history, an overwhelming majority of a great mass of people enjoyed decent standards of living. Only during the last two decades has our economy been weakened by the introduction of collectivist philosophy.

Now we are told that the economy which produced this standard of living for the American people must be abandoned—that we must embrace economic collectivism. This, it is said, we must do in order that we may live in harmony and prosperity with nations that have chosen the collectivist course.

Spinning

Such is the primary justification offered for the multitude of proposals now being projected under the auspices of the United Nations Organization. These are the threads now being woven into the fabric that may become a straitjacket of government control for our American domestic economy as well as world trade. Each of these United Nations proposals should be studied in its relation to the other, for under the master plan it is intended that they should be coordinated under the United Nations Economic and Social Council.

Thus we find in the current proposals before the Food and Agriculture Organization of the United Nations declarations calling for international control of the production and marketing of basic foods and the "stabilization" of agricultural prices by fixing both maximum ceilings and minimum floors.

Presumably this is to be accomplished through a network of intergovernmental commodity cartels. Provision for such intergovernmental cartel

agreements is made in a proposal by our State Department pending before another agency, the International Trade Organization of the United Nations.

What Does It Mean?

The language of this latter proposal is so muddy and filled with so much double-talk, that it is difficult to say exactly what it does mean. In one place it calls on the member nations to forswear restrictive undertakings and to embrace competitive enterprise. But in other places there are exceptions which virtually nullify all such high ideals.

At all events, the framework proposed for these intergovernmental cartel agreements is so broad that, in the words of Professor Edward S. Mason of Harvard, who is partial to them, "countries adhering to a commodity agreement would have to commit themselves to a definite line of action on their domestic handling of the regulated commodities."

"Clearly," Professor Mason goes on to say, "the present domestic agricultural policy of the United States is quite incompatible with participation in the proposed type of commodity agreement."

Of course, the Food and Agricultural Organization, the International Trade Organization and the International Bank for Reconstruction and Development will be tied into the operations of the International Labor Office, the World Health Organization, the International Refugee Organization and the United Nations Educational, Scientific and Cultural Organization. All of these in turn will be tied into the Economic and Employment Commission and the Economic and Social Council.

Certain Words

Throughout all these proposals certain words appear and reappear:

Stability.

Full Employment.

Integrated World Economy.

How alluring are those words! But out of the bitter experience of the last few years we have learned that such words were sheep's clothing under which the wolf of National Socialism hid.

We have learned that these specious words describe governmental controls such as in Germany, Italy, Japan and Russia crushed the freedom of individuals. They mask an economic collectivism that would destroy our American competitive en-

terprise system and subsequently the freedom of our people.

Much of our government's approach to the world's postwar economic problems is away from the tried and true American system and towards compromising with, if not embracing, restrictive collectivism. Too many men in our Federal Government are without faith in the ability of competitive enterprise to serve adequately the needs of our people.

These men believe that government must guide and direct our activities. They believe that in order for the country to be prosperous, the government must tell the people what they can produce, where they can produce it, and at what price they can sell it. Professing to be friends of the people, they mistrust the people and look with contempt on the ability of the average man to take care of himself.

Whose Vision?

Yet they possess no intelligence or vision superior to that of the people themselves. Look back a little more than a year ago when these men were forecasting a depression with eight to ten million unemployed in the first postwar year. Events proved them wrong. Nevertheless much of the economic agony which we have suffered during the last year resulted from steps taken on the basis of these false forecasts.

With equally erroneous reasoning, many of these men for the last fourteen years have been seeking to force a system of collectivism upon us, but with only partial success. Now they see the opportunity of establishing such a system in this country through the rear door of international treaties and agreements designed to weld us to the collectivism of the remainder of the world.

In this way, they apparently hope to achieve in a constitutional manner what otherwise would be unconstitutional. The Constitution makes treaties the supreme law of the land, on a par with the Constitution itself, overriding other federal laws and nullifying state constitutions and laws which may be in conflict with the treaty.

This is the paramount danger that threatens us, for pursuant to the treaty-making power, the Federal Government can exercise over our lives and activities authority and controls which otherwise would be impossible.

For this reason each of these United Nations proposals, and all treaties and international agreements, should be scrutinized in every detail to guard against the possibility that they may radically change the entire political and economic structure of this country.

Snags for the British-Canadian Wheat Deal

By Our Correspondent

OTTAWA

A BITTER controversy now is running in Canada over the wheat agreement that was signed last summer between the Canadian Government and the Socialist government of Great Britain. By the terms of this agreement the Canadian Government undertakes to deliver to the United Kingdom a total of 600 million bushels of wheat during four years, at a fixed price of \$1.55 a bushel during the first two years, a minimum price of \$1.25 during the third year and a minimum price of \$1.00 a bushel during the fourth year. Currently, Canadian wheat is being sold to other countries at prices fifty and sixty cents a bushel higher than this contract price with Great Britain.

The Canadian Government's problem now is how to get the wheat. It has to get it from the farmers. The *Toronto Financial Post* says:

"Growers were never in better financial position to hold their wheat back indefinitely. If by doing so they force cancellation or drastic revision of this ill-advised agreement there will be few tears shed.

"We can't expect to sell wheat to Britain at one price and to our other customers at another very much higher. They certainly won't like this sort of dealing and will go elsewhere for their supplies if they possibly can. And actually, under the agreement, there is nothing to prevent Britain reselling them some of our bargain wheat and at whatever price she pleases. There would seem to be absolutely no hope of good will surviving in the atmosphere which this agreement threatens to create and good will is essential in any successful commercial transaction. It is to be hoped that this wheat deal is not used as a pattern for handling other basic exports, like lumber, metals and newsprint. We can't afford to jeopardize this vital business by offering anybody, even members of the family, a special discount."

After the wheat agreement had been signed, Hugh Dalton, the British Chancellor of the Exchequer, came visiting to Canada and made a speech in defense of that agreement in particular and of state trading in principle. He said:

"Isn't it good business to lay your lines a few years ahead? We don't say we won't buy from others. The essence of state purchasing is 'forward trading' instead of hand-to-mouth purchasing. This is what the Labor Government believes in and we won't

abandon it. Also, state trading is good business for the country, because it eliminates the middleman."

But the Canadians are not so easily persuaded. They find it very difficult to believe in state trading. Their feeling against it, and their afterthoughts about the wheat agreement, were expressed by George S. Mathieson, formerly President of the Winnipeg Grain Exchange, in a recent speech before the Empire Club in Toronto. He said:

"It is a bilateral agreement, despite the avowed aims of the United Nations in the direction of international trade, to which both Canada and the United Kingdom have subscribed.

"Canada has at least sixty customer nations, other than the United Kingdom. Can you believe that this kind of dealing makes for regaining the good will of the customers that were lost in the Thirties, because of a parallel hold-up policy?

"Take the provision which permits the United Kingdom to resell part of the wheat and flour so purchased. Recent London despatches say that the United Kingdom has no intention of reselling any wheat, but shipment has been made to South Africa. Is it not logical to assume that other countries are being supplied by the United Kingdom. . . . ?

"Recently there were over sixty boats at one time in the St. Lawrence waiting for wheat which was not there. The western farmer is not excited about the government filling its contract with the United Kingdom. He is not rushing his wheat to market. He is guaranteed a floor price of \$1.35 any time during the next four years. He does not need the money; he never was better fixed financially. He sees \$2.23 as the price at which wheat is selling to countries other than the United Kingdom, and he can never tell, but what the day may come, when he will be allowed to sell as he pleases.

"This winter the United Kingdom will probably be calling for wheat which the government cannot ship, because it is back in the west. Will the United Kingdom, in that event, be forced to go for supplies to the United States, or Argentina, at prices well above the Canadian contract price?

"The contract also envisages the advisability of holding back stocks, next summer, equal to 50% of the contracted quantity, deliverable in the following crop year. It also suggests control of acreage, and of deliveries, should surpluses later pile up.

"There are current contracts for bacon, and a new contract has recently been made for beef, as well as

milk, cheese, eggs and other farm products. It suggests the danger of similar government interjection into other commodities, such as lumber, pulp, fisheries, fruits, metals, etc.

"Bulk trading such as this wheat deal, tends, over a period, to sour relations between buyer and seller, as future price action must suit one or the other; it cannot suit both.

"This is no fancied problem, it is a very real one. We in the grain trade have been autocratically told what grain shall be moved, and to what destination, and at what price. Our lake vessel owners and the railway companies have been directed. The farmer himself is beginning to squirm under interference, as recent events in the west, economic and political, have demonstrated. All this has happened at the hands of a government avowedly opposed to socialism. Had it come about with the socialist party in power, the electorate alone would be to blame, but having elected a nonsocialist party to govern us, it is our own fault if the government is to be allowed, without public protest, to undertake such dangerous policies."

That wheat agreement has some political history. Negotiations between Great Britain and the Canadian Government began in 1945, and were about to be successfully concluded when suddenly they were embarrassed by word that the American Government might not like it. This was a serious thing because at the same time the British Government was negotiating with the American Government for a loan of \$3¾ billions, and as a condition Great Britain would be asked to accept, at least in principle, the American Government's proposal that international trade should be governed hereafter by a theory of multilateralism, whereas this wheat agreement, about to be signed between Great Britain and the Canadian Government, was definitely a bilateral arrangement. Nor would the American Congress like it; and this was very serious because Congress would

have to approve the loan of \$3¾ billions to Great Britain. Congress might say, as in fact Senator Wherry did say later, that the British Government, under an exclusive agreement, would be buying Canadian wheat with borrowed American dollars. And if that were said too loudly the loan would be in jeopardy.

The American Government was mollified by a promise to write into the wheat agreement a clause to the effect that it should be subject to any international agreement thereafter entered into by the British Government. That was just in case the British Government should find itself obliged to accept a World Trade Charter that prohibited state trading. But that after all is not very likely to happen. The proposed World Trade Charter will almost certainly be obliged to accommodate itself to state trading. The British Government will insist upon it, for as a Socialist government it believes in state trading and is pledged not to give it up.

In the House of Commons the Minister of Food made the following statement about the agreement:

"It insures to the United Kingdom substantial quantities of wheat during the expected period of shortage at prices below those which would be payable were there to be a free market at the present time. The price specified in the contract for the first year is 30% below the current United States price and still more below the open market price in Argentina. This is the commercial advantage which the United Kingdom secures. In the later period of the contract Canada receives the advantage of a guaranteed market, and a minimum price. In determining the actual price in the last two years regard will be had to the extent to which the agreed price for the first two years falls below the world price for that period. Her farmers are, therefore, protected from crippling losses should there be a world slump in wheat prices."

Our Taproots

It is my contention that the social structure of the American nation is unique; it is something the world has never seen before. But do we understand it ourselves? Do we realize how important it is for our future to nourish those elements of strength in our chaotic democracy which, like taproots, reach back into our history?—*Dr. James B. Conant, President of Harvard.*

Villain: American Capitalism

The Economist, London

The rise of feeling in Great Britain against American capitalism is a political fact of deep importance. It runs through every debate in the House of Commons on the state of the world and British foreign policy, and it was elemental in the suppressed revolt of the Labor Party against Mr. Bevin's support of the American way with Russia. The following penetrating analysis of it appeared in The Economist, November 23.—Editor.

THE amendment on foreign policy tabled by the "rebels" in the Labour Party received not a single Labour vote in Monday's division in the House of Commons. But more than a third of the Labour members failed to vote with the Government against it, and there can be no doubt that the greater number of them were deliberately marking their sense of disquiet over the foreign policy that Mr. Bevin is pursuing. The "revolt" cannot therefore be waved away as unimportant. It put forward two propositions which, though they often appear in the crypto-Communists' speeches, are also held by many Labour members who are genuinely perturbed by Russian policies.

The first of these is that an inevitable clash is being built up between American capitalism and Russian Communism, and that Mr. Bevin, by lining up with American capitalism, when he should be strictly neutral, is making the clash more certain.

The second is that there is a "Socialist foreign policy" which could avoid these dangers. Both of these contentions deserve analysis. The wording of the amendment was carefully neutral between American capitalism and Russian Communism. But the speeches of its supporters clearly reveal their view that American policy is at least as responsible as Russian for the present sad state of the world—and some of them would say that it is more responsible.

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So far are they carried away by their Socialist ideology. Few British citizens would defend American foreign policy in all its aspects in the months since the end of the war. Its defects, as seen through British eyes, are all too manifest. If Mr. Crossman and his colleagues had confined themselves to asking for a clearer statement of where British policy diverged from American, few people would have quarreled with the proposal.

But the charge is not that American policy is

erratic and blind and selfish, or that it is not doing all that it could to lead the world back to peace. The charge is that it is the major factor leading the world towards another universal war. This charge has only to be stated to become ridiculous. Those who have agonized twice in one generation over the infinite slowness with which the American people can be induced to draw the sword even in the open face of imminent peril will be inclined to laugh out of court the notion that American "imperialism" presents the gravest threat of aggressive warfare.

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But who can say the same of Russian policy? It was held in an article in *The Economist* three weeks ago that it is improbable that the Russian leaders are planning a deliberate aggression. But it is impossible to be sure. And the chief reason for reaching such a conclusion is that the odds would be so heavily against them, not that there is anything in their way of life or in their record of actions that would stop them from wanting to, or anything in the structure of the Soviet state that would hold them back. Those in the West who cast the Russians for the role of the inevitable future aggressors are very probably wrong; but Russian actions and attitudes in regard to Poland, Persia, Turkey and Bulgaria have given them every excuse for forming that conclusion.

The plain truth is that a dictatorship, even if it calls itself Socialist, is, by its nature, far more of a threat to the peace of the world than a free democracy, even if it is capitalist. A democracy is slow and uncertain in its policies and its internal checks and balances make it quite impossible for its rulers to plan an aggressive war, even if they wanted to. It is wilful blindness on the part of Mr. Crossman and his supporters to ignore this fact.

Those who so easily assume that the Americans are the villains of the piece would be well advised

to remember that Mr. Wallace, who occupies in his own country a position similar to that of the Labour "rebels" here, is just as convinced that the British are the bogymen and that American democracy is being dragged into a Russian war at the coat tails of British imperialism. If Mr. Wallace can be so wrong about Britain, are there not grounds for caution in condemning America in an equally wholesale manner?

The second part of the argument is that a "Socialist policy" on Britain's part could rescue the world from the trouble in which it now stands. It is very difficult to see what this means. It appears to imply the extension of "moral support" (whatever that is) to Socialist parties and governments the world over, and the withholding of the same blessing from all who are not Socialists. It is even suggested that a British Government might properly "aid those large forces in the United States . . . whose hostility to the imperialist policy of the United States Administration is as great as our own."

Indeed, though it is very difficult to see what good a "Socialist foreign policy" would do, it is very easy to see the harm it would do. Any ostentatious drawing away of Britain's skirts from the unclean thing of American capitalism would certainly put an end to the large measure of fruitful and peaceful collaboration that still exists between Britain and America. It would be most unlikely to draw any response from the Russians. An open split between Britain and America would be far more likely to encourage the adventurous party in the Kremlin.

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There is, of course, a very strong case for re-thinking the whole basis of British foreign policy and for striking out on an independent line. The only right course for the British Government to pursue is to base its policy on Britain's national interests, on its place in the world and on its duty to the world.

There is not the slightest reason for the British Government to be frightened when it finds itself in agreement with the United States—or even with the British Tories—or in opposition to Russian policies. The opposite is, of course, equally true. But the real crux of the matter is this—that any independent British policy, so conceived, will inevitably and naturally find itself more closely aligned, on the things that really matter, with America than with Russia. It is not ideologies that establish this conclusion, but the facts of world politics—and of world economics, too, for even the economic disagreements between Britain and America reflect the fact that they both inhabit the same economic community and are trying to work basically the same system.

Yet if ideology must be brought in, it must also be added that there are much deeper divisions of faith and principle between Soviet Russia and either Britain or America than any that separate these two. The liberty of the individual, the sanctity of the rights, the domination of law over arbitrary government—to anyone but a Socialist monomaniac these things are infinitely more important than any divergence of view about who should own the railways. When the historians look over this tortured century they will find that the deepest cleavage of all lay between the men who governed with the aid of secret police, torture and the concentration camp and those who, stumbly, with ups and downs, with some success and a great deal of failure, nevertheless tied their faith to the ballot box and to the due process of law.

The Anglo-American Complex

The British Prime Minister

At the end of a debate on foreign policy in the House of Commons, November 18, during which American "dollar imperialism" had got a very rough going over, the Prime Minister, Mr. Attlee, made the following placating statement.

THERE has been a great deal of complaint about our collaboration with the United States of America in economic matters. Large parts of the world are in great distress including the whole of Europe. Who are the people who can help and who are helping Europe? Who are the people who have the wherewithal to help us as we try to set the world and especially Europe on its feet? It is the United States, and is it not natural, therefore, that we should collaborate with the United States? Europe has been overrun, and indeed almost every supply has been stopped. Large areas of Russia have been made waste and that prevents her helping. Help comes from the country that can give it, and yet this help is called American imperialism.

Large parts of Europe have been succored and kept alive by UNRRA. The United States con-

tributed 72% of those funds and this country contributed £155 million. A very large amount of that has been spent in Eastern Europe. I have no doubt the people of Eastern Europe are grateful, but it is a fact that their representatives in Paris showed very little gratitude in applauding the accusations made that these funds were used for political purposes.

Let me give another example that was put today. The United States of America has concluded a commercial treaty with China. That was regarded as a terrible example of American penetration. I had not seen the treaty so I sent for it. I have looked through it. It is an ordinary commercial treaty, such as we make with other States, such as America makes with other States and that Russia makes with other States. Why on earth should this be singled out as an example of American imperialism, except to support a preconceived thesis?

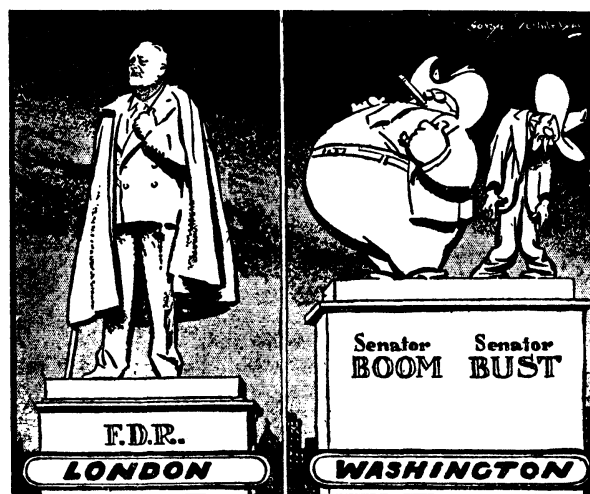
It is not a gross example of penetration to have a mutually convenient commercial treaty. Russia has treaties as well, treaties of all kinds, and they vary.

We are not pursuing an exclusive Anglo-American alliance. We were asked why we did not deny the Fulton speech of the Leader of the Opposition. [This is a reference to the speech by Winston Churchill at Fulton, Missouri, proposing an Anglo-American alliance.] Let me say that it is not the business of the Government to get up and make answers about speeches made by individuals however prominent. It would keep us very busy. I should have to go through the speech with a hair-comb, because as a rule, in his speeches, I find something with which I agree and something with which I disagree.

I wish some people abroad would realize that speeches made by the Opposition are, quite properly, made on their own responsibility, and have nothing to do with the Government. Secondly, we have over and over again denied we were trying to form an exclusive American alliance. If the hon. Gentleman does want it in black and white, I can say that if he considers the theme of the Fulton speech was the establishment of an exclusive Anglo-American alliance, then we do not agree with that point, and I really think he ought to have found that out a little time ago.

The next point to be considered is our collaboration with the American General Staffs. Surely people realize that we are still in occupation, jointly with America, of parts of Europe? Is it so very strange that we should continue to collaborate with their General Staffs? Is not everybody aware that during the war we integrated our armaments to a very large extent; and is not it clear

As British Socialists See America



STATUES OF THE DAY

From the London Daily Herald

that if there is to be any standardization, it is a matter that can be discussed? It is an extremely difficult thing to do, and it could only be done and implemented under the security arrangements which we are endeavoring to make under the United Nations organization. The United Nations organization looks, in its set-up, to this kind of collaboration in regions.

Then I am asked: "Why have not you had a similar arrangement with USSR?" We should have been glad to have it; we have been trying hard to get one. In February last we appointed our representatives to try to get the Military Staff Committee of the Security Council going, and again and again we have invited our friends of the USSR to come in. Unfortunately, they are still considering the matter, and they have not been able to come. But that is not our fault. We are trying to work it under the United Nations organization. Why should it be thought that we are wrong if, in the interim, we have to make various arrangements, as we have had to, all over the world?

Let me deal with another word that has now been dragged in. It is said that conscription has something to do with this problem. It really has nothing to do with this problem. No one is foolish enough to suppose that this country can measure up in armaments against either Soviet Russia, or the United States of America. Our provision is for our ordinary defense; and, as contemplated by the United Nations organization, for making our contribution to the United Nations organization.

