

# American Affairs

*A Quarterly Journal of Free Opinion*

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### SUPPLEMENT

## The Money Torrent

By W. HOMER TURNER

*An American Affairs Pamphlet*

*By the Year \$2.50*

*Single Copies 75 Cents*

## Notes on the Contents

*More About the World Trade Charter.* This is a continuation of a subject that was opened in the Winter Number of *American Affairs* under the title, "American Proposals for a Collectivist World System." There have been further developments.

*Our Illusory Labor Force.* L. C. Walker is president of The Shaw-Walker Company of Muskegon, Michigan. He travels a great deal with his eyes open. Here he has probably started a discussion of something that will be either proved or disproved by experience, and not otherwise.

*A Dreary Revolution.* Dr. M. J. Bonn is a distinguished elder among the economists. He has taught and lectured in three countries—first in Germany, where after World War I he was adviser to the German Government on reparations; then in Great Britain, where he became a British subject and belonged to the London School of Economics, and lastly in the United States. He returned last year to Great Britain and is now observing the sequels.

*Economics in Disgrace.* Professor Walter E. Spahr, executive vice president of the Economists' National Committee on Monetary Policy, is a grim hunter who has never yet been deceived by the protective coloring of an economic fallacy.

*The Marxian Virus in American Thought.* Towner Phelan, vice president of the St. Louis Union Trust Company, is already known to the readers of *American Affairs*. This is the article that was announced in the Winter Number.

*Now Back to Banking.* Joseph M. Dodge, president of The Detroit Bank, is a realist with a long memory. He has not forgotten how the lights change.

*The Closed Shop.* Cecil B. De Mille, the well-known producer, is not an antiunionist; but for several years he has been conducting a one-man crusade against what he regards as a special form of union labor tyranny. This is a remarkable paper.

*The Money Torrent and the Fifth Horseman.* (An *American Affairs Pamphlet*.) W. Homer Turner is a member of the New York Bar. He was assistant chief editor of the fourteenth edition of the *Encyclopedia Britannica* in charge of economics, industry, and applied science. He is also an engineer, a consulting economist, and author of many monographs on industrial, scientific, and legal problems. He writes about money from sheer love of the subject.

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*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*

APRIL, 1947

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## Review and Comment

*By the Editor*

THE new governor of New Jersey takes for the shibboleth of his administration one word. The word is *work*. In its negotiations for a new contract with the United Steelworkers of America the United States Steel Corporation's first stipulation was for a fair day's work for a fair day's pay, which was only a way of saying that the matter now generally in dispute is not so much the day's pay as what the worker is willing to give for it. Great Britain is going to import foreign labor out of the great European pool of displaced persons, but the government had first to sell the idea to the Trades Union Congress and the Trades Union Congress, under great pressure, accepted it on one condition, namely, that immigrant labor be subject to the rules and standards of British labor unions, which means that the imported labor shall not be permitted to work harder or longer or give more for a day's pay than native labor. Before the war, unemployment was the dread of the world and people felt so helpless about it that even in free countries many were willing to entertain the totalitarian solution. The one good thing that could be said about Hitler was that in Germany there was no unemployment. How many times did we hear that? But now everywhere the acute problem is man power shortage. In Great Britain, where it has brought the economy to a crisis, and in Russia, too, it is commonly laid to the depletion of man power by the war; but it appears also here, where it cannot be explained by war casualties. There you have the whole range—a totalitarian economy, a socialist economy and a capitalist economy, all three alike in a state of anxiety over the shortfall of labor. People are continually exhorted to embrace work, in Russia for the

grand revolutionary design, in England to keep their country from going over the dam, and in this country to improve their standard of living; and yet when the production comes to be counted and weighed it is disappointing. It is less than it might have been if what labor force there is had worked, not harder than ever before, but only as hard as before the war. In England the want of coal is desperate, yet with the flag of socialized ownership flying at the colliery gate the same number of miners produce less coal than they produced before for the private boss. Is it a man power shortage? Or is it something that has happened everywhere in the world to the spirit of work?