When I Am on My Own

By Sir Ernest Benn

"The Society of Individualists"

THE individualist is not one who thinks of himself; indeed, he is almost alone in public affairs in that he always thinks of *all* the rest, not as a mass but as individuals. An examination of the policies of the various political parties will show that all of them are engaged in promoting the interests of some particular section as distinguished from the whole; they are concerned about the landowners, the church, miners, old age pensioners, women, distressed areas, shipping, agriculture or whatever it may be. All these causes are the causes of the few against the many.

WHEN I am on my own, an individual responsible for myself, I must earn a character, a personal character, that is perhaps my first necessity; others must be made by experience of me to learn of my qualities, capabilities and perhaps defects and limitations. In a planned society I have no need of a character; no such thing is wanted. No national or universal plan can afford to take the least notice of personal character.

WHEN I am on my own, an individual responsible for myself, I must acquire credit, others must be made to know that I am credit-worthy, that I can be trusted, that what I undertake I will perform to the limits of my ability. But when I am planned, nothing so troublesome is in the least necessary; I am told to believe in the public credit, and kept in ignorance of the fact that there is public debt, but no such thing as public credit.

WHEN I am on my own, an individual responsible for myself, I must avoid loss, but if I am planned and loss comes out of the bottomless, mythical public purse, I am relieved of the necessity, and can waste and lose just as much as my inherent laziness may dictate.

WHEN I am on my own, an individual responsible for myself, I must strive to do better, better than my previous performance and better than others; I must, in fact, apply to the practical things of life the rules which I have learnt on the playground at school. I must strive—to use a common phrase—to better myself, to take a step up, and am encouraged in that endeavor by the knowledge that in stepping up I cannot avoid

bringing others up with me. If I live in a planned society and the urge to move upward has not altogether disappeared, then the only move available to me is into the ranks of the planners, where I must proceed to arrange the affairs of others and force them down deeper into the passivity of a planned existence.

WHEN I am on my own, an individual responsible for myself, I must be useful to others, for in no other way can I exist: my usefulness will be tested by the willingness of others to make use of me and, similarly, others must be useful to me. If I am planned I have no need whatever to consider the others; they are merely the State, the authorities, the all-pervading *they*: I do not know them, I cannot make contact with them, they mean exactly nothing to me except chits, permits, doles, passes or rations.

WHEN I am on my own, an individual responsible for myself, I do my best to keep out of the doctor's hands because when ill I am robbed of the satisfaction of the strenuous life and the daily round of the sincere individualist. In a planned society I can indulge in the lazy luxury of invalidism to my heart's content.

PERHAPS above all I am an individualist because it makes for honesty. In a society of free men, each acting on his own responsibility, honesty is not only the best policy, it is an absolute necessity, apart altogether from the ethical satisfaction it provides. As I move further from the individualist position into associations, unions, districts, counties, nations and states, so I steadily lose touch with that essentially personal quality, honesty. Honesty may be described as a force governing dealings between individuals. When the transactions are between masses, they tend to become less honest; when between nations there is, indeed, little pretense of honesty about them. That simple circumstance arises not from evil intent, but from the very nature of things. My personal honesty can be tested by others who are free to bring me before authorities competent to pass judgment upon me. Nothing of the kind can ever happen as between nations, and honesty is therefore robbed of the environment in which alone it can thrive.

The New Economic Weather Bureau

By Edna Lonigan

OUT of a long debate on the responsibilities of government toward employment came (1) the Employment Act of 1946, and (2) a new federal bureau named the President's Council of Economic Advisers. The members are Edwin G. Nourse, of Brookings Institution; Leon Keyserling, of many New Deal agencies, and John Davidson Clark, of the College of Business Administration of the University of Nebraska. The Council is to advise the President on where the national economy is going and what shall be done to keep it "stable."

On Dec. 18 it made its first report to the President, and the official forecast of the economic weather for 1947 stands as follows:

"We do not believe that 1947 presents a situation in which government should undertake heroic measures of public works, consumer or producer subsidies to quicken employment or stimulate production. . . . Our view as to the outlook for production and jobs is that it should be more than ordinarily favorable for a period of some years ahead. In spite of certain conditions that might make for a dip in 1947, we believe that courageous and sensible action by those responsible for the administration of private business relations (including labor unions) can at least hold such a recession to moderate proportions if not avert it."

Thus we seem to be moving from the customary happy confusion of many forecasts by many private and governmental agencies to the serenity of having a single supreme oracle.

True economic forecasting operates within that narrow band in which one must decide, before all the facts are in, what every one will know when the whole story is out. This, in fact, has always been done to a greater or lesser extent by farmers, bankers, businessmen, even wage earners and housewives.

Take the Record

The fairest test of government forecasting is to look at the record. The story of the government's economic steering is strewn with official forecasts. How do they look when the race is run? May we expect the government's forecast to be as good as our own for serious economic purposes?

Take the period that included the end of the war and the debate over postwar employment; that is, mid-year 1945. This is a very good period

to take because the government had then almost complete control over the economic life and therefore knew more about it than any private person could know. Moreover it is now far enough away so that most people will agree about what actually happened in the race, and how close the government experts came to guessing the actual outcome.

In April, 1945, James F. Byrnes submitted his last report as Director of War Mobilization and forecast the conditions that might be expected to follow the defeat of Germany. The assumption then was that the war with Germany would end quickly and war with Japan would continue for perhaps a year.

The best efforts of government, said Mr. Byrnes, could not prevent V-E day from bringing some unemployment. "He would be a false prophet who assured the American people otherwise." In the same report, however, Mr. Byrnes said that "The outlook in general indicates that the demand for labor will exceed the supply. Manpower may well be a reconversion bottleneck in many localities." In another place he also said that "the heavy civilian demand both at home and abroad will quickly absorb all available civilian production and clamor for more."

Political Weights

These three statements seem to be inconsistent. The explanation is perhaps political. The forecast of unemployment was tied to recommendations for higher unemployment benefits; that of labor shortages was tied to continuance of manpower controls, and the forecast about high purchasing power to recommendations for price controls and heavy taxation. Price, wage and rationing controls, said Mr. Byrnes, must be continued after V-E day. "They will be needed to maintain the postwar market for goods and services"—a contradiction again.

Public works were to be deferred until after the defeat of Japan, but a federal subsidy was "needed" to enable the state and federal agencies to plan useful projects (although the states had used the period of New Deal spending to reduce their indebtedness).

Housing was not a serious problem. A total of 950,000 private dwellings were to be started

"within two years after materials and labor were available." The FHA and the low-rent housing program had plenty of funds. In the months following the defeat of Germany the construction industry would be enabled to meet its postwar tasks by "replenishment of the pipe lines with hardware, plumbing, heating and general building equipment." No shortage of nails there.

Various

In April, 1945, the *United States News* collected some of the unpublished opinions of important war agencies about the prospects for reconversion.

New automobiles were to appear within four months and (in spite of the war with Japan) automobile production would within six months reach the annual rate of 5 million cars.

The boom in private construction, it was expected, would have to wait until the end of the war with Japan.

Supplies of household appliances like refrigerators, vacuum cleaners, and washing machines would quickly reach high levels. Small hardware, like nails, screws and hinges, would reach the shelves quickly after the defeat of Germany.

Food was going to be more abundant, and there would be more meat by the autumn of 1945.

There would be no general increase in wage rates, but rates would rise slowly "as a protection for workers against a precipitate drop in weekly earnings." The government would stand like a rock against the expected flood of wage decreases.

Through all the comments ran the warning that, though a sudden end of the Japanese war was unlikely, it was not impossible, and, if it came, a precipitate break in economic conditions was likely to appear.

These were the forecasts of men who had been in close touch with American industry during the unheaval of war. They were making careful forecasts of what American industry could accomplish by its technical and managerial proficiency, but they ignored completely three variables—the working time that would be lost by strikes, the slowdown in worker efficiency, and the vagaries of the government's own program and policies.

It is interesting also that they included no hint of the atomic bomb. This was essential for military security but it raises a question that occurs in many forms. Does the government know, any better than the citizens, what the government is going to do, and if it knows will it tell? If government forecasts do not give us light on the important variables of government policy, what advantage do they have?

But while some were making forecasts of tech-

nical possibilities, and ignoring the variables of labor policy and governmental politics, the Labor Department was making forecasts stressing labor-union issues and ignoring the technical probabilities. Ford Hinrichs, Acting Commissioner of Labor Statistics, said that about twenty million workers were in war industries and would have to be reconverted when peace came. He forgot the large factor of reconversion-in-place. Men's clothing manufacturers who made blue double-breasted suits for Navy uniforms did not have a reconversion problem when they shifted to making brown suits for civilians. Manufacturers of lipstick cases who made cases for cartridge shells did not need government assistance in reconverting to lipstick cases.

A Blueprint

After V-J day, John W. Snyder, then head of the OWMR, issued a blueprint, "From War to Peace." He said, on unemployment, "The number who will be laid off during the next two months is estimated to be about 4 million—it is expected that there will be 5 million or more unemployed in three months. By spring unemployment may reach about 8 million."

This forecast was not Mr. Snyder's St. Louis bank experience speaking. It was the voice of the government's employment experts with all their New Deal training in crisis thinking.

Mr. Snyder's report devoted seventeen lines to the housing question. There could be no difficulty because money was plentiful. The goal of 400,000 new houses by July, 1946, was to be "stepped up."

Mr. Byrnes's and Mr. Snyder's reports represent the highest type of government forecasting by able and responsible officials. Some of the details were blurred by political considerations, and the technical work was confused by the political climate of easy money and the importance of government controls. But the competence is there. What was the net result?

Wrong Terrain

The government's economic "intelligence reports" pictured a terrain in which unemployment would be high, wages would be falling, materials would be abundant, the housing problem virtually solved and only the faintest hint that famine in Europe and Asia might affect our food supply.

There was no hint of labor troubles, no suggestion of administration backing and filling on price, wage and production controls, and, of course, no recommendations for putting the era of inflated money and inflated ideas behind us.

There is another type of government forecast, stemming not from responsible officials charged with a precise duty, but from ambitious rivals

who want to increase their power in the government and their size in the popular imagination. People with operating experience know the difference between the two, but it cannot be assumed that intellectuals or the public do.

The theatrical type of economic forecast is best illustrated by Henry Wallace's pronouncements on unemployment in his campaign for permanent wartime spending, in the name of full employment.

Mr. Wallace is not given to precise quotable statements. The horrendous picture of unemployment which he drew in books and articles was based more on delicate suggestion and clever innuendo than on verifiable analysis. In his testimony before the House Committee on the Full Employment Bill, he took refuge in Mr. Snyder's estimate of 8 million unemployed in the spring of 1946. He tried to convey, he said, a "feeling of urgency" about the coming crisis in employment and stated positively that "our economic machinery simply can't operate quite fast enough to build up peacetime employment as rapidly as demobilization of war industry and of the Armed Forces will proceed." In his book "Sixty Million Jobs," Mr. Wallace said that we could with government planning achieve employment for 60 million by 1950. The fact was of course that the country reached an employment total of 60 million within the period in which Mr. Wallace had seen 8 million still unemployed.

Therefore Irrelevant

Mr. Snyder testified before the Congress that the Full Employment Bill could give no relief for twelve to fourteen months; that is, it bore no relation to emergency postwar unemployment. Forecasts of the failure of private industry in the transition were therefore irrelevant but they served the political purpose of creating a crisis atmosphere.

Miss Perkins, then Secretary of Labor, supported Mr. Wallace's forecasts by inference in her letter to the House Committee on the Jobs Bill. She stated that about 50 million workers would be employed in civilian jobs and the Armed Forces a year after V-J day. This forecast was based on careful technical work in details, but the whole was in error because (again) some of the principal variables had been left out.

One of the favorite claims of those urging greater government steering is that private citizens have only a "partial" view, whereas government sees "the whole."

The record indicates that if government forecasters see "the whole" they do not all see the same "whole" but various "wholes" closely related to their own bureaucratic situation.

Who Can Forecast Government?

One thing government prophecies do not give is definitive information on what may be expected of government and how to predict its behavior.

Example after example can be cited of failure by the federal agencies to give adequate forecasts of matters over which it has primary responsibility. We do not know the simple total, much less the direction, of governmental financial commitments, direct and contingent. We have no frank acceptance of the fact that we are a debtor nation, and what changes that makes in prevailing forecasts. We have no official statements of how the money due to the Social Insurance Trusts is to be raised. Government policy itself has become one of the principal economic variables.

Like individuals, governments find more fun and less distasteful responsibility in prophesying what is going to happen in other people's business, and what they should do, than in making simple accounting statements of where they are and where they are going, in fields where they have full responsibility.

Wilful Figures

Henry Hazlitt examined the estimates which the federal executive made in a field essential for its own work—the forecasts of Treasury receipts and expenditures. Mr. Hazlitt found that estimates of expenditures (in the years 1935-1944) varied from reality by percentages ranging from an excess of 85% to a deficiency of 10%. Estimated receipts were off in one year by 55%. As a result of the compounding of errors the estimates of the remainder, the expected net deficit, were in error by amounts like 422%, 273%, 135%—and 30%.

Unemployment in the worst years reaches perhaps 25%. If the government's estimates of the simpler factors entering into analysis of the whole economic picture err by even 10% they will be wrong by nearly half the unemployment problem (if they are in the right direction) and by as much as 150% if they err in direction as well as amount.

Senator Wagner asked the Budget Bureau to reply to similar charges made by the National Association of Manufacturers. Harold Smith, Director of the Budget, explained that some of the large deviations were due to incorrect estimates of the size of the Armed Forces, but this again is a variable about which the government has unusually full information.

He also said that estimates were revised, especially to take account of new legislation. That is

quite proper. But if government forecasts cannot take account in advance of action by a coordinate branch of government what advantage do they have over private judgments?

Mr. Vinson, then Secretary of the Treasury, took cognizance of the same charges in his testimony before the House. First he chose the figures with the smaller errors—the estimates of income. Then he averaged them. Averaging errors does not eliminate them, especially if $+10\%$ and -10% are averaged as zero. Then he said that the task of estimating national income—expenditure and deficits—was easier (!) than that of estimating Treasury income—expenditure and deficits.

Forecasting, like horse racing, is a judgment on the total situation. No one can say his forecast was correct, only the situation changed. That is like the man who says his judgment was right about the horse but he didn't know the jockey would drive him too hard. It is easy in forecasting to decide about the parts. The trick is to put the parts together giving each its proper weight.

There can be no rule about what is necessary

for a good forecast. It is as variable as life. The weights to be attached to each factor differ each time. To gauge them correctly requires the total intelligence and experience of the predictor. Forecasting is not a science but an art.

Government forecasting is the most hazardous kind. It is easy to pick the best men. After they are picked, what then? The best qualified government forecaster runs into hazards at every turn. He not only has to get the right ideas, he must get them at the right time. His official forecast must be made far in advance of a private forecast because it has to work its way through all the channels of government communication. When it is made it is an official pronouncement and cannot be promptly revised. This leads to the familiar custom of hedging. He cannot make statements which criticize even by implication other federal departments or agencies. What, for example, could the official forecasters have said in Mr. Roosevelt's administration about fiat money?

What of a forecast that might have political repercussions? Would any administration forecast a business depression in an election year?

Treasury Hypotheses I and II

THE Washington correspondent of *The Economist*, London, recently wrote in a very entertaining manner of United States Treasury Hypotheses I and II. The first was "that a sharp fall in the total personal incomes would occur in the month following the war. It was thought that heavy reconversion unemployment, shorter working hours a shift of manpower from highly paid war jobs to lower-paying peacetime work and down grading would all contribute to this result. Bidding as to the volume of unemployment was spirited, with the official high reached by the *Federal Reserve Bulletin* at 20 million. No wonder that action was taken to bolster the nation's purchasing power through higher wage rates and reduced taxation on personal incomes."

A little time proved that hypothesis to be very wrong. Then hypothesis II was adopted, and that one, stated simply, was "that the quantity of money and falling interest rates have no relation to inflation; that, in the words of one official the Treasury is an innocent bystander as regards inflation."

"More explicitly, the hypothesis holds that neither changes in the quantity of money nor changes in interest rates can be used to affect the price level. The public holds a huge amount of liquid assets ranging from cash to war savings

bonds. The determining factor for future price movements, it is maintained, is when and how quickly people spend their liquid assets.

"The hypothesis also holds that very low interest rates are necessary in the long run to stimulate investment and thereby to overcome the tendency of the American economy toward stagnation. Their attainment, therefore, must be an unvarying goal of action for the national welfare. The Treasury and the federal budget also benefit from this policy by reduced carrying charges on the national debt. Furthermore, higher interest rates do not stimulate savings and so are useless as a check on inflation. They would be harmful, moreover, in making the long-run goal more difficult of attainment; for these and other reasons, dearer money is a completely inappropriate method of preventing inflation.

"Proceeding upon this hypothesis, the monetary policy and the corresponding administrative techniques, developed in depression days and more fully exploited for war finance, have been carried over into peacetime with an official conscience as clear as a country sunbeam."

Since this was written the Chairman of the Board of Governors of the Federal Reserve System has explained that there is no longer a "natural" rate of interest.

Dispassionate Forecast

There is no trend in the world

By the B.I.S.

ROBABLY the most detached point of view now anywhere to be discovered is that of the Bank for International Settlements. The world it was meant to serve has gone out from under it. In place of it are two new international banks—one to control the exchange and one to provide capital—and that leaves it in the position of a bank emeritus, with a solvent balance sheet but nothing to do more than to impart the wisdom of its experience. This it does with sound analysis, clear reasoning and a trace of humor, in the last annual report. "There is," it says, "no uniform business trend in the world." All the more for that reason there is an insatiable hunger for prophecy and forecast; and there is also in the species an incorrigible optimism, which takes at this time a special form:

"In times of good business the human mind is curiously predisposed to a buoyant expectation of 'prosperity forever,' but a rude awakening has hitherto speedily corrected such over-confidence. A particular variety of the same tendency is the hope that economic fluctuations can be wholly banished from our economic life; so many human activities conform, however, to a pattern of cyclical change that it would be strange indeed if different conditions could be made to apply in economic matters. Progress always, and at the same even rate, is a conception compatible neither with our knowledge of history nor with the observations we are able to make in the space of our own relatively brief lifetimes."

It is sympathetic, nevertheless, to the search of economists for a postwar pattern, and is willing to do what it can to help, provided it shall not be misunderstood:

"Here no forecast will be made (*vestigia terrent!*), but it is of some interest to point out that a number of the more important factors present in the two depressions mentioned above (1920-22 and 1930-33) will certainly not be operative in the next few years."

It proceeds to develop this opinion. Regarding a counterpart of the 1920-1922 depression it says:

"The depression of 1920-22 was, in some countries, very severe in its effects but it was short-lived; and, in spite of all the suffering, it came to be regarded as a perhaps not quite useless shakedown after the excesses of the war, in that it helped to clear away

much unsound growth and to deprive many war speculators of their too easily gotten gains. Money wages fell, but less than prices, the net effect being in most countries a substantial improvement in the real earnings of the great majority of workers.

"After the First World War the United States budget was balanced in the course of 1920 and by that time peacetime production had made a great recovery; in the autumn the downward turn in prices set in, wholesale prices falling suddenly by more than twenty per cent, thus causing great losses to many firms and individuals, especially since credit had been rather too freely used for the building-up of inventories and the purchase of shares. As business got worse, however, a downward adjustment in costs, including wages, supervened; on the other hand, the volume of monetary purchasing power was kept up and even increased by a steady influx of gold, the United States being at the time the only country fully on the gold standard and thus receiving the bulk of the current production. This combination of cost adjustment and monetary expansion brought about a fairly speedy recovery, which laid the basis for economic advance of the Twenties. . . .

"The circumstances here mentioned—the moderate rise of prices in relation to the movements after the First World War and the present low level of private indebtedness—are generally, and it would seem justly, regarded as good reasons for thinking that present-day economies will be less exposed to a business recession than those of twenty-five years ago. When, thanks to increased output, the present pronounced sellers' market comes to an end, there may be a temporary check rather than a real depression. Since the demand for durable consumers' goods such as houses, automobiles and refrigerators, cannot be quickly satisfied, it is thought that a relatively favourable basic trend of business will be sustained for several years to come. A study of the business trend submitted by the Swedish Government to its Parliament in the spring of 1946 suggested that it was relatively safe to expect that good business conditions would continue to govern economic life for another four or five years, *i.e.*, up to 1950; after that, however, it was thought that the volume of production might exert a depressing influence on prices, and a warning was issued that special steps might then have to be taken to prevent wholesale unemployment."

And as regarding a counterpart of the 1930-1933 depression it says:

"It is often the unexpected that happens and three-fore considerations looking as far into the future as

four or five years can at best be tentative; but, even so, it is of some interest to discuss certain elements in the situation then likely to exist, and to compare them with the main factors responsible for the great depression of 1930-33. It is now generally recognized that the severity of that depression was in part due to a combination of a downward trend of the ordinary business cycle and an agricultural depression, the turn of events being aggravated by a liquidity crisis both nationally and internationally. On the other hand, there is less agreement as to the extent to which scarcity of gold or lack of investment opportunities may have contributed to the severity of the depression. . . .

"In some respects the economic life of many countries is likely to withstand a decline in prices more easily this time, the reason being the much smaller volume of private indebtedness now in existence. A reduction in the volume of private indebtedness had begun during the depression of 1930-33, debtors being asked, nationally and internationally, to repay amounts owed, and this wave of liquidation leading to a sudden contraction of the credit volume. A further reduction was facilitated by a series of official measures adopted in a number of countries, especially for the purpose of lowering agricultural indebtedness. There was also a growing tendency for industrial and commercial firms to plough back profits into the business instead of distributing high dividends to shareholders. In the course of the Second World War this tendency was strengthened by fiscal considerations, since amounts which could be charged as current expenses or were allocated as depreciation of, for instance, assets connected with the war effort (which would have to be written off quickly) partly escaped the heavy wartime taxation. During the war, farmers and many other producers have earned a good income and have as a matter of fact devoted quite a large proportion of their earnings to a reduction of debts. It should also be mentioned that even before the war many countries had restricted borrowing by individuals and firms for speculative purchases of stock exchange securities. As a result, the amount lent on such securities is generally quite small. . . .

"Finally, account must be taken of the important fact that in future the authorities are certain to intervene more resolutely than ever before with a view to preventing a decline in economic activity and especially mass unemployment. But there is no simple measure by which a depression can be overcome. In the years 1930-33 some countries sought to attain a new balance in their economy mainly by wage reductions; but, although wage rates both in the United States and in Germany were brought down by as much as twenty per cent, no upturn was achieved in that way. On the other hand, fairly large amounts of deficit spending have proved ineffectual when costs have been allowed to rise abruptly and thus outstrip the advance in productivity. Those countries would seem to have been most successful

in their anti-depression policy which have combined financial expansion with a process of cost adjustment, including the manifold efforts by individual firms to put their own particular business on a proper basis for earning. A pessimistic note is sometimes heard, it being contended that governments will only take 'popular measures,' leaving many maladjustments uncorrected, with the effect of actually prolonging the depression; fortunately, an intense discussion of the different aspects of an appropriate business-cycle policy is at present taking place, the recent tendency having been to lay stronger emphasis on the complexity of the problems, with a warning against belief in facile solutions."

So, perhaps, there is no pattern. Certainly there is no clear seeing. That is the conclusion:

"A proper insight into the complexity of economic life is also the best safeguard against an exaggerated belief in the possibility of forecasting future business conditions. The above discussion will have served its purpose if it has made it clear that, when a decline in business sets in, this decline is likely to be different in some material respects from the depression which began in 1929. There can be no simple repetition of the conditions then obtaining and, therefore, whatever means of action may be planned to cope with coming difficulties, they must not be slavishly inspired by what happened 'last time!'"

At the end comes this nostalgic reflection: "The period from 1815 to 1914, when the gold standard system was developed and made to function effectively, was an unusually peaceful hundred years in the history of mankind." But that, of course, is the lost pattern.

Recollections

THE Congress of Industrial Organizations has announced that wages can be increased 25 per cent without any increase in prices.

We have heard that before.

But between the two announcements there is this difference. The one of October, 1945, was sponsored by the United States Government. This time the CIO lays the computation to Mr. Robert Nathan.

And while we are in the business of recalling past events, it is interesting that when the Office of War Mobilization and Reconversion insisted that unemployment would reach eight million soon after V-J day, the economist of that organization was Mr. Robert Nathan.—*Wall Street Journal*.

One Repetitive Postwar Pattern

By James Truslow Adams

James Truslow Adams, the historian, has a Wall Street background. He was once a member of the New York Stock Exchange. In his annual report as treasurer of the American Academy of Arts and Letters he makes this prediction.

IN MY opinion, the pattern of prices in stocks and commodities after every great war has been practically the same, at least since the American Revolution. I think the pattern remains the same because it is based not on any economic laws, in which I do not believe, but on old human nature which does not change. This pattern, although the periods vary as to months and even occasionally a year or two, has been that after a war ends and peace is declared, there are a couple of years or so of sudden prosperity. Then wages, prices of farm products and manufactured products and all the other factors, get out of kilter and the maladjustments have to be corrected by a serious general decline which may last about a couple of years. Then comes a new period of rather wild speculation when the maladjustments seem to have been overcome.

For example, after the American Revolution, peace was signed in 1783 although the war had practically been over since 1781. There was apparent prosperity until 1785 because human nature asserted itself and having been deprived of many accustomed things during the long war, started in to buy. Wages went up, the merchants' shelves became overstocked and all the things happened which we have just been witnessing. Then there were two years, from 1785 to 1787 when there was intense depression and the farmers marched on courthouses and closed them in Connecticut, Massachusetts, and so on, so that their farms could not be foreclosed. When the maladjustments got straightened out a bit, we had a period of inflationary speculation which lasted until the early 1790's when Colonel Duer, the greatest speculator in New York at that time, committed suicide. In that war and peace 170 years ago, general economic conditions were wholly different from those today. We had no banks, no Federal Reserve system, no steam, no electricity, no mass production, and all that we had at the end of World War I, but the pattern remained the same.

The Armistice was declared the end of 1918,

peace signed early in 1919. Then we had a boom. Toward the end of 1920 and all through 1921, we had a primary postwar depression as we had it after the Revolution. Then began the wild speculation which ended with the crash of 1929. The same thing has happened in other wars such as the Napoleonic Wars in which we shared to the extent of the War of 1812; the Civil War and so on. I steered my craft, and that of those who were dependent upon me for looking after their investments, through World War I and its succeeding years on this theory and I am still going on it. I think that we are wise in going into snug quarters for the next couple of years or so. Some time, although I may not be here then, to give you my advice—good or bad—I think that we might perhaps go back into the more speculative stocks again but be sure to get out within a few years because the next crash will make 1929 look like a piker.

After every war, eventually the loss of capital goods has to be made good, and it can only be made good the hard way. In this World War we have destroyed more capital goods than ever before in the history of the world and the crash will be correspondingly great.

Safeguards and Supports

By the Secretary of the Treasury

OUT of the new social consciousness of the American people have been created safeguards and supports that have basically strengthened the foundations of our economy.

No one would be willing to give up the safeguards provided for the savings of our people by the Federal Deposit Insurance legislation. The near collapse of our banking system was one of the most serious developments of the depression of the 1930's. By contrast, our banks are today in a very sound position.

Economists agree that the marked decline in farm incomes was one of the major causes of the last depression. Today, farm income is not only at record levels, but preventive measures have been provided to check any downward trend.

Not only is employment now at a peacetime peak, but through the provisions of the Social Security legislation, we have federally-sponsored state unemployment insurance. With this protection there is no danger of a sudden and far-reaching curtailment of individual income.

Another cause for economic assurance is found in the operations of the Securities and Exchange Commission. Through its protective services, investors in securities are more certain of the soundness of their investments today.

Taming of the Stock Market

By *Marriner S. Eccles*

Chairman of the Board of Governors of the Federal Reserve System

Speaking to the New England Bank Management Conference in Boston, Mr. Eccles discussed the government's power now to regulate the "upswings and downswings of the stock market," and said that so far it had worked very well. That part of his address is reprinted below.

THE credit policy of the Federal Reserve System, in all its aspects, should be adjusted to the general credit situation of the country. We are not justified, for example, in fixing margin requirements exclusively by reference to the movement of stock prices, as some people have suggested. The general credit situation must be the main criterion, and this in turn is an integral part of the general business situation.

When margin requirements were fixed at 100%, the general credit situation was highly inflationary because of the immense volume of purchasing power in the hands of investors and the general public. Indeed, there is plenty of cash today to drive stocks up very high, entirely without credit, if investors, let us say, had more confidence in the prospect for profits in business and industry and less uncertainty over the possibilities of further wage-price maladjustments.

It can hardly be contended, with reason, that the credit gates should be opened now in the market in order to finance new productive enterprise and provide employment. There was a very large volume of undigested offerings in the stock market, only a part of which was for new financing. But in any case this is not a time for encouraging new issues even for productive purposes because with the scarcity of materials and labor, it would only add to the inflationary pressure.

This is not a one-way street. When the situation changes, and there is need to stimulate the use of credit for purchasing securities, it will be time to consider lowering margin requirements. This would be a time, as it seems to me, when there will be sufficient supplies of materials and labor to justify the encouragement of new issues of corporate securities, provided there is at the same time a prospect of declining production and declining employment. The time to lower the margin requirements will be one at which, in contrast to the present time, the effect will not

be to add to inflationary forces but to help offset deflationary forces in the general economy.

The stock market, after a four-year rise which increased values by 150%, has now experienced a decline, bringing prices down to the level at the end of the war, or about 20% below their high point of last spring. I do not consider this an alarming symptom. On the contrary, to the extent that this readjustment reflects a more sober appraisal of prospects and a lessening of the inflationary psychology, to the extent that it will tend to slow down the timing of not absolutely urgent capital expenditures and inventory accumulations, it will contribute to a balance in the economy.

One of the fortunate aspects of the situation has been the low level of stock market credit. Such credit now outstanding is in the general neighborhood of one billion dollars, as compared with something like three billions at the prewar peak of stock prices in 1937 and more than twelve billions at the peak in 1929.

Without the existence of stringent credit regulation the speculative upward movement of prices would undoubtedly have gone much further and the subsequent price decline with a concurrent forced liquidation of credit would also have gone much further, thus making for greater instability.

Over the last forty or fifty years, the upswings and downswings of the stock market have been a decidedly unstabilizing influence in the national economy. It was in order to reduce this unstabilizing influence, particularly as it is connected with the use of credit, that Congress in 1934 vested in the Reserve Board responsibility for fixing margin requirements on listed securities but not on unlisted securities.

In the late 1920's, when there were no federal margin requirements, the upward movement in stock prices caused them to increase by more than 200% and the sharp decline in 1929 was more than twice as rapid as that which took place during recent months.

The recent gyrations in the cotton market, which advanced very rapidly last summer and then slumped by nearly 20% in a few days are an indication of what can be expected in speculative markets which are not subject to any effective control over the use of credit.

One of the interesting consequences of the

Board's margin requirements has been an almost uninterrupted reduction since the middle of last year in the amount of stock market credit in use, including the reduction during the period when the market was advancing—which had never happened before. There were, to be sure, some inequities and imperfections in margin requirements as a regulatory instrument including the failure of the law to cover nonlisted securities. Congress considered the question of whether unlisted securities should also be covered by the law, but concluded that it was not practical. Moreover, it is evident that control of listed securities

greatly influences the use of credit and the market for unlisted securities. On the whole, the use of margin requirements can be viewed with satisfaction. Neither the long upswing that culminated last May nor the subsequent downswing have gone to the lengths to which they would have gone if there had been no federal margin requirements.

The general public strongly approves of this regulation. It is not to be expected that some of those in the brokerage or security business who feel that their business is adversely affected by regulation would agree with this viewpoint.

Verities of Money

By Bradford B. Smith

At a recent round table discussion of the prospect for boom or bust such subjects as labor policy, the wage-price spiral, productivity, inventories and the backlog of demand were submitted at length to analysis and synthesis, but Mr. Smith was the only economist present who put first emphasis upon monetary factors. The following lucid statement of money principles is from his recent pamphlet entitled, "Controlled vs. Uncontrolled Economy."—Editor.

THE economics of money is obscure to most people. That is one reason for believing that political manipulation of the money supply is the most deceptive and devastating of all the means for transforming the highly productive voluntary society into the sterile authoritarian state—while at the same time it is the most popular and seemingly plausible means for preserving private enterprise by supposedly stabilizing over-all production. That only makes it the more dangerous.

There are certain things we must understand. The stuff we use to pay bills—that is, money—consists first, of the coins and printed currency we carry in our pockets and, secondly, of bank deposits subject to check, the deposits being about four-fifths of the total. Most of us can only get this money by ourselves concurrently selling something—whether it be our property or our labor.

If that were always true for everybody, there would be no problem. No one could go into markets and purchase something out of them except

by having equivalently contributed something to them. The money one had, as a command over other peoples' products, would match one's own products made available to others. The money claims against goods would match the goods to be claimed. Money would truly be, then, a stable medium of exchange.

But our money isn't that way. It can be printed instead of earned. The first step is for the government to print bonds—promises to pay. The next step is to take those bonds to the commercial banks. There these government promises to pay in the future are swapped for the bank's promise to pay on demand—that is, for a bank deposit. That is what a bank deposit is: it is the bank's liability to pay in gold if called upon to do so. Since everyone expects that the bank would pay if called upon and allowed by a law to do so, these liabilities or deposits are themselves used as money. We transfer them to each other by writing checks in exchange for the goods and services we get from each other. The significant thing is that simply by making entries in its books banks can create deposits for use as money. The process is the monetary equivalent of the paper money printing press, and in fact it actually starts with a printing press—the one which prints the government's promises to pay sometime in the future. This is something that people must understand because the process has been employed to multiply the supply of money sixfold since 1933, and three times since 1939, while the right of people themselves to police the inflation by converting their money into gold has been denied them.

Please note that the new money to spend in markets is obtained without concurrently contributing goods or services to the markets. The balance between money going to market and goods going to market is thus destroyed. The extra money competing for goods bids prices up.

That is inflation, and that is the only possible way it can occur.

Then the inflation becomes the excuse for jumping over onto another road to statism—the road of price control, rationing, allocation, production directives, priorities, etc., all of which directly destroy the voluntary market, and undermine the maximum production of the most wanted goods it otherwise promotes.

Just to close the spiral for an instant at this point, it may be noted that the resulting unemployment in turn becomes the excuse for printing and spending more money, while the increased spending and rising debt become the excuse for increasing incentive-destroying taxes. The spiral becomes self-stimulating.

The fact that printing money adds money to markets but not goods to match it means that the money is more of a tax receipt for goods taken away than it is a command over goods to be had. Subsequent spenders of the money find this out in two ways: By price control and rationing they find themselves with money left over which they can't spend to buy what they want. Money you can't spend is relatively worthless. Or in the absence of those controls, the prices go up and each dollar buys less.

There is no reliable way that printed money, once issued, can ever be redeemed in goods equivalent to those taken when it was issued. Printing of money is not the creation of purchasing power. It is, instead, the cruelest and most deceptive form of taxation with the longest-lasting evil aftermaths. The burden falls most heavily upon those with pensions, bequests or otherwise fixed income, and often least able to bear the burden.

There is one final, truly vicious aspect of printing money that should be noted. When the money enters the market, the market responds. It shifts capital, manpower and materials towards greater production of the particular goods taken. The market does not know the demand is false. The demand is not the expression of competitive

expenditure by those whose income derives from producing for each other what they want most in exchange. The demand is, instead, the result of someone getting something for nothing without having to measure his getting with giving of goods competitively acceptable in markets. Production is diverted to synthetic demand instead of being governed by exchange for equivalent values.

In short, the boom financed by inflating the money is the relative wastage of scarce manpower, capital and resources. In wartime, this is readily apparent: printed money is exchanged for goods which are then destroyed under compulsion. In peacetime, the process is similar though less readily apparent. The appearance of prosperity that attends this wastage is only the reflection of the takings of those whose demand is unlimited so long as they can gratify it for nothing.

But buying with printed money must eventually end. It ends either when check deposit expansion reaches the limit under the gold standard, if we have a gold standard, or when the Federal Reserve Board otherwise decides to call a halt, or eventually when so much money is printed that it becomes substantially unacceptable as a medium of exchange. When it ends the maladjustment between production and demand is exposed. Unwanted production accumulates in inventories, liquidation sets in and spirals of recession are inaugurated.

That is why bust follows boom. The boom is the wastage of manpower and resources; the bust the idleness of manpower and resources. The starting of a boom by printing press techniques is the guarantee of the bust to follow. We had a taste of that in the "we planned it that way" boom of 1936 and the bust in 1937. We shall, I fear, have bigger and better examples in the days to come unless more people learn that government monkeying with money is playing with dynamite which on explosion can extinguish the voluntary society.

There is nothing more terrible than energetic ignorance.—*Goethe*.

A man must have a certain amount of intelligent ignorance to get anywhere.—*Charles F. Kettering*.

Reflections on Real Estate

By Raymond Rodgers

Professor of Banking and Finance, New York University

Institutions disposing of capital funds, notably life insurance companies, steeply increased their investments in mortgages and real estate last year, with the rate of interest falling. This discussion by Professor Rodgers of the future of real estate values, delivered before the Mortgage Bankers Association of America, is therefore timely and somewhat disturbing.—Editor.

WHILE the yield on mortgages has gone down, down, down, the risk, as measured by increased valuation, has gone up, up, up. This is the paradox of mortgage lending. It is not too much to say that the very future of mortgage lending, as we know it, depends on the solution of this problem.

Obviously, the greatly reduced margin of profit available to the lender under the prevailing low interest rates does not warrant the assumption of *increased risk*; but that is exactly what the competition of capital pressing for investment is forcing upon lenders. The twofold character of this danger must not be overlooked. Thus, the housing shortage has drastically increased the market value of houses; but, in addition to this market increase, the mortgage "shortage" has drastically increased the appraisal value which lenders will recognize.

Mortgage lenders recognize the inherent danger of reduced return and increased risk per dollar of investment. But many lenders do not recognize *all* of the risks. Still other lenders, under the driving force of competition, tend to minimize the risk—to substitute wishful thinking of the "New Era" type for the grim realities of economics.

There will be a much stronger demand for mortgage money in the near future, if the boom does not collapse, but the supply of capital and credit seems more than adequate for any foreseeable demands. There may be a slight firming of the rates, but, in general, it will not amount to very much. On the supply side, the important thing to remember is our war-created legacy of bank deposits and money in circulation. Today, we have some \$100 billion more deposits and currency in circulation than we did before the war. This enormous holding of liquid funds is in the hands of the public—corporations and individuals—and can be invested over and over again so long

as the bonds, which gave rise to the increase, remain in the banking system.

True, the Treasury is presently engaged in reducing deposits by redeeming obligations held by the banks, and hopes to reduce deposits still further by shifting bonds from banks to non-bank hands, both of which tend to tighten interest rates. True, as a result of this new Treasury policy, rates, particularly in the money market, have firmed somewhat. True, we have undoubtedly passed the lowest point on short-term rates, and have *probably* passed the lowest point on long-term rates. Nevertheless, do not expect very much in the way of an increase. The plain fact is that the government controls the interest rate. And, while the Treasury would like to reduce deposits and thereby establish a higher rate to fight the forces of inflation, there is the little matter of a public debt of some \$264 billion dollars on which interest must be paid. They have not yet figured out a way whereby they can increase other rates and, at the same time, keep down the rates on their own borrowing. So, as I said before, there will not be any consequential increase of rates—at least, not until the problem of a differentiated interest rate is solved—and no solution is in sight now.

Business activity is currently at peacetime record levels; but the outlook is uncertain. If the current labor difficulties set off a nationwide wave of strikes which are "solved" by granting wage increases, we stand a very good chance of having a "boom and bust" type of economic purge. On the other hand, if prices can be stabilized around present levels for six or seven months, production, which is now beginning really to "roll," should remove the threat of inflation. We then could look forward to a fairly prolonged period of good business with slowly *declining* prices.

Mortgage lenders should ponder well the two

alternatives facing America—boom and sharply lower prices, or stabilization and slowly declining prices. They both have one thing in common—lower prices. And, if anyone is relying on inflation to justify some of the present valuations, he should ponder the following straws in the wind.

(1) Inventories have recently touched an all-time record. Clearly, the end of the inventory boom approaches.

(2) Consider, in conjunction with the foregoing, that a recent Federal Reserve Board analysis of a National Survey of Liquid Assets made by the United States Department of Agriculture, showed that “total asset holdings of three-fourths of the people amounted to less than one-fifth of their annual income.” In other words, disregarding unemployment insurance and assistance from relatives and friends, 2.4 months of unemployment will put 75% of our people on relief!

(3) Or, consider the fact that in 1939, before the war, we had \$39,588,000,000 in production facilities of all kinds. From July, 1940, to June, 1944, this was expanded by \$23,505,000,000, an increase of some 60%. An additional \$4.6 billion of plant facilities were planned for completion as soon after the war as possible. Clearly, production facilities are adequate.

(4) As a specific illustration of overproductive capacity in one field, consider the following statement recently released to the newspapers by the air transport industry: “By 1947, the passenger capacity of the airlines will be equal to that of the railroads in 1941.” As if that were not enough bad news for the railroads, the President of the New York Central later in the week notified the Interstate Commerce Commission that he anticipated a deficit of nearly \$69 million in 1947 if present freight rates are not raised—and, further, that even if rates were raised the 25% requested, the New York Central would still have a deficit of \$18,652,000.