DIRECTIONAL signs are no longer needed, only mileposts to indicate speed and progress. Less than two years ago we were debating what was then called a mixed economy—that is, an economy half free and half planned. Could it be and would it work? All of that has gone to the lumber room. We have a mixed economy. Less than two years ago *American Affairs* printed a pamphlet by Bradford Smith entitled, "Can We Buy Full Employment?" A violent controversy was then running. The question was: Should we follow the British White Paper on full employment policy? Should we commit ourselves to the radical social doctrine that it is a function of government to provide employment when and if people are unable to keep themselves employed? Briefly, should we leave control of the economy to the play of free competition or should we surrender ultimate control of it to the government? That controversy also is at an end, and you cannot say exactly what happened to it, save that the Congress enacted an ambiguous law called the Employment Act of 1946, creating for the President a Council of Economic Advisers to tell him what the

government should do to give the economy stability at a high level of employment. In the first report of the Council of Economic Advisers to the President we read:

“The mass of citizens has come to expect and indeed, as voters, to demand of their Federal Government a more active role of leadership in dealing with matters which affect national economic life. . . . *We must recognize that the practically sound and individually efficient management of private farming, manufacturing, transportation, distribution and banking, and the practical situations in which active managers must make their decisions, will not year in and year out add up to sustained and satisfactorily stabilized total utilization of the nation's resources.*”

Much more significant than the conclusion itself—the conclusion, namely, that free competitive enterprise has been weighed and found to be socially and economically wanting—is the fact that it passed almost without notice. Even business accepted it. Now comes a report entitled, “Maximum Employment in a Free Society,” from the International Chamber of Commerce. Note the title—how like it is to the title of the Beveridge book, which was “Full Employment in a Free Society.” The only difference here is the substitution of *maximum* for *full*. Yet when it appeared only two years ago the Beveridge book was torn apart by criticism in this country. It was properly treated as a tract for socialism and Great Britain very soon thereafter went socialist. The President of the International Chamber of Commerce is Winthrop P. Aldrich, Chairman of the Chase National Bank. The Chairman of the Committee on Methods to Maximize Employment is Paul G. Hoffman, President of the Studebaker Corporation. The Chairman of the United States Associates of the International Chamber of Commerce is Philip D. Reed, Chairman of the General Electric Company. Now in this report of the International Chamber of Commerce on “Maximum Employment in a Free Society” we read:

“Great as have been the accomplishments of free economies, their operation has not been effective enough. They have been dynamic, progressive and highly productive, but—”

and

“There are substantial contributions that business can make towards the solution of the unemployment problem. . . . These private groups, acting individually or jointly, cannot, however, maintain abundant employment by their own unaided efforts. Only central government, acting in the name of the whole people, has

the means to execute some of the policies needed to maintain high levels of employment.”

Only central government can do it! Who knows whether central government can do it or not? Central government has not yet done it, not even in Great Britain. The only thing now saving Great Britain from bankruptcy is what still survives of the surplus power of free competitive enterprise in America. She says this herself. In the White Paper on the problems of economic recovery, the British Government said: “We cannot continually and indefinitely continue to meet our deficits by external borrowing.” Would you not think that we might at least postpone the obsequies of the system that has produced the American power? Those who now are saying that only a central government can do it all settle on one complaint against the American system. They say it is inherently unstable. So is life inherently unstable. So are dynamism and progress unstable. “Stability,” said Ford in one of his moments of inspiration, “what is it? It is a dead fish floating downstream. The only stability we know is change.”

IN a recent number of the *Journal of Political Economy* there was an essay by M. Bronfenbrenner entitled, “The Dilemma of Liberal Economics.” What is liberal economics? Mr. Bronfenbrenner says it can be defined only in contrast with the doctrines to which it is opposed, and when he sets these out you see that they are all political and social doctrines. Conservative economics therefore would have to be defined in contrast with another set of political and social doctrines. This is true. And because it is true the prestige of the profession of economics declines. If you were going to hire a physicist or a mathematician or an engineer, you would concern yourself only with his proficiency in the science. It would hardly occur to you to ask about his political religion; it certainly would not occur to you to ask about that first. Not so with the economist. If you are a labor organization what you want is a labor economist. If you are a corporation you want a free enterprise economist. If you are a bank you probably want a sound money economist. The New Deal hired only New Deal economists. They proved anything the New Deal believed or imagined. When pump-priming, deficit spending, and debasement of money had all failed to start a new spiral of prosperity, as they said it would, they proceeded to prove that the American economy was old and static and probably running down and must at any rate from then on go round and round. This



was succeeded by a theory of infinite expansibility, representing the American economy to move by jet propulsion, ever faster and faster toward the stratosphere. You have of course anti-New Deal economists; also right and left wing economists, Marxian and anti-Marxian economists, Keynesian and anti-Keynesian economists, any kind of economist you want. But suppose you have a school and need professors to teach economics. What will you do then? How will you select them? Simon Newcomb was a great American astronomer. He listened to people talking about economics until he became extremely annoyed and turned his own mind to the subject. The result was a book entitled, "Principles of Political Economy," which is still the finest statement there is of the laws that govern the production and the exchange of wealth, in any society. Whether he had any political religion or not you would never know. In this number of *American Affairs* there is a piece of bitter writing by Dr. Walter E. Spahr on what has happened to the profession of economics. As a science, for want of a discipline, it is embarrassed; as a priestcraft it is utterly ruined.