A Lesson in Hedging

Obvious excess capacity, higher rates and deficits do not make sense! Economic readjustment seems overdue.

Now, will these readjustments, which are inevitable in many industries, cause wild inflation? And, if we should have an attack of inflation, would real estate be a hedge against it? Well, the American people have just paid millions to learn that the stock market is no hedge against inflation. A great deal of real estate has been purchased with the idea that it is a hedge against inflation. When people learn better, such real estate will hang over the market. Furthermore,

the greatly increased tax burden—federal, because of much higher military and civilian expenditures; and state, because of higher prices and assumption of increased social responsibilities—which we will have in the atomic armament race days ahead, will weigh heavily on real estate. The crushing character of this tax burden is not yet realized because of easy money conditions, but lenders dare not underestimate it.

New construction affects the safety of mortgages because it has an important influence on the value of existing buildings. New construction is also important from the standpoint of ability to pay interest on existing mortgages because, under normal conditions, we cannot have prosperity in the United States unless construction is in good volume.

To Remember

The inability of the construction industry to get into high level production is an old story to all of you. Antiquated methods, low productivity of labor, actual labor shortages, governmental hindrances, a vicious black market, material shortages and hoarding are so discouraging that I shall not pain you with a detailed recital. There are two things, however, which I should like to mention. First, with all of the controls, and millions for subsidies, the administration at Washington is able to report the completion of only 287,100 homes ready for occupancy during the first eight months of 1946. And this total includes trailers and single-room reconverted army and navy barracks and other wartime buildings. This compares very unfavorably with the 715,000 housing units which were erected by private effort in the year just before the war. The other statistic I want to give you is the information released by Myron L. Matthews, executive vice-president of Dow Service, Inc., before the Society of Residential Appraisers in New York on September 19. He expressed the opinion that about one-third should be deducted from present values to cover valuation decreases “when the bubble bursts.”

In contrast to the favorable outlook for the immediate future, the long-range outlook for real estate values is not good. Business property will be adversely affected by the many changes which will take place in the field of distribution. The terrific competition in this field will cause the construction of more and more specialized buildings, as it will be cheaper in many cases to build such specialized structures than to remodel present ones. Residential property appraisal, likewise, should be on a very conservative basis, as all old buildings have heavy *unrealized obsolescence* because of social changes in the American family it-

self, improved labor-saving gadgets and increased taxes.

Looking to the future, governmental subsidies in many different forms will adversely affect prices of existing buildings.

All along the line, higher costs mean more public housing, more "slum clearance." This makes private low-income housing a bad mortgage risk. Luxury housing and luxury apartments, likewise, should be viewed with a critical eye. Higher taxes, declining business profits, and lower interest yield on inherited funds, will make the success of such ventures highly problematical. The middle classes are still sound, but they are having their difficulties. And, of course, wild inflation would destroy their solvency.

While the volume of mortgage financing is running nearly 100 per cent ahead of a year ago, there is a competitive development which is also running far ahead of previous years. I refer to the vigorous revival of the trend of insurance companies and savings banks, where permitted, to develop, own and manage large housing properties. These agencies plan to invest directly in housing in the next two or three years more than in all previous history. A great deal of this investment will be in public assisted housing.

Outline of Policy

Now, to tie all of these things together and give you some idea of a sound mortgage policy to follow, under the pressure of the stupendous economic forces loosed by World War II, may I say that, in my opinion, we are riding the crest of the greatest boom the world has ever known, and real estate prices lead all the rest. The price structure is very vulnerable. How soon we will have to come down and pay for our ride, I cannot say; but it will not be too long. Whether we will come down with a parachute or in the economic machine for a "belly" landing, I likewise cannot say. But we will come down, of that you may be sure.

Many of you may disagree with my conclusions, because you feel the need for housing is very great. There can be no question about the *need*; it is very great and has been very great ever since the first settler landed on the Atlantic shores.

But housing *needs* and the housing *market* are two entirely different things. True, our people have been on the march, which creates a need for housing. According to the Census Bureau, migration in the United States was greater during the war years than in Europe with its slave labor and forced movements of populations. To help house this great tide of humanity, however, 4,029,875 housing units were built or converted. Furthermore, these accommodations were built during a period when it was generally thought that construction was at a standstill, so the housing shortage is not as great as many think!

Inflated Values

It is the inflation of real estate values which worries me the most. Value does not come from what is put into a thing. Value flows from what we can get out of it. Long-run real estate values are not being fixed by today's black market prices of labor and materials. It is the income of the American people which will determine the value of business property (disregarding taxes, labor costs of the business occupant, shrinking profit margins, etc.); and, it is the proportion of their income which the American people are willing to devote to housing which will determine the value of residential property. Therefore, do not be blinded by present costs.

Competitively, you may have to accept some high appraisals to get mortgages. If you are forced to do so, insist on very heavy amortization during the first two to five years. Such an amortization scale may permit you to lend safely at current levels. Or, in order to get the better mortgages, you might offer a declining interest rate based on the increasing equity flowing from amortization.

Whatever you do, there is danger ahead. A conservative policy is indicated if you believe building activity will be high in the next few years, as that will reduce the values of present buildings. On the other hand, a conservative policy is also indicated if you believe that the building boom will be short-lived, because without large-scale construction activity, employment will not be satisfactory and payrolls will not maintain the present levels of rent and valuation.



Housing Upside Down

By Arthur W. Binns

*President of the National Home and
Property Owners Foundation*

VERY seldom do the proponents of public housing say frankly that they believe in the socialization of property. They talk of there being a place for public housing. They talk of just a little public housing. There may be those who believe honestly that it is possible to have just a little public housing. It is no more possible to have just a little public housing, than it is possible to have just a little cancer.

He who advocates public housing as a permanent national policy advocates the permanent nationalization of all property. Let us stand on this issue and on this base make our decision.

The question is properly asked: "What is the alternative? How may a good house be provided for every American family in the shortest length of time?"

The answer to this question lies in the second, third, fourth, and fifth-hand house.

I believe it to be completely absurd to reverse the whole normal process of distribution by supplying new houses on the lowest level of consuming power.

We could never have achieved the miracles of distribution which have been achieved in this country by this inverted process. Always we have distributed the new article, the most advanced article, to the man who is best able to buy it. By the simple process of depreciation, this new product has then passed from hand to hand until the very poorest man in the whole community had a product many times as good as the one which he originally had, before the first purchaser started the thing off at the top.

It is obvious that only a minute percentage of our whole population can ever have new houses. One only has to consider the fact that a very small percent, perhaps 1% or 2%, of the total houses in the country can at any one time be new, so that most of us, no matter what our incomes may be, or our standard in the community may be, occupy used houses throughout the majority or all of our lifetimes.

Just for fun, I made a search in my own family not long ago and I find that on neither side of my parents has there been a new house in the family for over three generations.

If we are sincere, therefore, in desiring to provide a good home for every American family, in the shortest possible length of time and if we are

not seeking, in disguise, to sell national socialism under the cloak of housing, the thing to do is to pour into the top the greatest number of new houses for those who are in the market for them.

When our builders succeed in providing 100,000 new homes for people who can afford them, for perhaps seven, eight, or ten thousand dollars' purchase price, they automatically provide 100,000 new homes for people less able to pay—homes, not new in construction, but new to the family who will occupy them.

Housing, you see, is like a taut chain—when you lift the top link, you lift every link in the chain.

Public Payroll Phenomena

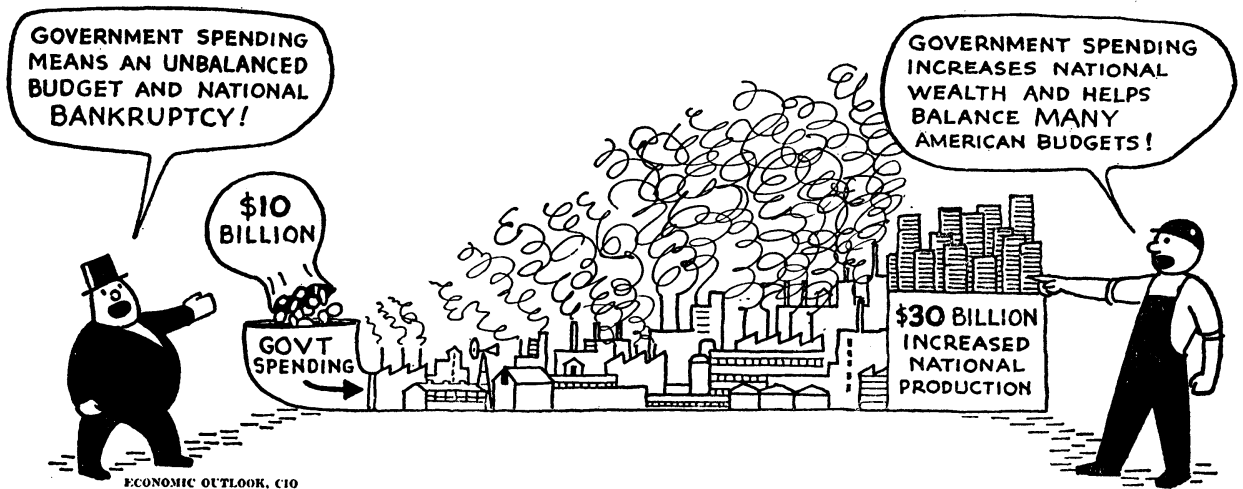
Statement by Senator Harry Byrd

THUS the now familiar pattern repeats itself the War and Navy departments slowly disgorging their huge numbers of war employees, certain of the old line agencies reducing employment under direction of Bureau of the Budget ceiling determinations, while others, and particularly those exempt from the personnel limitations of the Pay Act of 1946, take on large numbers of new employees. For example, the Veterans Administration, which in August of 1945 had 73,010 employees, now has expanded to three-fold that number. The War Assets Administration, which in April of this year had 30,391 employees, now has over 57,000.

Since V-J day the number of employees in the old line departments and agencies has increased 353,737—from 957,683 in August, 1945, to 1,311,420 in October, 1946. This includes the employees on the new postwar agencies, but does not include the employees of the War and Navy departments and the emergency war agencies. During that same time, of the establishments now in the Federal Government, twenty-nine have increased employment and seventeen have decreased employment, while five new agencies have been added.

It is obvious now that voluntary reductions in the government establishments cannot be expected and that personnel ceiling limitations established in the Pay Act of 1946, although they will cause continuing increasing reductions, have not fully brought about decreases necessary to a businesslike and economical government. The only remedy for swollen payrolls is additional legislation which will make further cuts mandatory. Such legislation must envision no more exemptions from ceiling limitations which have, in the past, in part at least, impaired the effect of the limitation law.

Crude Translation of the Keynes Theory



THE cartoon above is from the *Economic Outlook*, published by the Department of Education and Research of the CIO. In the text around it the case is argued as follows:

"Start with this situation: In 1950 a national income of \$200 billion; in 1951 only \$170 of these \$200 billion spent. What can be done to close this threatened gap, to ward off unemployment and waste?"

"When it becomes clear that private demand will not underwrite full production and full employment, the government must be brought into the picture with public works, federal aid to low-cost housing, downward tax adjustments, increased social security payments, and other measures to see that demand for goods and services is kept at high, enough levels to preserve full employment.

"To close this gap between \$170 and \$200 billion, the government need not spend \$30 billion. An outlay by the Federal Government of no more than \$10 billion, if properly timed, would probably assure a continuation of the \$200 billion income and full employment.

"You see, the \$10 billion which the government would spend passes into the hands of workers, building contractors, steel manufacturers and others, all of whom, in turn, spend a good part of what they receive, say two-thirds of it, with only one-third going into savings. The \$6 2/3 billion which the workers, contractors, and manufacturers spend passes on to another group, say bakers, automobile salesmen, landlords, restaurant owners, and this group in turn spends a large part of what it receives. All in all, it is quite likely that the original \$10 billion spent by the government would result in total outlays of \$30 billion which would close the gap between the \$200 billion necessary for full employment and

the \$170 billion of private spending already in the works."

The writer of course was obliged to look at the effect of deficit spending on the public debt. This he disposed of with another cartoon showing Mr. and Mrs. Uncle Sam, as farmers, just about to sit down at a table set for three. The third one for dinner will be the ploughman, when he comes in; and he can be seen through the window still busy ploughing, with *Public Debt* lettered on the seat of his pants. Mrs. Uncle Sam is putting on the table a large dish of food called *Interest*, and as she looks through the window she says: "That fellow eats a lot." Uncle Sam replies: "But he produces a lot more than he eats. With our income we can feed more boys like him and still be better off." What *Public Debt* produces is indicated on the distant fields, visible from the window, named as follows: Public Housing, Roads, Bridges, Power Dams, Conservation, Public Health, and Social Security.

A statement of the same argument will be found in Robert R. Nathan's book, "Mobilizing for Abundance," in which he said:

"Those who preach 'Do nothing' and 'Let business alone and it will provide the necessary spending' are either wholly unaware of the magnitude of the task or are living in a world of pipe dreams."

Mr. Nathan was then a New Deal economist. He is now Nathan Associates, Inc., who wrote the "Nathan Report" on which the CIO bases its demand for higher wages in *anticipation* of corporation profits yet to be earned.

The Law of Labor

The Closed Shop

IN THE November general elections the law of labor was modified in several states. One of the issues was the closed shop.

SOUTH DAKOTA voted an amendment to the state constitution forbidding the closed shop, and it was very simple. To the words, *no person shall be deprived of life, liberty or property without due process of law*, already standing in the constitution, this sentence will be added: *"The right of persons to work shall not be denied or abridged on account of membership or non-membership in any labor union or labor organization."*

ARIZONA voted to amend the state constitution by adding thereto another article, to read as follows:

"No person shall be denied the opportunity to obtain or retain employment because of non-membership in a labor organization, nor shall the state or any subdivision thereof, or any corporation, individual or association of any kind enter into any agreement, written or oral, which excludes any person from employment or continuation of employment because of non-membership in a labor organization."

NEBRASKA'S constitutional amendment against the closed shop is the one which, it is said, the American Federation of Labor will take to the United States Supreme Court. It reads as follows:

"No person shall be denied employment because of membership in or affiliation with, or resignation or expulsion from a labor organization or because of refusal to join or affiliate with a labor organization; nor shall any individual or corporation or association of any kind enter into any contract, written or oral, to exclude persons from employment because of membership in or non-membership in a labor organization."

These constitutional amendments are in apparent conflict with the National Labor Relations Act, which reads, Sec. 8 (3): *" . . . nothing in this act . . . or in any code or agreement approved or prescribed thereunder, or in any other statute of the United States, shall preclude an employer from making an agreement with a labor organization . . . to require as a condition of*

employment membership therein, if such labor organization is the representative of the employees . . . in the appropriate collective bargaining unit covered by such agreement when made." So stands the federal law.

CALIFORNIA did not try it again. In the 1944 election a constitutional amendment to forbid the closed shop was defeated. It read as follows:

"Every person has the right to work, and to seek, obtain and hold employment, without interference with or impairment or abridgment of said right because he does or does not belong to or pay money to a labor organization. Anything done or threatened to be done which interferes with, impairs or abridges, or which is intended to interfere with, impair or abridge said right is unlawful."

In the election last November the subject was not reopened.

MASSACHUSETTS voted for a law under which labor unions will be obliged to open their books and records. The text of it reads:

"Any person or association of persons operating or maintaining a labor union shall annually, on or before April fifteenth, file with the commissioner of labor and industries a statement under oath signed by the president and secretary of such labor union, setting forth the location of the principal office of said union within the commonwealth and the names and addresses of all of the officers of such union."

"The president and secretary of every such labor union shall annually, within thirty days after the close of its fiscal year, make a report in writing to each member thereof, signed by such president and secretary, setting forth the amount of money collected for initiation fees, dues, fines and assessments, the amount paid in salaries to officers, listing their names and addresses, and the amount paid to each of such officers, and all income and expenditures, in such manner and form and in such detail as may be prescribed by the commissioner of labor and industries and shall within ten days thereafter file with said commissioner a sworn statement of their compliance with the provisions of this section, together with a sworn statement of the assets and liabilities of said union as of the close of their last preceding fiscal year."

The Municipal Strike

AS OF the end of November the Public Administration Clearing House in Chicago issued the following summary of events in the matter of the right of municipal employees to strike:

Court rulings against unionized municipal employees in Dallas and Tulsa mark the most striking recent developments in vital city-employee negotiations in key cities throughout the U. S. according to the International City Managers' Association. Considerable controversy has been caused by strikes of organized city employees in New York, New Orleans, Milwaukee, Pontiac, Stockton, and other cities.

Dallas reportedly is the only city barring union membership of all municipal employees. The Dallas court action upholding an ordinance prohibiting such union affiliation is an outgrowth of CIO efforts last spring to organize a union of 200 local garbage disposal employees. At that time a lower court denied the union an injunction to restrain the city from dismissing union members. The union appealed to the court of civil appeals in Dallas which held that employees voluntarily accepted employment with the city and assumed obligations incident to such employment as regulated by existing laws. The city ordinance prohibiting civil servants' union membership was enacted in 1942.

In Tulsa, a strike of municipal workers was ended when an Oklahoma court held that a labor union of city garbage collectors had no right to strike against the municipality. The court also issued an injunction prohibiting picketing.

In New York a recent 20¢ hourly pay raise for transit system employees was made retroactive to July 1 following a strike threat by AFL and other unionized transit workers. The mayor reminded union members of a report issued earlier this fall by his advisory transit committee stating that a striking civil servant is "subject to charges of delinquency and misconduct." "Pending determination of the charges," the report continued, "the accused employee can be suspended without pay. . . . If the charges are sustained, he can be discharged with partial loss of his pension rights. The discharged striker loses his status as an employee and no right to reinstatement survives his dismissal."

New Orleans garbage disposal employees returned to work Nov. 1 following an 8-day walkout during which controversy mounted over their right to strike. The AFL municipal employees' union members struck for higher pay and were temporarily removed from the city payroll. All were finally reinstated.

Stockton sanitation and park department employees ended their recent five-day strike when city officials pointed out that under municipal civil serv-

ice regulations an unauthorized absence for five full working days constitutes a resignation. However, the council granted a 13 per cent pay boost.

The longest recent strike of unionized municipal workers was the 42-day walkout of 310 city employees in Pontiac. The union finally accepted a \$12.50 raise retroactive to July 1 and workers returned to their jobs. A proposal to increase the city tax levy by charter amendment in order to give further pay boosts was defeated by voters on Nov. 5.

In Milwaukee a 10-day strike by 270 municipal employees, members of three CIO unions, ended after the public works commissioner notified strikers that they would have to be back to work on the eleventh day or their services would be terminated as being absent without leave. The city council in Milwaukee refused to deal with the striking union and insisted that any wage increases granted would be made only in connection with a general salary-revision ordinance effective Jan. 1.

Free Speech

IN THE field of case law, a notable opinion of the year 1946 was one on the subject of free speech in labor disputes, delivered by the United States Circuit Court of Appeals for the 8th Circuit, in the action entitled *National Labor Relations Board v. Montgomery Ward and Company*. The CIO union that had been trying to organize the company's Kansas City plant had complained to the National Labor Relations Board that the management was guilty of an unfair labor practice, to wit, that the employees, in their work time, had been summoned to hear a speech by the company's labor relations manager. This, said the National Relations Board *was* an unfair labor practice, because the attendance of the employees was compulsory.

But the Circuit Court of Appeals found that the company was not guilty and that what its labor relations manager said to the employees was proper and within any employer's right of free speech as guaranteed by the Constitution. Having pointed out that the speeches were designed to refute statements of a "libelous and abusive nature" in the union's publication, the court said that Ward's

" . . . had a right to defend its reputation, to speak for itself before its employees whose loyalty it had a right to ask, and the right to prove itself worthy of that loyalty. It was not required to stand mute. We do not think that the law, any more than common sense, would require the employer to stand as a sheep before his shearers dumb, not opening his

mouth. The right of free speech touching his own interests was involved."

The Court noted that in the speeches there was no attempt to interfere with the employees in the exercise of their right to unionize, and then referred to its own statement in a previous case (*National Labor Relations Board v. Brandeis and Sons*) in which it said:

"An employer may disseminate facts within the area of dispute, may even express his opinion on the merits of the controversy even though it involves labor organizations, may indicate a preference for individual dealings with employees, may state his policy with reference to labor matters, and may express hostility to a union or its representatives."

On the charge that compulsory attendance at the meetings was coercion, the Court had this to say:

"The First Amendment is concerned with the freedom of thought and expression of the speaker or writer, not with the conditions under which the auditor or listener receives the message. One need not, as a condition precedent to his right of free speech under the First Amendment, secure permission of his auditor. The First Amendment does not purport to protect the right of privacy, nor does it require that the audience shall have volunteered to listen. . . . In asking its employees to attend a meeting on company time, at which affairs of mutual interest to respondent and the employees were to be discussed, respondent was employing a convenient means of communicating with its employees. The employees were paid for attending and were not inconvenienced in the least. If they were influenced against their will by the arguments presented, this was a legitimate consequence of free speech and presumably one of its purposes."

The Court's opinion here throws into high relief a decision by the National Labor Relations Board, August 28, 1946, in the case of *Clark Brothers, Inc.* In that case the Board said:

"Similarly we must perform our function of protecting employees against that use of the employer's economic power which is inherent in his ability to control their actions during working hours. . . . We conclude that the respondent exercised its superior economic power in coercing its employees to listen to speeches relating to their organizational activities, and thereby independently violated Section 8 (1) of the Act."

One member of the National Labor Relations Board, Gerard D. Reilly, dissented from that opinion, which was rendered by Chairman Herzog and Member Houston. Mr. Reilly subsequently resigned from the Board.

The Disputed Paragraphs

IN THE conflict between the government and John L. Lewis the question at the beginning was whether the United Mine Workers had the legal right to terminate their contract with the Department of the Interior. The government held that its contract was for so long as it might continue in possession of the mines. Mr. Lewis held, as to the right of termination, that the government's contract was clearly subject to the preceding contract between the United Mine Workers and the mine owners. Here are the paragraphs in dispute:

(From the Contract with the Government)

AGREEMENT

This agreement between the Secretary of the Interior, acting as Coal Mines Administrator under the authority of Executive Order No. 9728 (dated May 21, 1946, 11 F.R. 5593), and the United Mine Workers of America, covers for the period of Government possession the terms and conditions of employment in respect to all mines in Government possession which were as of March 31, 1946, subject to the national bituminous coal wage agreement, dated April 11, 1945.

1. Provisions of National Bituminous Coal Wage Agreement Preserved

Except as amended and supplemented herein, this agreement carries forward and preserves as the terms and conditions contained in all joint wage agreements effective April 1, 1941 through March 31, 1943, the supplemental agreement providing for the six (6) day work week, and all the various district agreements executed between the United Mine Workers and the various coal associations and coal companies (based upon the aforesaid agreement) as they existed on March 31, 1943, and the national bituminous coal wage agreement, dated April 11, 1945.

(From the National Bituminous Coal Wage Agreement, Effective April 1, 1945, between the United Mine Workers and the Mine Owners)

At any time after March 1, 1946, either party may give ten days' notice in writing of a desire for a negotiating conference upon the matters outlined in said notice. The other party agrees to attend said conference. At the end of fifteen days after the beginning of such negotiating conference either party may give to the other a notice in writing of the termination of this Agreement, to be effective five days after the receipt of such notice.

Unpopular Economics

Some Myths of Labor Unionism

By Dr. Walter Sulzbach

WITHOUT the benevolent support of the state, labor unions are powerless in fact to improve the economic status of the wage earners. First, the government must permit the union to keep underbidding workmen (scabs) away in case of a strike. The use of such weapons as picketing with its dormant threat of physical violence and psychological pressure must not be forbidden. Where the government actively protects from union intimidation those who are willing to work for less than union wages the unions are unable to influence the wage level. This point is rarely understood.

It is rightly felt that wage earners should be free to form associations and to bargain collectively if they believe that they will be able thereby to gain better conditions than the individual could win for himself. The right to associate with others is one of the basic rights of man in every democracy. However, this right of association is not the decisive point. It might happen that a number of shoe manufacturers agreed on certain minimum prices below which they would not sell their shoes to the public. Some of their competitors, however, might not join in their agreement, but content themselves with lower prices. If, now, the associated producers be allowed to picket their non-organized competitors so that the latter are unable to market their output, and if the government does not interfere with their picketing or other methods of pressure, would this be considered legitimate collective bargaining on the basis of the right of free association? Because public opinion is emotionally prejudiced it approves in the case of the wage earner what it condemns when capital is involved. People applaud laws prohibiting restraint of trade but insist that labor unions are a different case and that they should be entitled to use extreme measures against competing workmen who prefer sub-union wages to unemployment. This attitude is rooted in the belief that the employers have economic power anyway and are out to gain

even more; whereas the wage earners have none and are defending themselves against the power of capital.

Second, if trade unionism is to be effective, the government must help in still another way. It must relieve the pressure exerted by the competition of the unemployed workers on the relatively high wages of the union workers by helping the unemployed with unemployment insurance or other forms of relief.

It is commonly agreed upon that society must not allow anyone to starve because he has the misfortune to be out of work. It is equally axiomatic that there must be a strong incentive for the unemployed to accept wages on the equilibrium level. If the policies of labor unions lead to unemployment, the unemployed should fight the unions. Neither relief nor unemployment insurance benefits are in any way generous and very few workers prefer unemployment to employment. Now, unemployment compensation is not allotted, like relief, on the basis of the hated "means test"; and this fact makes the insurance benefits so much less objectionable than relief that the unemployed who receive unemployment insurance benefits feel less resentment against monopolistic labor union policies than they would feel otherwise, and do not normally endanger the policies of the unions by any activities of their own.

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The significance of unemployment insurance for the labor unions can also be described in the following way: The unions are eager to sell a certain commodity, namely labor, at a monopolistic price. In order to achieve this, they limit its quantity and eliminate competition. In so far as they cannot dispose of a part of their commodity, they find a buyer for it in the government, which pays a price for it that is sufficient to prevent undisposed-of labor from interfering with the market controlled by the unions. Thus the unions have an advantage which other monopolists can almost never obtain. In the exceptional cases where commercial monopolists have had the same good luck with their governments, as, *e.g.*, in the case of the Coffee Valorization in Brazil (which might be considered as an analogy in the decisive point), the result has eventually been most unfortunate for all concerned. The same holds true of every *labor* policy, however humanely conceived, which ignores the fundamental fact of economic equilibrium.

There is another connection between unemployment insurance and union-made wages above the equilibrium. In many states American workers who go on strike are not entitled to unemploy-

ment compensation. They stand the deprivations they have to undergo because they are hopeful that their strike will yield results. It is different with those workers who are thrown out of employment on account of strikes in which they are themselves neither involved nor interested. As a result of the various recent coal, steel and transportation strikes, the number of employees who were laid off all over the country by far exceeded the number of strikers. Now if people understood their own interests and behaved in a rational manner, as is sometimes assumed that they will, the unemployed who owe their misfortune to strikes in which they have no stake would revolt against their fellow-workers who cause their unemployment. In that case the pressure within the various nationwide labor organizations would perhaps be strong enough to force the strikers either to call off their strikes or accept a compromise as fast as possible. But nothing of the kind happens. Millions of workmen who would resist employers to the utmost if the employers proposed to cut wages or curtail their labor force, ignore the fundamental clash of interests between themselves and their fellow-workers whose strikes deprive them of their wages. This is, of course, partly due to the illusion that all workmen have a common interest to fight the employer class; but partly it must be the result of unemployment insurance. Without the latter, the pressure on the unions would be so strong that they might have to change their policies.

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Where labor unions have governmental support they can achieve something for a minority of wage earners in the short run, though not necessarily in the long run. Where they lack governmental support, they are altogether powerless.

The unions and the employers have basically different approaches to the problem of the wage level. For the unions it is a matter of never having wages lowered and having them raised as much as possible. They do not ordinarily base their demands on any specific calculation, but operate rather with concepts drawn from the realm of "natural law" such as the "living wage." Though no union leader will deny the fact that every industry will have to shut down if wages are brought to the tenfold or even the double of what they stand at the moment of bargaining, they must necessarily attempt to raise wages as much as possible.

The employers, on the other hand, merely calculate what pays them and what does not. It is the tragedy of the unions and of people in general, who may find themselves destitute, that when they are morally most entitled to demand an im-

provement of their situation, as in times of a depression, the least can be done to help them; for that is just the time when the employers are forced to cut down production.

The believers in unionism argue that, at least in prosperous times, the unions are able to gain higher wages and other advantages for their members faster by collective bargaining than by individual bargaining. This is true, but it is unfortunately counterbalanced by the disastrous consequences of an artificially supported wage level in times of declining business. If wages cannot follow a downward trend of the business volume more workers will be dismissed.

Many believe that labor unions, by raising the wage level, tend to equalize the earnings of labor on the one hand and the earnings of capital on the other; and it was to increase the bargaining power of labor that the National Labor Relations Act was passed. But the triumphs of labor unionism are not really roadmarks on the way to what it called industrial democracy.

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In reality, unions cannot achieve anything for the whole body of labor. Such results as they do achieve for their members are gained at the expense of nonunion workers and at the expense of the volume of employment in general. If all wage earners belonged to unions the total of their wages would not be higher than if there were no unions at all, though there would probably be more unemployment.

As the demand of the employers for workers is at a given time limited, it is the task of the unions to place their own members under the best attainable conditions. So far as they are able to do this they secure a monopoly for their members. As a rule, it will be strong and well-founded enterprise that can afford to pay high wages. The rest of the working population will have to compete for the jobs that are left and these will often be those with the weaker and possibly the marginal employers who have to close down immediately when their expenses are increased.

If all labor were organized, this would not affect the volume of the demand for labor. The employers would continue to have a limited demand and would be as unable as before to pay high wages for such services as are relatively unimportant to them. They would accept a part of the union members and reject others.

If unions were concerned about the entire wage earning population, or labor as a class, they would not insist on the "closed shop," which is aimed at excluding nonmembers; they would not make high entrance fees, they would not limit the num-

ber of apprentices, nor would they oppose immigration. It is only in the case of a general strike that all wage earners together are expected to act against the capitalist. But the general strike is either meant as a means to put pressure on the government so that it will be forced to give help to a certain group of workers, *e.g.* the coal miners, or it is meant as a means to overthrow the government—possibly in order to introduce socialism. In neither case is the question one of a general improvement of the wage level.

As far as the unions are able to enforce higher-than-equilibrium wages for their members and thereby to reduce the inequality between the incomes of the union workers and those of the employers, they must widen at the same time the gulf between the privileged workers on the one hand and the nonprivileged workers and the newly created unemployed on the other. By bringing about more equality between some workers and the capitalists they increase the inequality between the several groups of workers.

This is what the English Liberals, a party much

in sympathy with the aims of labor, had to say in 1929, before the Great Depression:

"The level of wages depends upon (a) our efficiency in production and (b) our ability to find markets for what we produce. When our productive power was increasing rapidly and our markets were expanding, wage rose rapidly, even though Trade Unionism was weak. When our progress in efficiency slowed down or our markets were restricted, wages rose slowly or remained stationary, however strong and active Trade Unionism might be, and one of the causes of inefficiency and of loss of markets has been industrial strife. In so far as the Trade Unions can make sure of an increase in our productive efficiency—and they certainly can help in this—they can also make sure of advancing wages; otherwise, not."

Wages are determined not by the "power" of capital over destitute labor, but by the economic laws of value and exchange. It was for that reason that Marx and Engels as well as Lenin and the majority of socialists became convinced that labor unions could achieve nothing significant. The alternative, they say, is to abolish the economic system that is based upon private property, private enterprise and free competition.

Uncle Sam or Uncle Joe?

By Felix Morley

Human Events

TERMINATION of the coal strike, after seventeen days with little or no production of this basic fuel, has lifted a heavy load of anxiety from the minds of men. But rejoicing is tempered by realization that all of the underlying causes of our social disorder are still present. Indeed the bitterness engendered by the abortive strike threatens more and worse industrial crises at no distant date. The foolish and unfair effort to pillory a single labor leader as personally responsible for the recent breakdown is an ominous reflection of oversimplified thinking.

The coal strike was a problem in itself, of course. But even more it was a symptom of a fundamental maladjustment which must be identified and eliminated. To do this is an inescapable duty of the new Congress, which will convene in three weeks' time. The responsibility of the Eightieth Congress is the heavier, and the more difficult to fulfill, because there is little sign of constructive executive leadership.

The dangerous issue behind the recent strike is

not removed and it is therefore vital to isolate and define it. This is the easier because the problem still to be solved has nothing to do with the capacity of the coal industry to meet the miners' demands, nor with the merit of the legal steps taken by the Administration in denying them. These complicated matters have served to confuse, rather than clarify, the real issue.

The cartoonist instinct to depict John L. Lewis in personal conflict with a benevolent Uncle Sam came closer to the essential point.

But it may properly be asked just when, and why, is it a nefarious matter for an American citizen, especially one placed in a post of leadership by a large body of his fellows, to question the authority of the State? We seem to forget that the restriction and limitation of the powers of Uncle Sam are primary purposes of our entire system of government. We seem to be confusing Uncle Sam with Uncle Joe.

The inner, and alarming, significance of the coal strike is that the Administration actually

created the problem with which it was eventually forced to grapple.

Under the American code of political thinking, principles apply to governments as well as to men. There is not, nor should there be, a higher standard of conduct for John L. Lewis than for Uncle Sam himself. So, in condemning the miners for doing what it had earlier intimated they had every right to do, the Administration found itself in a position lacking both logic and dignity.

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It was the late President who, more than any other individual, created the industrial tangle in which his unfortunate successor is caught.

As far back as May 4, 1933, in an address to the Chamber of Commerce of the United States, Mr. Roosevelt made what he himself described as a "definite appeal to the industrial leaders of the country." He urged them, as a matter of continuous policy, "to increase your wage scales in conformity with and simultaneous with the rise of the level of commodity prices, in so far as this lies within your power." Simultaneously the President was embarking on a course of continuous and carefree deficit financing, followed by his Party ever since, which made an eventual upward surge of commodity prices inevitable.

President Roosevelt did not stop with the demand that industry should balance his currency inflation with higher nominal wages, and thereby become an accomplice in the plot against the stability of the dollar. A definite part of New Deal policy was to stimulate monopolistic unionism to force wage increases on employers who would not—or could not—grant them voluntarily.

That was the unconcealable purpose of the National Labor Relations Act, commonly called the Wagner act, which finally became law on July 5, 1935. This "liberal" legislation is now ironic reading, especially its declaration that: "Nothing in this Act shall be construed so as to interfere with or impede or diminish in any way the right to strike."

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Because its constitutionality was—and still is—subject to question, those who drafted the Wagner Act boldly pretended that it would protect interstate commerce by preventing labor disputes, saying:

"It is hereby declared to be the policy of the United States to eliminate the causes of certain substantial obstructions to the free flow of commerce . . . by protecting the exercise by workers of full freedom of association . . . for the purpose of negotiating the terms and conditions of their employment or other mutual aid or protection."

Having thus applied narcotics to tortured intelligence, the Wagner act got down to business. Stripped of verbal camouflage its purposes are: (1) to destroy independent unions; (2) to encourage compulsory organization of labor in great industrial unions; (3) to alienate management and labor and encourage the doctrines of class war by establishing a code of "unfair labor practice" so sweeping as to bring under that definition much honest effort to secure industrial peace.

The Wagner Act has unquestionably done more to encourage industrial unrest, and to discourage production, than all of the abuses attributable to employer arrogance in the long history of such abuses. But three factors have so far prevented its effects from being absolutely disastrous. They are: the dominant patriotic spirit engendered by the war; the sense of responsibility recently shown by the NLRB; the antagonism between AFL and CIO which has so far prevented either from getting the complete stranglehold which the law permits.

The full possibilities of the Wagner act, however, are not realized until one ponders the clause which rules that the invidious term employer "shall not include the United States, or any State or political subdivision thereof . . ." This law makes it increasingly onerous and difficult to operate a private enterprise. But simultaneously it carefully exempts public ownership from similar burdens.

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Obviously the next step, for those who planned to turn the United States into a centralized socialistic state, was to develop governmental controls, looking toward State operation of industry, as private operation was steadily broken down. By January 4, 1939, the program was sufficiently advanced for Mr. Roosevelt to tell Congress, with a frankness unusual in his official messages, that:

"The tools of government which we had in 1933 are outmoded. We have had to forge new tools for a new role of government operating in a democracy—a role of new responsibility for new needs and increased responsibility for old needs, long neglected. . . . The Nation looks to the Congress to improve the new machinery which we have permanently installed."

Today the Nation looks to the Congress to scrap the jerrybuilt improvisations which President Roosevelt dignified as "new machinery," and to restore, so far as possible, the old role of government in this country. Subject to abuses, but none the less squarely based on principle, the role of American government since 1787 has been to encourage a sense of responsibility in the indi-

vidual; to discourage the always avid appetite of the state for dictatorial power.

The entire country, but most particularly organized labor, can find one adventitious advantage in our participation in the war. It may not have destroyed National Socialism in Germany but it unexpectedly delayed growth of the same evil in the United States. In spite of the controls and in spite of the centralization, the war effort blocked development of that "new role of government" demanded by President Roosevelt. The military danger was too urgent; the need for production was too great. Free enterprise had to be trusted and the way in which it responded is recent history. Then Mr. Roosevelt died and the whole grandiose scheme of socialism by indirection fell to pieces.

Its effects, however, are still with us. People remember the impossible promises which were so lightly made, and wonder why at least some of them should not be fulfilled. And nowhere is the disillusionment greater, because nowhere was the deception greater, than in the case of the wage earners.

Labor was told, again and again, that its working hours should be reduced; that its purchasing power should be simultaneously increased; that

the right to strike should be strengthened and its organization made monopolistic in order to enforce all this. None can fairly blame the leaders of labor for demanding, when the war was over, these benefits which the Administration so often proclaimed as labor's right.

Nor is it easy for the worker to understand how an Administration which has encouraged industrial pressure against private ownership can regard the same pressure, for the same objectives, as criminal if directed against public ownership. And use of the injunction by government, in cases where its use by a private employer would be illegal, does take some explaining, except to those who believe with the Communists that private ownership is inherently evil, and state dictatorship inherently good.

As the debacle of the New Deal grows ever more complete, it must be realized that organized labor is far more sinned against than sinning. There was understatement in the remark of the old Pittsburgh laborer who declared that: "The government was wrong against the miners." Precisely because it has been so wrong the revision of labor legislation by the Eightieth Congress must be curative, not punitive, in its design.

AS a nation of free men we must live through all time or die by suicide. . . . It is to deny what the history of the world tells us is true to suppose that men of ambition and talents will not continue to spring up among us, and when they do they will as naturally seek the gratification of their ruling passion as others have done before them. . . . Is it unreasonable then to expect that some man, possessed of the loftiest genius coupled with ambition sufficient to push it to its utmost stretch, will at some time spring up among us? And when such a one does it will require the people to be united with each other, attached to the government and laws, and generally intelligent, to successfully frustrate his designs. Destruction will be his paramount object, and although he would as willingly, perhaps more so, acquire it by doing good as harm, yet that opportunity being past, and nothing left in the way of building up, he would sit down boldly to the task of pulling down.—*From a speech by Abraham Lincoln to the Young Men's Lyceum at Springfield, 1837.*

Books

The Servile State

THE first appearance under an American imprint of Hilaire Belloc's work,* "*The Servile State*," is a curious event. The book was published in 1912. Two world wars, the Russian Revolution and the ruin of Europe have not touched it. To this first American edition Christian Gauss sets an introduction. Thirty years ago, he says, Belloc's indictment of that "evil thing, capitalism," could not disturb American complacency. Now presumably it is different. That is presumably the reason for bringing out an American edition in which not one word has been changed.

Belloc hated capitalism as a "dreadful moral anarchy" that could not endure; if it did not destroy itself it would be destroyed by the moral sense of mankind. A perfect capitalistic state—logically perfect, that is—simply could not exist for long because:

" . . . there would be no food available for the non-owner save when he was actually engaged in production, and that absurdity would, by quickly ending all human lives save those of the owners, put a term to the arrangement. If you left men completely free under a capitalist system there would be so heavy a mortality from starvation as would dry up the sources of labor in a very short time."

And therefore in order to exist at all:

" . . . capitalism must keep alive, by non-capitalist methods, great masses of the population who would otherwise starve to death. . . ."

If that had been his main thesis the book might have been adopted by all the anti-capitalist intellectuals in the world. What saved it from that fate was the fact that with withering logic he attacked also socialism, collectivism in any form and the entire modern structure of social reform, and reserved the essence of his scorn for the practical reformer. This is one of the very fine passages:

" . . . the Practical Man in social reform is exactly the same animal as the Practical Man in every other department of human energy, and may be discovered suffering from the same twin disabilities which stamp the Practical Man wherever found: these twin disabilities are an inability to define his own first principles and an inability to follow the consequences proceeding from his own action. Both these disabilities proceed from one simple and deplorable form of impotence, the inability to think. . . ."

"Now, if the Socialist who has thought out his

case, whether as a mere organizer or as a man hungering and thirsting after justice, is led away from Socialism and towards the Servile State by the force of modern things in England, how much more easily do you not think the 'Practical Man' will be conducted towards that same Servile State, like any donkey to his grazing ground? To those dull and short-sighted eyes the immediate solution which even the beginnings of the Servile State propose are what a declivity is to a piece of brainless matter. The piece of brainless matter rolls down the declivity, and the Practical Man lollops from Capitalism to the Servile State with the same inevitable ease. . . .