IN this number of *American Affairs* will be found, reprinted from *Lloyds Bank Review*, an essay by Dr. Jacob Viner, professor of economics at Princeton, that may cause a commotion in the cages. Dr. Viner thinks that all international proposals so far advanced for meeting the problems of mass unemployment are either inadequate or futile, or both. What he offers is the idea of an International Employment Stabilization Fund, with resources three or four times greater than those of the World Bank—"to lend at critical times to the most suitable applicants, however poor credit risks they may be, to the extent necessary to get its funds in operation." Here the means of common language begin to be somewhat strained. *Lending* cannot be the right word for a use of international credit to be governed by the rule that the worse the risk the greater may be the suitability of the applicant. Perhaps we should think of it as unemployment insurance raised to the global intention. But there is another difficulty that may not be so easily resolved. Dr. Viner says that under a free market system the "main cause of mass unemployment is price and cost rigidity." Then he adds that monopolies and rigidities are no longer left to private enterprise; to maintain them now is "one of the main activities of government." If that is true, his International Employment Stabilization Fund might be called a plan to subsidize the effects of wrong economic policy. It certainly does not touch the cause of mass unem-

ployment. It is consistent, however, with the current doctrine that national prosperity is a delusion—that there can be only international prosperity. A prosperous nation, therefore, is obliged to share its prosperity with others, else it will lose its own. Specifically, a national full employment policy cannot stand alone; it has to be related to an international full employment policy. One may find an explicit statement of this position in a large monograph on Public Investment and Full Employment by the International Labor Office, 1946. It quotes from its own Philadelphia declaration, made in 1944, that "poverty anywhere constitutes a danger to prosperity everywhere," and says:

"The statement is true whether poverty is the result of low productivity in undeveloped areas, or of unemployment of men, materials, and machines in highly developed countries. . . ."

National and international public investment, it says, must be planned together because—

". . . Full employment requires in each country a certain level of total spending. . . . No country should be hampered in its efforts to develop its resources or maintain full employment by consideration as to its exchange position, as some countries were in the 'great depression.' . . . Thus, once it is admitted that international public works require international planning, it follows at once that domestic public investment has its international aspects, for the two are economically inseparable. . . ."

This doctrine was evolved in Europe. It would not make sense if control of money, credit and banking had not passed to the hands of government everywhere, and, even so, the merit of it from the European point of view lies in the fact that the prosperity to be shared is principally American prosperity.



AS the members of the Ways and Means Committee of the House walk round and round the Federal Budget, brandishing dull cutting tools, they listen for sounds of popular encouragement and are disappointed. If they move toward it as if they meant really to do something surgical they are arrested by shrieks of protest. When they say, "But this is your own money we are trying to save," the echoes are faint and sometimes derisive. One way of trying to make people understand it is their own money is to divide the national debt by the total number of families. The sum so obtained is something like \$2,000 per family. Does that worry a family that has not got \$2,000? Not at all. Another way is to show by the income tax figures that we

now work one day in ten for the Federal Government. Do we really? That depends upon where you live. If you live in the lowest bracket, you work for the Federal Government only one day in fifty, and considering what the government does for you that is nothing to complain about. But if you live in one of the top brackets—say, \$20,000 to \$25,000—you work for the Federal Government two days in every five. In one case it is six days a year and in the other it is one hundred and twenty. The singular beauty of this arrangement is that the principal beneficiaries of government live in the lower brackets. The sounds that reach the ears of the members of the Ways and Means Committee as they make their threatening gestures at the budget are so explained. It is not that the people are statistically dumb. The trouble is that you cannot fool them with averages.