"He knows nothing of a society in which free men were once owners, nor of the cooperative and instinctive institutions for the protection of ownership which such a society spontaneously breeds. He 'takes the world as he finds it'—and the consequence is that whereas men of greater capacity may admit with different degrees of reluctance the general principles of the Servile State, *he*, the Practical Man, positively gloats on every new detail in the building up of that form of society. And the destruction of freedom by inches (though he does not see it to be the destruction of freedom) is the one panacea so obvious that he marvels at the doctrinaires who resist or suspect the process."

What then is his thesis? To make it clear he states it three times, and it is this:

"The Capitalist State breeds a Collectivist Theory which *in action* produces something utterly different from Collectivism: to wit, the SERVILE STATE."

Capitalism, socialism, collectivism—they are all leading man to the Servile State, which is defined as a kind of Pagan slavery where the few command the labor of the many and the many have security and status without freedom. Capitalism is that state of society in which a wicked few possess the means of production; there is also political freedom, which makes it all the worse because a man who, though politically free, does not possess a "useful amount of the means of production" is a *proletarian*. If the means of production are transferred to the state peaceably by purchase, as the Socialists would do, you come anyhow to the Servile State, and if you liquidate the owners and confiscate "the springs of life," as the collectivists would do, by violence, you come to it at once in the totalitarian form.

Is there an alternative? Historically there was. Toward the end of the Middle Ages, after ten Christian centuries, slavery had gone and in place of it had come an "excellent consummation of human society." Property was widely distributed. All industry was organized in the form of guilds, a system partly cooperative but in the main composed of private, self-governing owners of capital. Competition was so limited as to "prevent the

*"*The Servile State*," by Hilaire Belloc. Henry Holt and Company, New York.

growth of one at the expense of another." There were restraints upon freedom, but—

"If liberty of purchase and of sale, of mortgage and of inheritance was restricted, it was restricted with the social object of preventing the growth of an economic oligarchy which could exploit the rest of the community. The restraints upon liberty were restraints designed for the preservation of liberty. . . ."

For this happy condition, the happiest and freest in man's history, there was at the time no name. Belloc provides the name. It was the Distributive State. What happened to it? Why did men forsake it? Belloc finds that they didn't forsake it. In the struggle between the state and the church for control of the individual the state won and confiscated the church lands—especially in England, and especially there for purposes of illustration because the modern industrial system began in England and spread from there—and then, having confiscated the church lands, the state gave them to the lords. Thus the means of production passed to the possession of a few evil men, and that was the origin of capitalism. The Industrial Revolution had nothing to do with it. Capitalism had been fastened upon England before that. If the Distributive State had not already been destroyed the Industrial Revolution might have been financed by the guilds, pooling their little parcels of wealth, whereas, because by this time capital was in the hands of a few, only the few could find the capital. Thus, coming as it did in England upon a people who had lost their economic freedom, industrial development took at its very origin a capitalist form, and this form it has retained and perfected through 200 years—instead of the cooperative form it might have had.

This is bad history. What people might have done in place of what they did do is not history at all. It is fantasy. With all industry in the hands of the guilds, who limited freedom of competition to protect their own warm little world, it was not likely that they would run small parcels of wealth together as risk capital to finance the Industrial Revolution that was going to destroy them. Secondly, the statement that "when any one of the new industries was launched it had to be *capitalized*," is misleading. At the beginning of the Industrial Revolution new industries were not launched, as we think of it today. They grew from strange and hazardous beginnings, generally against the ridicule of all observers. They were not *capitalized*. The amount of actual money capital that went into them at the beginning was almost nothing, and of what little there was there is no trace left in the world. The original capital was idea, personal privation, despair and disap-

pointment. The fact is that the Industrial Revolution financed itself, making its capital as it went along. The first automobiles were not *capitalized*. They were created by tinkers and mechanics, working in the woodshed and sometimes blowing everything up. When their automobiles would run then they borrowed money from their friends or mortgaged the family dwelling to start a factory. No banker would finance them. Now to launch an automobile enterprise might cost half a billion dollars, and the bankers would form a syndicate to do it. But that is after it has all happened.

Having proved by logic that capitalism, socialism and collectivism all tend inevitably to bring the Servile State to pass, Belloc comes to speak of the solution and there his Distributive State fails him. The way back to that state of society in which ownership of "the springs of life" shall be happily universal is a road of appalling difficulties. They are perhaps insurmountable. Suppose you think of doing it boldly, as to say, "All shall own," instead of saying, as the collectivists would, "None shall own." Very good. But by what scale of justice shall this new ownership be apportioned among the people? What will the people do with it? How would you keep the many from selling it back to the few? "Action of this kind," he says, "would so disturb the network of economic relations as to bring ruin at once to the body politic." To do it slowly would be even more difficult. You would have to reverse the whole natural system of rewards and you would have to face also the fact that the whole psychology of a capitalistic society "is divided between the proletarian mass which thinks in terms not of property but of employment, and the few owners who alone are familiar with the machinery of administration." Moreover, you would be working against the grain of society, whereas the collectivist is working with it.

If capitalism is self-destroying, as he says it is, if socialism leads to the Servile State, and if the Distributive State as a practical matter is not feasible, then we have but one choice; and that is a choice between serfdom and death.

He cannot believe it himself. At least he cannot rest it there. In the last paragraph he leaves logic in the lurch and says that upon the whole he is hopeful that people will be seized with a kind of faith that will save them from "sinking back into our original Paganism—for the tendency to the Servile State is nothing less." And this notwithstanding the fact that he is at the same time despondent about people. They have fallen into the proletarian trough. You cannot be sure that

they are interested in ownership, really. Nor can you be sure that any tradition of property ownership surviving among them will be strong enough to keep them from squandering their new wealth. You could hardly trust them even to manage it.

Briefly, when Mr. Belloc thinks of a return to his Distributive State the figure of the proletarian man rises before him as the chief obstacle; and for this he blames capitalism. It was something capitalism did to deform mind and morals. And yet this proletarian man may know something that Mr. Belloc seems never to have thought of. Whether he thought of it or not he doesn't mention it. Modern industrial capitalism, with all the ugliness and cruelty he finds in it, has nevertheless enabled the earth to sustain at least twice as many people as ever lived on it before. If capitalism were not here neither would the proletarian man be here. He wouldn't have starved; he would never have been born. And if Mr. Belloc's ideal Distributive State were reestablished—all industry in the hands of guilds, every man owning his own little spring of life—probably half the people now living in the world would perish for want of food, clothes and shelter. Would Mr. Belloc mind?—G. G.

More than Fair

In *The New Statesman and Nation*, British weekly, G. D. H. Cole reviews the book by George Soule entitled, "America's Stake in Britain's Future," which has been printed in Great Britain. Mr. Cole says:

"Let us hope many Americans have read Mr. Soule's book, and have been influenced by it. But I for one cannot help wishing he had been a little less fair to us, or perhaps more than fair; for if he had, there would have been more hope of American opinion attending to his sheer, hard facts."

Rank and File Science

Technical America is a new monthly magazine for technical and scientific employees published by the Technical and Scientific Division of the United Office and Professional Workers of America, CIO. The prospectus says that *Technical America* will analyze salary problems, exchange information on gains in salaries and conditions of employment won by organized technicians. It will project modern salary policies based on the worth of salaried employees and the contributions they make to industry and public welfare. Albert Einstein and Dr. Walter Rautenstrauch, leading engineering consultant, are included among the magazine's board of contributing editors.

A Socialist Boner

London

RECENTLY the surviving Conservatives in the House of Commons made a parliamentary holiday over a Socialist chicken that came home to roost. In the campaign that overturned Churchill and gave Great Britain a Socialist government the Labor Party's platform was a document entitled "Let us Face the Future," and one paragraph of it read:

"Labor believes in land nationalization and will work toward it."

And so came the Socialists to power. But a Socialist government, like any other, needs money and one easy way to get money, as every government knows, is to borrow it from the people—only the people of course must in the first place save it. Last summer the Treasury authorized a national savings campaign, urging the people to save their money and to deposit it where the government could get at it, that is, "in the post office or in the trustee savings banks."

A feature of this campaign was a pictorial advertisement showing a man leaning against his own gate and smoking a pipe with an air of prosperous contentment. Over the picture was the line: "*A Bit of Land of Your Own.*" Beneath was the following:

"Lucky chap, with a little place of his own in the country. Must be grand to own a few acres right away from the smoke and bustle of town. Are *you* doing anything about getting that little place you're dreaming about—or is it just another castle in Spain? If you keep up your savings and don't fritter them away now, you will be able to buy that bit of land before very long. That's the way to make your dreams come true."

What the Treasury happened not to think of was that the Minister of Town and Country Planning was at the same time busily engaged in nationalizing the land—taking it away from the freeholders by compulsion in order to develop it according to a social plan, after which the dispossessed people could have it back again, not as their own but by leasehold.

Sir John Mellor started the holiday in the House. He complimented the Treasury on the advertisement; it was admirable and well calculated to appeal to the traditional and most wholesome British desire to own land. Indeed if it had been issued by a Conservative government it would be beyond reproach. Issued as it was by a Socialist government it could be described only as fraudulent. "The Treasury," he said, "in issu-

ing this advertisement, certainly made the Minister of Town and Country Planning feel very uncomfortable, because he asked that it be withdrawn."

The Financial Secretary to the Minister of Town and Country Planning denied that the suppression of the advertisement had been demanded. All that the Minister of Town and Country Planning did was to call the Treasury's attention to the fact that it was producing undesirable results. People were writing to the Prime Minister about it. They were saying it was bad enough to have their freeholds taken from them without being told at the same time what a good thing it was to own land.

The explanation was that neither the Treasury nor the National Savings Committee, acting as the Treasury's agent, had consulted the Minister

of Town and Country Planning about the advertisement. Such a thing as that could happen in any government, one department forgetting what another was doing. But that was not the point. "The point," said the Parliamentary Secretary to the Minister of Town and Country Planning, "is that it is a policy designed in the interests of good planning, both in our reconstruction areas and in our new towns. If the desire to see our people live and work in more gracious surroundings is a political theory then we plead guilty, but we are entirely unrepentant." Nevertheless, he could be sympathetic and he added: "Persons who are having their freeholds taken away naturally will feel aggrieved and one can understand that they will also feel some resentment when with that prospect in view, they are urged to buy a piece of land. That is the background from which this matter must be judged."

English Boys Look at America

A Collective Article

Five senior boys from Stowe, which is a famous English school, made a thoughtful tour of the United States and then on their return to England wrote a report of their impressions. The London Times printed it on its merits as a lively and important political document, and it makes good reading here.—Editor.

IN TRAVELING thousands of miles throughout the country we attended classes at universities and mixed freely with our American contemporaries. Some days were spent in the largest industrial centers, where we discussed the labor problem with directors, workers, and strikers. In Washington we talked politics to Congressmen, Senators, and political correspondents. Farmers explained the way they are organized in the United States, and Negroes spoke freely about their sentiments and beliefs on the question of the color bar. We had the privilege of being invited by Mrs. Franklin D. Roosevelt to spend a day with her at Hyde Park, where we met her family and some well-known people. Professor Einstein kindly asked us to his house at Princeton and for over an hour gave us his views on the world situation.

We propose to state our unanimous views at some length on one point which struck us more

forcibly than any other, and that is the American's attitude towards Great Britain. It is essential to realize how widespread the anti-British feeling is in the United States today. The term "anti-British" is a thoroughly misleading term unless properly explained. First of all, this feeling never took a personal form. Quite the contrary. Wherever we went, whomever we met, we were received with a friendliness and hospitality which will certainly never be forgotten. Anti-British always meant a totally impersonal criticism or disapproval of British foreign policy. There are a number of totally different political groups who object to British external policy for completely different reasons, and it seems desirable not to confuse them. Roughly speaking, there are three such main groups.

The first is the extreme left, which consists chiefly, apart from the few Communists, of "fellow-travelers." The term "fellow-traveler" baffles

a little at the beginning, but it is so frequently used in current American political language that one soon understands what it means. It is a mixture of what some people in Britain might call "very pink left-wing intellectuals" and "crypto-communists." These people are either for political or for emotional reasons deeply attached to the Soviet Union, and they thus support, repeat, and magnify every charge which the U.S.S.R. cares to bring against Britain. The newspaper *P.M.*, edited by Mr. Ralph Ingersoll, is most representative of this group with its daily violently anti-British articles. We found it difficult to ascertain how influential the fellow-travelers really are. The volume of their noise and their propaganda is certainly disconcerting. But their utterances would undergo a swift change if British and Russian leaders were to succeed in finding a common basis of real understanding and collaboration.

The Extreme Right

The second anti-British group is exactly at the opposite end of the American political scene—namely, on the extreme right. They are the narrow nationalists whose maxim "America for the Americans" is too reminiscent of similar slogans heard before the war in many European countries. The *Chicago Tribune* is one of the chief representatives of this group. We had a long and frank conversation with a leading columnist of the *Washington Herald*, which is closely connected with Colonel McCormick, and asked him to explain in detail his anti-British point of view. What he said might be summed up as follows:—

"America was twice dragged into a war with which she had nothing to do. She gained nothing and lost much. What happens to Europe neither concerns nor interests the United States. America has sufficient economic, spiritual, and democratic reserves to survive without difficulty or danger, even if Europe ceased to exist as a Christian or democratic continent. It is therefore the duty of American politicians to keep to a policy of absolute isolationism. British foreign policy, on the other hand, attempts for purely selfish reasons to commit the United States to a European policy. It is because this attitude of Britain is harmful to the true interests of the United States (he concluded) that I am anti-British and that I oppose British policy."

As can be seen, the antagonism of this section is not a starting-point, but the result of its political creed. "I am anti-British because I am pro-American" is what another prominent person told us. People like Colonel McCormick have certainly a much greater influence than Mr.

Ingersoll, especially in the west. Moreover, we were informed by competent and objective observers that, though the number of their real supporters is relatively small, there has been a regular and steady increase since the end of the war.

Et Tu, Liberal

But the sentiment which really surprised and worried us most was to be found among the great masses of truly liberal and democratic Americans, whose belief in an indivisible peace is as sincere as their efforts to achieve it. Their objection to British foreign policy centers in the word "imperialism," a term used with menacing iteration. It is hardly ever defined, but it seems to produce some kind of irrational horror in its user's mind.

Perhaps the most typical comment was given by Professor Einstein, whom we asked whether he believed that Britain would continue to be a leading world power in the postwar period. "Yes," he answered, without any hesitation, and he added after a few seconds, "unfortunately." When asked why he took this critical attitude, he replied: "Britain is too imperialistic. It is Britain's aim to exploit other nations and retard their educational development. Colonies and an empire have no room in a modern world of freedom and human progress. Britain through her tradition and her history is bound to try to stop this emancipation of mankind. Admittedly (he added) other European nations have tried to do the same, and Britain has a more successful record in her imperialistic methods than any other country. But that does not make it any better."

Reasons

Two completely different reasons seem to be responsible for the outbreak against British imperialism. The immediate cause is undoubtedly found in the Palestine problem. The influential and numerous Zionist elements in the United States are successfully conducting a large-scale propaganda campaign. It shows Britain as the oppressor and exploiter of a nation which, without British imperialistic aims, would be peaceful and free. The Zionist campaign is purposely not directed against our policy in Palestine (it is incidentally a purely destructive criticism and no one has ever stated how they would handle the problem), but it attacks British imperialism in general.

Here the calumnies have produced the desired results. Somehow or other the average American seems to think that British aims and ideals are the same today as they were decades or even centuries ago. Britain the oppressor, Britain the exploiter, is a picture which still haunts the minds

of many American people. Honest, logical arguments were of little avail. We pointed out that our record so far as the Dominions were concerned did not look too bad, that the loyalty, sacrifices, and friendship Britain has received from the Dominions must be some proof that British administration cannot have been purely oppressive. We claimed that our recent actions in Egypt and India were an indication that imperialism in the old sense did no longer exist. But we failed to convince anybody.

Nevertheless

In spite of this anti-imperialistic outcry, the same liberal-minded people were convinced that Anglo-American collaboration was a fundamental necessity for a true and permanent peace. But, they argue, since British foreign policy is out of date and behind times, it is only logical that America should be the senior partner in any future Anglo-American collaboration. Britain ought to be content to assume the role of the junior

partner. This desire to see Britain as a junior partner was pronounced in most responsible circles. It is only fair to add that Britain still has many excellent and sincere American friends.

It was clear to us that the necessary progressive collaboration between the two countries could exist only if the partnership were absolutely equal. This belief is not based on any nationalistic pride, but on the conviction that, if Britain were to accept the part of junior partner, it would be disastrous not only to European politics but to American as well. But if we are right in our aim to establish a partnership of equality between the United States and Britain, then it must be Britain's first task to convince the American people that their ideas of British exploitation and imperialism exist only in their old history books and in their imagination. Fundamentally British policy and American policy have infinitely more in common than the average American seems to realize.

For a Free and Varied Society

Winston Churchill

Here is the text of that part of the Blackpool speech in which Mr. Churchill made his challenge to Socialism and gave the Conservative Party of Great Britain a fighting credo. He had put away the thought of retiring "gracefully in an odor of civic freedoms." The situation had got too grave for that. He was resolved to go forward carrying the flag so long as he had the strength and anybody to follow him.

I DO not believe in looking about for some panacea or cure-all on which we should stake our credit and fortunes and try to sell like a patent medicine to all and sundry. It is easy to win applause by talking in an airy way about great new departures from policy, especially if all detailed proposals are avoided.

We ought not to seek after some rigid symmetrical form of doctrine such as delights the minds of Socialists and Communists. Our own feelings and the British temperament are quite different. So are our aims. We seek a free and varied society where there is room for many kinds of men and women to lead happy, honorable and useful lives. We are fundamentally opposed to all systems of rigid uniformity in our national life,

and we have grown great as a nation by indulging tolerance rather than logic. Our main objectives are:—

To uphold the Christian religion and resist all attacks upon it;

To defend our monarchical parliamentary constitution;

To provide adequate security against external aggression and safety for our sea-borne trade;

To uphold law and order and impartial justice administered by courts free from interference or pressure on the part of the executive;

To regain a sound finance and strict supervision of national income and expenditure;

To defend and develop our Empire trade, without which Great Britain would perish;

To promote all measures to improve the health and social conditions of the people.

To support as a general rule free enterprise and initiative against State trading and nationalization of industries.

We oppose the establishment of a Socialist State, controlling the means of production, distribution, and exchange. Our Conservative aim is to build a property-owning democracy, both independent and interdependent. In this I include profit-sharing schemes in suitable industries, and

intimate consultation between employers and wage-earners. In fact we seek so far as possible to make the status of the wage-earner that of a partner rather than of an irresponsible employee.

It is in the interest of the wage-earner to have many other alternatives open to him than service under one all-powerful employer called the State. He will be in a better position to bargain collectively and production will be more abundant; there will be more for all, and more freedom for all when the wage-earner is able, in the large majority of cases, to choose and change his work, and to deal with a private employer who, like himself, is subject to the ordinary pressures of life and, like himself, is dependent upon his personal thrift, ingenuity, and good housekeeping. In this way alone can the traditional virtues of the British character be preserved.

We do not wish the people of this ancient island reduced to a mass of State-directed proletarians, thrown hither and thither, housed here, and there, by an aristocracy of privileged officials or privileged party, sectarian or trade union bosses. We are opposed to the tyranny and victimization of the closed shop. Our ideal is the consenting union of millions of free, independent families and homes, to gain their livelihood and to serve true British glory and world peace. Freedom of enterprise and freedom of service are not possible without elaborate systems of safeguards against failure, accident, or misfortune. We do not seek to pull down improvidently the structures of society, but to erect balustrades upon the stairway of life, which will prevent helpless or foolish people from falling into the abyss.

It is an essential principle of Conservative policy to defend the general public against abuses by monopolies and against restraints on trade and enterprise, whether these evils come from private corporations, from the mischievous plans of doctrinaire governments, or from the incompetence and arbitrariness of departments of State.

How, then, do we draw the lines of political battle? The British race is not actuated mainly by the hope of material gain. Otherwise we should long ago have sunk in the ocean of the past. It is stirred on almost all occasions by sentiment and instinct, rather than by programs or worldly calculation.

When this new Parliament first met all the Socialist members stood up and sang "The Red Flag" in their triumph. Peering ahead through the mists and mysteries of the future so far as I can see, the division at the next election will be between those who wholeheartedly sing "The Red Flag" and those who rejoice to sing "Land of Hope and Glory."

Tarnished Freedom

John Foster Dulles

THE advocates of human freedom have never been more than a small minority of the human race, but for long they have had the initiative. They have been on the offensive, supremely confident that their cause was righteous and would prevail.

* * *

Today the prestige of freedom is tarnished. Its proponents have lost the initiative and their confidence has waned. Throughout the world men are beginning to question whether, after all, a society of freedom is adapted to modern needs.

* * *

Our society of freedom is the only society in the world able to produce and deliver what is needed to save much of humanity from extinction. Also, our free people give generously to impoverished peoples abroad without regard to repayment. It might be thought that that unparalleled performance would attract others to the way of freedom. That, however, is not the case.

* * *

Others observe that, over recent years, we have been restricting human freedom and increasing the area of political authority. They also observe that such personal freedoms as remain seem often to be abused.

* * *

Most foreigners see us as a people who gorge themselves while others starve and as a people whose selfish quarreling interrupts the production and transportation upon which millions depend for their survival.

* * *

So, under the influence of those two examples, the trend is away from the free society we exemplify. That kind of a society was always a minority. Probably not more than 20% of the population of the earth effectively had, and exercised, the freedoms which we deem basic.

* * *

That experiment has now been under way for nearly thirty years. It has provided the people with some social protections which they like. It has, through secret police and censorship, detected those who thought independently, and for-

cibly removed them from a normal place in society.

Soviet leaders now seek world-wide acceptance of their system. They want everywhere governments which are democratic dictatorships and which will eradicate the freedoms which Soviet leaders consider dangerous. There is an understandable nationalistic desire to enlarge the Soviet Union and to surround it with satellite states. But the principal reason why the Soviet program is world-wide in scope is that Soviet leaders feel compelled to seek a world-wide extension of their system as the only way to prevent their labors at home from being undone.

* * *

That challenge to freedom which stems from the Soviet Union is formidable. In part, it attracts because of its new and bold attack on unsolved social problems. In part, it frightens and alienates because it employs abroad, as it has employed at home, methods of coercion and of unscrupulous propaganda.

* * *

A society which is not religious and which, in a broad sense, is not educated, cannot have much freedom. It is dangerous to give freedom to people who do not feel under a moral compulsion to exercise self-restraint and self-sacrifice.

* * *

The reason why our society of freedom has lost its prestige in the world is primarily because our people, over recent years, have lost much of the self-control and self-restraint which were characteristic of the last century.

* * *

We are still officially committed to a world of freedom, and we still talk a great deal about freedom, but we have actually come to use our own freedoms in ways which, to others, seem to show that freedom leads to a disorder which the world, in its weakened condition, cannot stand.

* * *

There are some who believe that the challenge to freedom which rises about us and which infiltrates into our own midst, can be met by some sort of violent reaction. They would have us use our preponderant military and economic power, while we still have it, to crush out those who lead the experiment against freedom. Freedom cannot be saved except by actually displaying the self-restraint, self-control and self-sacrifice which are needed to make freedom socially tolerable.

Reactionary Liberals

Towner Phelan

THE American tradition is the "liberal" tradition, but when "liberal" is used to designate the views of Henry Wallace, we are not even aware that the word has been twisted to mean its exact opposite. For some three hundred years the term "liberal" has expressed a philosophy which is in direct conflict with the philosophy of those who, today in the United States, term themselves "liberals." Liberal and liberalism are defined as follows:

LIBERAL: "*One who favors greater freedom in political or religious matters.*"

—WEBSTER'S DICTIONARY

LIBERALISM: "*A belief in the value of human personality, and a conviction that the source of all progress lies in the free exercise of individual energy . . .*"

—ENCYCLOPEDIA BRITANNICA

LIBERALISM: "*Liberalism has advocated . . . individual liberty in government, economics and religion. . . . In political and economic thought, John Stuart Mill represents English liberalism. . .*"

—COLUMBIA ENCYCLOPEDIA

"Liberalism" in the historic sense is the struggle of man to assert his liberty against authority. In the political field, this struggle is against the authority of the State. Those who, today, call themselves liberals believe in increasing the authority of the State at the expense of individual liberty. It is true that they do so for the laudable purpose of advancing the public welfare but, whatever their motives, they have taken their stand against individual liberty and in favor of authority. Whatever they may call themselves, they are not liberals.

"Liberalism" in the historic sense regards government as a necessary evil. It looks upon all governments, including our own, with suspicion. It believes that the only way to safeguard liberty and protect the individual from the tyranny of government is to limit the functions of government. It fears government and seeks to impose restraints upon the power of government.

"Liberalism," as the term is used today, looks upon the citizen with suspicion and upon government with approval. It seeks to build a strong government to control and regiment the individual for the good of society, to prevent the strong from taking advantage of the weak, to offset inequalities in wealth and incomes, and to play the

historic role of Robin Hood, who robbed the rich and distributed some of the proceeds to the poor.

*

The principle of authority, which has enslaved the human spirit during the greater part of recorded history, has been challenged effectively only for a brief period in ancient Greece and again in the last 300 years and only by that concept of life which historically is known as liberalism. Although the roots of liberalism lie deep in history, liberalism as an organized doctrine begins with the revolt of Oliver Cromwell against constituted authority in England and the rise of the Dutch Republic in Holland. It found eloquent expression in the great essay of John Milton, "Areopagitica," which he wrote in 1644, in defiance of law, to uphold the right of free speech and to protest to Parliament against establishment of a censorship.

*

Nearly a century later, John Locke expounded the principles of liberalism and his writings "became the political Bible of the following century." In the 18th century, the American Revolution established a new type of government based upon the doctrines of Locke, and Adam Smith formulated the liberal doctrine in economic terms. In the 19th century, John Stuart Mill, Herbert Spencer, Bentham, Cobden and Bright were the spokesmen of liberalism.

The Declaration of Independence and the Constitution of the United States stem directly from liberal doctrine. The Constitution of the United States expresses the fear of governmental authority which is characteristic of liberalism. It is designed, not for efficiency, but to safeguard liberty. It shows distrust of all branches of government—of the President, of Congress and of the Courts and makes each a check upon the others.

The statement in the Declaration of Independence that "all men are created equal" was not intended to mean that they are equal in intelligence, in physical strength, in character or in any other respects in which individuals differ. On the contrary, that statement means that under a just government, all men are *equal under the law*. This new and revolutionary doctrine was a moral pronouncement and an affirmation of political belief in direct conflict with the principle of authority under which men are *not* equal under the law. Under the rule of authority a man's status in the social structure determines what laws apply to him and what he must obey. Two examples will illustrate the point. (1) In France, before the French Revolution, the nobility and clergy were not subject to taxes imposed upon other classes of society. (2) In England, under the Statute of

Artificers enacted in the reign of Queen Elizabeth, a common laborer or a skilled artisan was not permitted to leave his parish without the consent of his last employer. The special privileges of French nobles and clergy and the discriminatory restraint upon the freedom of English workmen were based on their status in society. This concept of status is in direct conflict with the liberal philosophy of equality under the law.

*

Today we can note a definite tendency in our law (for which Congress is chiefly to blame) to abandon these liberal principles and to substitute for them the old, discredited, reactionary standards of personal justice and of status. This tendency is most marked in some federal administrative agencies, such as the National Labor Relations Board, which act as prosecutor, judge and jury, unhampered by rules of evidence or ordinary principles of law. Most of our courts try to follow "the rule of law" but a tendency is apparent, chiefly in our highest court, to substitute justice based upon class distinctions for equality under the law.

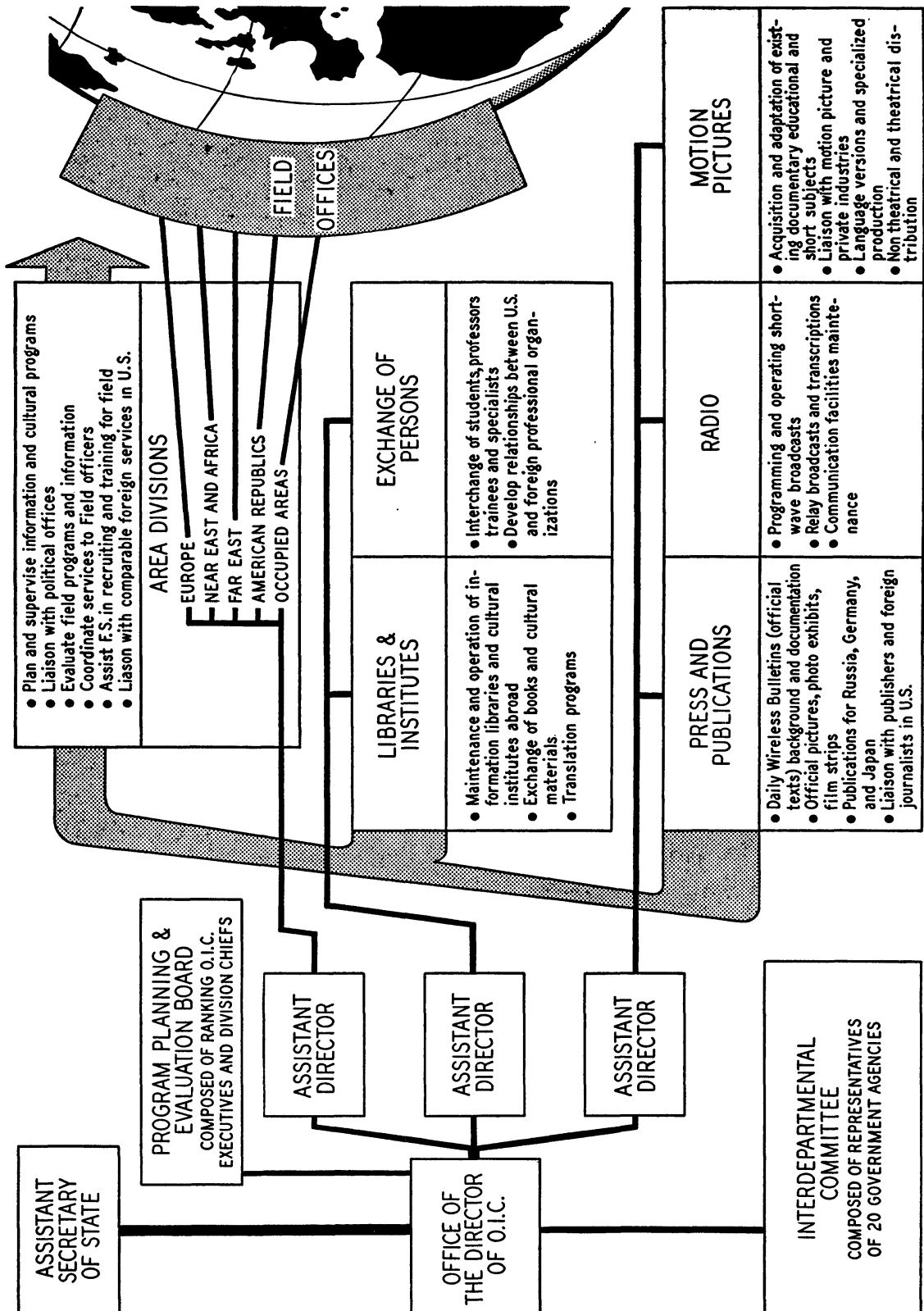
It is no longer the act alone that constitutes the crime but the act in relation to the status of the actor. A striking example of this is found in the 1934 anti-racketeering law which was construed by the United States Supreme Court as not applying to labor unions.

*

Modern liberals, as the term is currently used in the United States, are faced with an inescapable moral and intellectual dilemma. This dilemma arises from the fact that they are trying to go in two different directions at once and to follow two wholly conflicting and opposite philosophies of life. Sincere, modern liberals do not deliberately desire to set up an authoritarian government. All they want to do is to improve the lot of mankind. They want everyone to be decently housed, decently fed, decently clothed, and they are willing to give government *unlimited* authority to accomplish desirable ends. They wish to override individual liberties only when individual liberties hinder government in accomplishing results which they approve. They want government to be powerful to do good without being powerful to do harm. The weakness of a benevolent despotism is that there is no guarantee that it will remain benevolent.

The Social Welfare State, the modern liberals' goal, is essentially a Germanic concept. Bismarck was a pioneer in providing social security benefits in 1884 and fostered state-guaranteed insurance for workmen against sickness, accidents, old age and disability. Karl Marx and Bismarck had much in common.

DEPARTMENTAL ORGANIZATION AND FUNCTIONS OF O.I.C.



The State Department's Own Picture of Its Foreign Propaganda Machine

(See article beginning on next page)

Seizure of the Word

A study of the parts and technique of the American propaganda machine

By Our Washington Correspondent

Washington, D. C.

IT HAD always been, before World War I, that the American mind was intolerant of propaganda as a political instrument. It was an alien thing, out of Europe, with no tradition or history here. We did not ourselves use it upon others and hotly resented any attempt by others to use it upon us. Both the German propaganda to keep us out of that first war and the British propaganda to get us in produced bitter ill-feeling. But when for reasons of our own we did get in we adopted the psychological weapon and turned it against the Germans with some effect. That was the job of George Creel and his Committee on Public Information, and our first experience with propaganda of our own. After the war we dropped it; but we had learned something.

Then appeared in Europe the Communists with their technique, which was scientific, and after them the Fascists and the Nazis. Propaganda and harangue were not new political tools. The Greeks had used them. But it was as if they were new because of what science had done for the means of communication, especially by air. The voice of the demagogue was amplified a million-fold. The voice of Hitler was the voice of Germany, to the Germans and to the world. Control of the word meant control of the people and it was the first thing a dictator seized.

In this country the revolutionary transition from government by proposal, debate and consensus in the old American way to government by propaganda began with the New Deal. In the Democratic Party's platform, in 1932, there was no forecast of the New Deal; the people therefore never voted for it. For better or worse, the New Deal was imposed by propaganda, and this one may take to be a simple statement of fact with no prejudice whatever. The voice of Roosevelt was the voice of the New Deal.

As we found our reluctant way into World War II we were torn by a struggle between two forces of propaganda. On one side was the government, supported by private organizations putting forth such slogans as "Defend America by Aiding the Allies," by all the friends of Great Britain and of

course by direct and skilful British propaganda. On the other side was the America First Committee—probably the most effective single private organization for propaganda that was ever known—with the unwelcome support of the Germans and the Communists. The government won. But that is not the point. The subject is propaganda.

As it was that the American people never voted for the New Deal for the simple reason that it was not presented to them, so it was that they did not vote in 1940 on the issue of war, and for the same reason. It was not presented to them. In the Roosevelt-Willkie campaign in that year the question of whether or not we should go into the war was not even debated, and yet the government had already perfected its plans for Lend-Lease, which took us into it sideways. During our participation in World War II we did with propaganda what we did with other weapons—that is to say, once we put our minds and our resources to it we excelled. The sequel was that when we came out of the war the American Government had the largest propaganda machine in the world. That now is the fact to be regarded.

AFTER World War I the American propaganda machine was demobilized. We had justified it to ourselves as a necessary implement of war. But we could imagine no proper use for it in peacetime.

The machine we now speak of—the one the New Deal built to propagate its ideas of social change, the one that was already there when the war came to seize control of the word, and did seize it for all purposes permissible in war, such as to attack the mind of the enemy, to uphold the morale of the Allies and to keep unity at home—that machine has not been demobilized. Its parts and proportions are amazing and its work in peacetime has been such as to move Senator Taft to say:

"They had learned something about what propaganda can be. Today propaganda in my opinion is the greatest weapon that can be used against democratic government. . . . it strikes at the very root of the democratic government which must be based on an intelligent consideration by all the people of the

problems that arise. . . . Propaganda backed by an unlimited force of government funds is more likely to destroy democracy itself from within than any other force that I can think of."

At the request of a subcommittee of the Senate Appropriations Committee, the Bureau of the Budget submitted the following estimate of the number of people employed in the government's propaganda work, as of June 30, 1946:

"Employment in educational, informational, promotional, and publicity activities of the executive branch of the Federal Government for the fiscal year 1946 is estimated as follows: Full-time employees, 23,009; employees devoting more than one week but less than their full year to these activities, 22,769..."

These figures, said the Budget Bureau, were "merely the totals of estimates hurriedly furnished" by various operating agencies of government. They were not complete. Nor could there be complete figures, owing to the difficulties of definition. However, it was possible to list the activities covered by these estimates, and they were set forth as follows:

"*Publications.*—All published material, exclusive of administrative forms, stationery, and official circular letters or other correspondence. The expenditures include all costs following the initiation of the preparation of the manuscript or lay-out.

"*Press service.*—Preparation of material, including illustrations and matrices, for newspapers, periodicals, or other non-federal publications, and distributing same either through the mail, personal interview, or other means; interviews with representatives of the press, or other non-government publications, etc.

"*Radio broadcasting.*—Preparation of material for broadcasting purposes; correspondence and personal contacts with broadcasting company representatives; payments for radio time; and the salaries and expenses of government employees when engaged in broadcasting.

"*Group contacts.*—Salaries and expenses of employees incident to attendance at meetings of non-governmental groups or organizations, whether or not addresses are made. If addresses are made, includes the time and cost of such time spent in the preparation thereof.

"*Paid advertisements.*—Salaries and expenses of employees engaged in the preparation of the ad and cost of the ad space. Does not include costs chargeable to 'Posters,' or costs for advertising the sale or disposal of government property.

"*Exhibits.*—All costs incident to the preparation, installation, dismantling, transportation, and circulation of exhibits, also the time, salaries, and expenses of employees attending exhibits when on display.

"*Motion pictures.*—All costs involved in the production, maintenance, and circulation of motion pictures, excluding reels prepared for internal use in personnel training or research programs.

"*Lantern slides and lecture material.*—All costs incident to the preparation, maintenance, and circulation of lantern slides, film strips, and prepared lectures.

"*Photography.*—All costs involved in the preparation, maintenance, and distribution of 'still' photographs to non-federal agencies. Excludes 'still' photographs for scientific or administrative purposes.

"*Correspondence.*—All correspondence with non-federal agencies, organizations, institutions, or individuals relating to educational, informational, promotional, or publicity activities.

"*Individual contacts.*—Contacting individuals regarding the activities concerned; i.e., individual officers of organizations, institutions, citizens, and public officials.

"*Educational cooperation with schools, and civic or special interest organizations.*—All costs incident to the introduction of special subjects into school curricula, lecture courses given by government employees on official time and expenses, etc.

"*Posters.*—All costs incident to the production and distribution of posters which do not involve paid advertisement space.

"*Miscellaneous and other.*—All costs not correctly chargeable to any of the above items."

Consider what an assault can be made upon the eye and ear gates of the people by 45,000 trained practitioners of the art of propaganda, using the press and the radio and the movies, besides an unlimited government printing press for publications of their own, with free mailing—all intoning one theme.

HIS machine has two main batteries. One is trained outwardly to act upon thought and feeling in foreign countries; the other inwardly, to act upon public opinion at home.

Since the dismantling of certain wartime agencies, notably the Office of War Information with its 8,000 people, all the work of foreign propaganda has passed to the State Department, where it is in the hands of the Hon. William Benton, Assistant Secretary of State for that purpose. His organization is named Office of International Information and Cultural Affairs or, for short, the OIC. As of June, 1946, the OIC gave an account of itself in a monograph entitled:

AMERICA—A FULL AND FAIR PICTURE

The Government's Information and Cultural Relations Program Overseas

In that monograph appeared a chart showing the organization and functions of the OIC. (The chart is reproduced on another page.)

All the functions lend themselves to idealistic statement. Why not a full and fair picture of

America? To impart that picture the American Government must be able to reach the ears and eyes of the world. One of the important means, perhaps the most important, is the State Department's monopoly of short-wave broadcasting. By short-wave "The Voice of America" goes overseas in eighteen foreign languages, giving first the "world news in brief," then "editorial and radio comment on the news," then "statements of American official policy," and also features on the American way of life. Other means include motion pictures, a photo film strip service, an information service by mail, made up of feature articles, photographs, plates, and so forth; and then such things as American centers in foreign countries, American libraries, grants-in-aid to schools and the exchange with foreign countries of students, trainees, professors and experts.

The two innocent words for all of this are *information* and *education*. How can there be too much information in the world, or education either? And yet, why do we do it? Obviously the purpose is to make other people think and believe what we want them to think and believe about America; and always there is the underlying forethought of foreign policy. In the act of transferring all work of foreign propaganda to the State Department the President said:

"The nature of present-day foreign relations makes it essential for the United States to maintain informational activities abroad as an integral part of the conduct of our foreign affairs."

And to the Committee on Foreign Affairs of the House of Representatives the Hon. William Benton himself said:

"All programs abroad in the field of 'so-called cultural relations' should be designed to support United States foreign policy in its long-range sense and to serve as an arm of that policy."

Certainly. Only in that case who is being fooled? Do we think we are fooling the others or is it that we fool only ourselves when we refuse to look at the fact that we are doing to them what we resent their doing to us.

We particularly resent the Kremlin's propaganda in this country. The most effective single piece of Communist propaganda appearing here is a beautifully printed and very intelligently edited magazine entitled: "*Information Bulletin*." The same innocent word. And what is its aim? What is the aim of all Communist propaganda here if not to make us think and believe what they want us to think and believe about Soviet Russia? Our propaganda is designed to promote in the world what we now call American democracy, because we believe in it and think it is good for all people.

The Kremlin's propaganda is designed to promote the totalitarian idea because the Communists believe in that and think it is good for people everywhere. But no matter what either we believe or they believe, the propaganda in both cases is to implement foreign policy in what Mr. Benton calls its "long-range sense," and foreign policy is not an innocent term.

The beam in our eye is a sense of righteousness, and that perhaps is the common affliction of all propagandists. Last year when Mr. Benton was before a subcommittee of the House Appropriations Committee for money to continue the State Department's informational and cultural work in Latin America, Representative J. Buell Snyder, who is extremely sympathetic, declared:

" . . . I am of the opinion that you cannot lead the people of South America toward the avenue of democracy unless you start with the children. You have to start with the kiddies and work on them there for at least a generation, guiding and directing their energies and their thoughts in the sphere of this thing we call democracy. . . ."

Imagine the resentment we should feel at finding in the deliberations of the Kremlin a blunt statement of intention to act by propaganda upon the minds of American children.

Lastly, many become cynical about it. The following colloquy is from the printed hearings before the Committee on Foreign Affairs of the House of Representatives on a bill further to support the State Department's propaganda activities in Latin America:

MR. JOHNSON. Let me make this observation: The use of the word "subsidy" is like the use of the word "propaganda."

MR. BENTON. It is.

MR. JOHNSON. When money is spent for a purpose that you think desirable you say that is educational.

MR. BENTON. That is right.

MR. JOHNSON. But when the purpose is undesirable it is propaganda.

MR. BENTON. That is right.

MR. VORYS. When our side does it, it is for facilities and transportation; and when the other side does it, it is propaganda.

MR. BENTON. I will not take exception to that.

CHAIRMAN BLOOM. You can see we are getting along.

And in the same place, the following:

MR. WADSWORTH. I agree completely that our facilities abroad for the exchange of information and so forth should be kept physically as separate as possible from the embassy and the chancellery. . . . They are for the purpose generally, may I say, of propagandizing.

MR. BENTON. I would rather have you say for "relationships between the people of this country and other countries."

MR. WADSWORTH. All right. Just strike that out.

The program of Mr. Benton's organization is world-embracing. To finance it he asked for the current fiscal year over \$19,000,000. But he could not wholly overcome the sales resistance of the House Committee on Appropriations, which slashed his estimate to \$10,000,000, almost fifty per cent. (This was the old Congress.) The Committee was critical of the program. It pointed out that our Ambassadors and Ministers abroad

"who are presumed to be familiar with the philosophies and thinking of the countries in which they are located, are not in full accord with the program, a few approving . . . in part and a small number not favoring the program at all."

The Committee was also critical of the OIC's judgment in selecting books for foreign distribution:

"Many of them do not represent the American viewpoint at all, and at times border on ideologies and philosophies which never have been considered part of American life."

Last year Mr. Benton participated in a round-table discussion over the Mutual network on "America—As Others See Us," in which he told how we acquaint the world with American life and culture:

"In the first place [he observed] we are trying to dispel the doubt and misunderstanding which breeds war. We see the overseas information program as vital to our national security. In fact I believe that the very expenditures we propose to make . . . will prove a much more important investment in enduring peace than any cruiser or two for our Navy or more tanks and planes for our Army."

Here are some of the questions whose answers are to head off future wars:

" . . . a listener in Valguenera, Italy [asks] whether American gangsters are really as prevalent as American films and mystery stories have led him to believe. A gentleman in Rome . . . wants to know what weapons are used by our police in gang wars. A thrifty Frenchman inquires as to whether it is possible to sustain life in de luxe America on the equivalent of his salary of 10,000 francs a month. From Naples . . . a listener asks whether it is true that any American can get a divorce without serious reason on payment of \$200."

A modest venture in the diffusion of American culture whose discontinuance was recommended by the House Appropriations Committee is the de luxe illustrated magazine *Amerika*, written in

this country, censored in Moscow, printed in this country, published in Moscow at an annual loss of \$203,000, and sold at ten rubles a copy to such citizens of the workers' state as may read it without fear of liquidation. For once the Soviet censors have no perplexing problem, for *Amerika* as it reaches them is carefully angled to curry favor with the Soviet bureaucracy.

We have seen one issue in English translation. One article reports enthusiastically a Communist-dominated Madison Square Garden meeting addressed by Henry Wallace and Joseph E. Davies, at which Roy Harris, the well-known composer of leftist sympathies, conducted a symphony orchestra in his "Ode to Friendship." Indigenous American drama is covered by an article on "Othello," in which the great Negro artist, Paul Robeson, played Othello. Mr. Robeson, not Othello, is a Soviet hero. Jose Ferrer, another friend of the Soviet Union, played Iago. A leading article on "Women in the Professions" tells the Russians about our successful women in public or professional life. Of the twelve leading figures mentioned, only three are not pro-Communists or fellow-travelers.

The best criticism of *Amerika* was written by Max Eastman in the *New Leader* of June 22, 1946. He shrewdly pointed to the fact that across each copy of the magazine is pasted a label in English: "Restricted: this publication is not for distribution in the United States or to American civilian or military personnel." Why? Because as Mr. Eastman says, the magazine (No. 4) is:

"not composed in a spirit of pride but of ingratitude. Nobody would dream that the mechanical and industrial wonders described here are a result of free enterprise. Nobody would find out that the working classes are better off here than anywhere else in the world. No industrialist, no inventor, and only one private industrial organization is mentioned in connection with our achievements in industry. The National Art Gallery at Washington is described as a gift of 'the late government official, Andrew B. Mellon.'"

The Departments of Agriculture and the Interior (the article on the latter by Harold Ickes) are, Mr. Eastman points out, described enthusiastically as vast and wonderful enterprises in State ownership and management. Mr. Eastman continued:

"The magazine concludes with a page of hurrah for the American-Russian Institute. This organization supplies the American public, it says, with 'objective information about life in the Soviet Union taken from original sources.' That also is straight Soviet propaganda. The American-Russian Institute is one of the chief agencies of apology and applause for the Russian regime. . . ."

"This item alone demonstrates that *Amerika* is in the main the work of pro-Soviet enthusiasts. The weekly bulletin published by the Soviet Embassy at Washington boasts arrogantly to us of the superiority of the Russian state-owned, state-bossed, state-capitalist society. But our 'American' propagandists in Moscow play down the merits of our free competitive civilization, and try to show that, after all, it has many features such as the Russians admire. 'Apology for Freedom' would describe its political mood. Lucky for the editors that this is labeled 'Not for Distribution in the United States.'"

* * *

THERE is no chart to show the organization and functions of the machine that acts upon public opinion at home, nor would it be possible to draw one, for you cannot visualize it as a machine. When it acts as a machine you hear it but still you cannot see it. This is to be explained.

Think of a series of organs, each with a keyboard of its own and a staff to play upon it. The players are such as economists, idea men, copy-writers for the press and radio, speech writers, illustrators, pamphlet makers, publicity experts and specialists in words and slogans; also men who organize programs and forums. Each of the great executive departments of the government has an organ like this. The State Department has one, the Treasury has one, the Department of Commerce has another, and the Department of Agriculture has perhaps the largest and loudest of all the permanent ones.

The one Chester Bowles built for the OPA overplayed them all while it lasted, and then it suddenly collapsed under the vibrations of its own disharmonies. It was a freak. Nevertheless its contributions to the technique of propaganda were too astonishing ever to be forgotten.

The Social Security Administration has one, the Housing Administration another, and so on. Now the wonderful thing is that although each organ is free to play its own piece, and does, they are all connected by invisible wires so that when a signal is given they all play one tune. That is when you hear it as a machine.

Take first a simple illustration. In July last, the Department of Agriculture announced that the country's grain crop would be the largest in its history. That was routine information, released in the regular way; but for the notice of the press an official word was added, as follows:

"There is still the problem of procuring the grain after it is produced. If Congress fails to provide price control, or decontrols meat, poultry and dairy products, it is going to be much more difficult."

That was the Department of Agriculture playing the OPA tune at a time when the OPA was

filling the land with its furious propaganda against free prices, taking it to the schools, putting it in the envelopes that carried checks from the War Department to the wives of soldiers in service, writing speeches to be delivered on the air and at consumers' and veterans' meetings, issuing tons of pamphlets and cartoons, all predicting economic ruin if Mr. Bowles' evangel were disregarded, and his evangel was this:

"The forces of organized greed are oblivious to the public interest—determined to get theirs while the getting is good. And that is not a pleasant picture for you to look upon."

And at that time the voice of Bowles was the voice of government. The obvious intent of the OPA propaganda was to move public thought and feeling to point at which Congress would be intimidated.

There is a law against it. Section 201 of the United States Criminal Code reads:

"No part of the money appropriated by any act shall, in the absence of express authorization by Congress, be used directly or indirectly to pay for any personal service, advertisement, telegram, telephone, letter, printed or written matter, or other device intended or designed to influence in any manner a Member of Congress, to favor or oppose by vote or otherwise, any legislation or appropriation by Congress, either before or after the introduction of any bill or resolution proposing such legislation or appropriation."

The OPA's notorious violation of that law was the subject of debate in the Senate. Senators Taft and Willis were denouncing it. Their position was that although any agency of government may properly tell the people what it is doing and why, this OPA output was not information; it was self-serving propaganda.

Senator Barkley, the Democratic leader, interrupted to ask: "Does the Senator know of any instance in which a United States Senator ever made a speech against his own reelection?"

Senator Taft replied: "The Senator from Kentucky states the case very well. That is exactly the point I have been trying to make. The OPA is engaged in a campaign for its own reelection. It is using government funds for that purpose."

So much for the OPA. There are other things.

THE signal for all the organs to play one tune is given when the government has a policy to impose or an idea to sell. There was, for example, the Bretton Woods idea for a World Fund and a World Bank, one to control international exchange and the other to mind the international movements of capital. When the Bretton Woods Agreements were signed the government im-

mediately organized a tremendous propaganda to create popular emotion for the idea, representing it to be the hope and light of the world. The Treasury led off with speeches in multiple, radio programs, quiz books, pamphlets, forums and special press conferences, petitions, round-robins signed by eminent economists. The State Department and the Department of Commerce participated. Even the Department of Agriculture distributed literature for Bretton Woods. Every resource of propaganda was employed. Senator Taft, who was not really hostile to the idea, angrily denounced the propaganda. On the floor of the Senate he said:

" . . . A very minor example of this broadcasting technique might have been heard on Friday, April 6, over the Bessie Beatty program on the Mutual Broadcasting System, one of the most influential daytime programs. It comes on at 11 o'clock in the morning. Miss Beatty, who I feel confident was an entirely innocent vehicle for this process, announced that her guest for that day would be Mr. Leo Cherne, great authority on Bretton Woods. She intimated that she would like to have her listeners write her their opinions about Bretton Woods, and hinted also that they might write their Representatives and Senators in Washington. Then Mr. Cherne, who is the economic analyst and commentator for the Mutual Broadcasting System, talked about Bretton Woods in the usual generalities. He did not happen to mention the little fact that it would cost us \$6,000,000,000, nor the equally important fact that the borrowers would have a majority of the votes on the board of directors. It was the same kind of propaganda which you have heard from many other commentators, but on a program which, of course, had no relation to the subject. In short, what the State Department is putting out and inspiring is propaganda and not facts. . . ."

Going on to describe the technique by which executive government employs its tremendous powers of propaganda first to create public opinion and then to exploit it as a pressure upon Congress, Senator Taft said:

"The Treasury has carried on a general campaign, entirely outside the distribution of literature. Mr. Morgenthau announced his intention to sell Bretton Woods to the American people. During every move in the whole campaign he has been attended by paid publicity officers. At the Bretton Woods Conference itself there were, in addition to four government press-relations officers, Mr. Frederick Smith, the Treasury Secretary's special public relations counselor, and Mr. Arthur Sweetser, of the Office of War Information, who prepared propaganda for domestic as well as foreign dissemination. . . ."

"A very informative article appeared in *The Wall Street Journal* of April 13, 1945; it is entitled 'Treasury Asks Clergy to Preach Benefits of Bretton Woods

Pact.' That article told how the government brought to Washington from scattered eastern cities and farms, for off-the-record education, clergymen of four Protestant denominations, so that they might preach the gospel of Bretton Woods from the pulpit. The article reported that this group, brought here to build a fire under Congress, was addressed on Bretton Woods by E. M. Bernstein, of the Treasury's Division on Monetary Research. . . .

"The clergymen were not the only groups invited to Washington to learn about Bretton Woods. One hundred separate groups—women's groups, Negro groups, trade groups, citizens' groups, and religious groups—received from a private organization, namely Americans United for World Organization, Inc., an invitation to attend a seminar on Bretton Woods to be held in the Commerce Department building. There the auditorium had been reserved for the occasion by the Treasury Department, and when the large group gathered it was addressed by speakers from the Treasury Department, the State Department, and other official agencies. The sole topic of discussion was Bretton Woods, and how those organizations could combine to carry the message to the people. Harry White attacked the motives of those who were opposed.

"The facts which appear in this case absolutely prove that the Treasury used government money to print documents to persuade Congress to pass the Bretton Woods proposals contrary to the express terms of a criminal statute. I think the facts prove that beyond question. In my opinion, if government funds can be used for that purpose, then the executive branch will dominate Congress."

All this was done before the proposals were laid before Congress. The result was that when the bill, written not by Congress as the constitutional law-making power but by the government's experts, did come to Congress for approval, public opinion was clamorous for its passage. Precisely the same method was used to create public opinion beforehand for the loan to Great Britain, and now again all the organs are playing the one tune for the State Department's Charter for an International Trade Organization.

A CURIOUS effect is produced when one organ peals another. One example of this will do. The Federal Reserve Board has been issuing a series of *Postwar Economic Studies*, with in each case a disclaimer saying that the opinions expressed are those of the author and it must not be supposed that because it presents them the Board endorses them. Number Six in this series was entitled "Aspects of Social Security," by Eliot J. Swan. In this study Mr. Swan said:

"Social insurance financing is not simply a matter of making benefit payments out of a solvent fund built up and maintained by premiums collected from

those participating. . . . More important, social insurance expenditures can be a significant part of a fiscal policy directed toward full employment. . . . Since the longer-run problem of our economy appears to be to develop and maintain, within the framework of a free society, sufficient demand for goods and services to utilize fully our productive capacity, social insurance is an apt governmental weapon. . . ."

What Mr. Swan is saying here—as his own opinion—is that through social security expenditures the government, when and if necessary, should redistribute buying power downward through the social structure.

Now hear what happens to this on the Social Security Administration's organ. The Social Security Administration issues what it calls a *Technical Publications Digest*, with the following disclaimer:

"Material included in these digests reflects the views expressed in the original publications; its use in this form does not imply acceptance by the Social Security Administration of any statement of fact or opinion."

Under this disclaimer, in the *Technical Publications Digest*, September 6, 1946, the Swan study is introduced as follows:

"Economic Aspects of Social Security. By Eliot J. Swan. Board of Governors of the Federal Reserve System. Postwar Economic Studies Number 6, June 1946."

Do you see? The Federal Reserve Board's disclaimer is omitted. Reading them here, nobody would know that Mr. Swan's opinions were not the opinions of the Board of Governors of the Federal Reserve System. Thus Mr. Swan's idea is propagated with a false air of official endorsement.

The Department of Labor has an organ. Recently it has been using statistics to prove or to illustrate social assumptions, and these statistics in turn have been used by the Federal Reserve Board to prove or to illustrate economic assumptions.

One novel development is the use of federal propaganda to influence state legislation. Now circulating widely in states having no minimum-wage laws is a folding leaflet signed: "Women's Bureau, U. S. Department of Labor." It is typographically designed for punch. The eye attack in large type on the outside is:

"Protect Future Wage Levels*Now!"**

Then the exhortation:

"You can help"

Inside is a map of the United States showing in black twenty-two states that "Need Minimum-wage Laws."

The text reads:

"Experience shows that minimum-wage laws push wages up. . . . A minimum-wage law in your state would help cushion the shock of adjustments to postwar conditions. . . . Individuals would have more security. They would be spared a return to depression levels. . . . Act Now!"

* * *

THAT this machine was used to impose the New Deal's ideology is of course a notorious fact. That is what it was for. But that was not all. The New Deal was not necessarily alien. Right or wrong it might have been all American. But as the music was played many sinister and foreign passages did come through. We speak of it as the government's propaganda machine because it is an instrument of government. But government, after all, is an abstraction, and moreover, where there is technique there must be technicians. Who are the technicians? The government does not play these keyboards with its own fingers. The government does not write speeches and books and radio scripts. The government does not invent words and slogans and draw cartoons, nor does it prepare leaflets, folders and pamphlets and dress them in colors and striking typography. Who does do all of these things? We come now to what happens where the smell is in the wood.

When John L. Lewis was creating the CIO he employed Communist organizers. That is probably the mistake he regrets most in his whole career. On being asked afterward why he had done it, he said: "I had something to do in a hurry. I had to have organizers. They do not grow on trees. They have to be trained and it takes time. The only organizers I could get, and they were the best of all, were the Communists." He intended to use them and then put them out, but when he was ready to put them out they were entrenched in cells all through his CIO and they are there still.

So it was with Mr. Roosevelt and his New Deal. He had a tremendous thing to do in haste. The word would do it, but he had to have control of the word far beyond the power of his own voice. He needed, therefore, propagandists. Where were they? Who were they? No more than organizers may propagandists be found growing on trees. The best propagandists of all, schooled in it, trained in dialectics, all hungry writers, were the Communists. Next in order were the fellow travelers, extremists of the left, radical theorists and disaffected intellectuals hating the capitalist system that had neglected to reward them—many of them professional writers. They had nothing to lose and power to gain. The infiltration of the

New Deal's propaganda machine by such as these was not an accident. It was a natural happening. It may be that Mr. Roosevelt, like Mr. Lewis, thought he could control his Communists if they went too far. They were not interested in what he thought, and besides, they thought he was wrong. The technique of propaganda was not all they knew. They had been trained also in the tactics of entrenchment. Now after fourteen years they are so encysted in government, all the way up to the plane of policy making, that to get them out will require a very drastic purge.

In response to a deep national anxiety the President, in November, created by executive order a Commission on Employee Loyalty, to inquire and report on what ought to be done about disloyal and subversive persons on the federal payroll and whether "existing security procedures

in the executive branch of the government" are adequate.

Government by propaganda—the word fashioned and administered to make people think what they ought to think—is an old-world technique. The machine that has been visualized in this article is not native here. Yet there it stands, an un-American thing, menace and temptation both. Will it be destroyed? If you yourself were a political party, hating it in principle, still you could not destroy it with utter impunity and with no trace of secret regret, because to govern by control of the word has a strong appeal to the impatient imagination and may be, indeed, the shortest way to a good end—provided you are sure that what you mean to do to the people is good for them. But of course every dictator is sure of that.

The British Manner

From Hansard's Parliamentary Debates

IN THE House of Commons, Mr. Edelman arose to complain that the British Government, trying to save dollars, had unwisely crippled British Information Service in the United States. To interpret Great Britain to America the government was spending in 1945 nearly \$2,000,000 a year, and that had been cut almost one half in 1946, whereas the need for the work was quite as urgent now as it had been during the war.

He had recently seen the BIS in action in the United States, and how, with a comparatively small staff, they were tackling the immensely important job of explaining both the work of the British Government and the position of Great Britain in the world. They had enormous difficulties, because they were being assailed simultaneously not only by traditional enemies but also by traditional friends. On the one side they were being attacked by the mid-West isolationist Republicans who had a long tradition of criticism and deep-seated hostility to Great Britain; on the other side by those liberals who had been staunch supporters of Great Britain during the war but now seriously criticize British foreign policy. And not only the liberals, but the Zionists, too, all bitter and despondent about British policy in Palestine.

He was unhappy about appearances:

"Today the BIS has only four major offices, in Washington, New York, Chicago and San Francisco. No American getting his first view of Britain from the Washington office could be particularly impressed. When I went there, I ascended in a dreary, dowager-

like lift, stumbled over several garbage cans, and finally found myself in a dingy, drab, sordid-looking office—the first of a series. I cannot believe that Americans, who pay much attention to external appearances, are likely to be impressed with their introduction to Great Britain in such a place. On the other hand, New York, Chicago, and, I understand, San Francisco are models of what such offices should be. The fact is that all of these offices are working with very limited and completely inadequate resources.

"Let me give one illustration. The Press and Radio Division of the BIS in New York has an establishment of twenty-one employees, including typists. This office has to concern itself with literally hundreds of radio stations and dozens of newspapers. Despite the most excellent work which it does, and did throughout the war, it is clearly inadequate, through lack of staff, to cope with the demands made upon it."

The Under Secretary of State for Foreign Affairs then made the following statement:

"As far as the Press and Radio Department is concerned I agree about the importance of this and I have to say that we have taken steps to strengthen the staff. We have appointed an Assistant Director and we will see they get a fair chance. We have plans to send out suitable speakers at the rate of six per year and we are considering plans to send over Members of Parliament of all parties.

"We have worked out a plan for the exchange of members of BIS with the American Information Staff over here. Under this scheme, twelve BIS people will come over here, and six American Information Department people will go over there. . . ."

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