THE following form letter has been received from Dr. Albert Einstein, as chairman of the Emergency Committee of Atomic Scientists, Inc., 90 Nassau Street, Princeton, New Jersey:

*Dear Friend:*

*I write to you for help at the suggestion of a friend.*

*Through the release of atomic energy, our generation has brought into the world the most revolutionary force since prehistoric man's discovery of fire. This basic power of the universe cannot be fitted into the outmoded concept of narrow nationalisms. For there is no secret and there is no defense; there is no possibility of control except through the aroused understanding and insistence of the peoples of the world.*

*We scientists recognize our inescapable responsibility to carry to our fellow citizens an understanding of the simple facts of atomic energy and its implications for society. In this lies our only security and our only hope—we believe that an informed citizenry will act for life and not for death.*

*We need \$1,000,000 for this great educational task. Sustained by faith in man's ability to control his destiny through the exercise of reason, we have pledged all our strength and our knowledge to this work. I do not hesitate to call upon you to help.*

*Faithfully yours,*

A. EINSTEIN.

If mankind will subscribe a million dollars, the Committee will tell it how to save itself from the destruction science is preparing for it. Subscription blank enclosed. Also this statement:

These few facts are accepted by all scientists:

1. Atomic bombs can now be made cheaply and

in large number. They will become more destructive.

2. There is no military defense against atomic bombs, and none is to be expected.
3. Other nations can rediscover our secret processes by themselves.
4. Preparedness against atomic war is futile and, if attempted, will ruin the structure of our social order.
5. If war breaks out, atomic bombs will be used, and they will surely destroy our civilization.
6. There is no solution to this problem except international control of atomic energy and, ultimately, the elimination of war.

If this naïve matter could be engraved on some indestructible substance, what a precious fragment it would be to find afterward. It would tell what happened to the lost civilization of the Science People.

APPEARING as a supplement to this number of *American Affairs* is a pamphlet entitled, "The Money Torrent and the Fifth Horseman," by W. Homer Turner. If you want to know where the billions come from, here is a catalogue of the financial powers of government—the power to tax, to borrow, to spend, to control credit, money, and banking—all lawful and unlimited. It is the aggregate of these powers that suggests to Mr. Turner the terrifying figure of the Fifth Horseman, riding beyond restraint with self-accelerating speed. The original constitutional restraints have been removed by amendment and interpretation, and indeed as the interpretations now stand they tend to favor increasing expenditures by government for social ends. There is a point beyond which government cannot go on devouring the national income without changing the political character of society. No attempt has ever been made to determine what that point is. Could people surrender to government a quarter of their earnings and still keep control of their own affairs? Possibly. Could they surrender one half of their earnings to the government and still be free? It is not imaginable. Long before that point had been reached they would be hopelessly dependent upon the Welfare State for livelihood and opportunity. The annual budget of the Federal Government now comes nearly to a thousand dollars per family, and still one may hear everywhere a demand for more benefit of government. Control of money, banking, and credit by government has probably involved us in the great popular delusion of all time. Because they are simple and may be written in the language of emotion and would be wonderful if they were true, money delu-

sions get themselves believed with astonishing ease. The science of money, on the other hand, is a difficult subject and hard to read. There is no device of exposition, no resource in the art of writing, that can make it anything else. It tells you nothing you wish to be true and it cares not at all whether you believe it or not. This is perhaps a fatal political fact and one that accounts for the triumph of fallacy. All the money fallacies that had ever been overcome in this country by force of reason are now returned and may be discovered acting in the financial powers of government.



## Status for the Poor

IN a marble temple of classic design on the Washington Mall sits the heroic figure of a man who was born and raised in substandard housing. He never knew what substandard housing was. That term had not yet been invented. But he knew poverty, which is an indispensable part of the Lincoln legend, and he knew the proud American maxim that every schoolboy wrote in his copybook. The maxim was: *To be poor is no disgrace*. In the whole civilized world that was true only here, and it was true here because no stigma, no hint of caste, no sense of status attached itself to the condition of being poor. But if it were today the Lincoln family would be certified as underprivileged. The government at Washington would calculate its minimum budget. Several years ago the Farm Security Administration might have moved it into a decent house with a TVA icebox and electric light. The life of the boy Abe would be minded by the public authorities. The Child Labor Law would probably forbid him to work—it certainly would if anything that he helped to produce went down the river in interstate commerce. And at school, with a hot public lunch in his middle, he would be writing in his copybook, if copybooks were still in use: *The first of the Four Freedoms is freedom from want*. Certainly the Lincoln family would be better off. Whether or not in that case you would have or would have had the eternal mystery of human greatness enshrined on the Washington Mall is a question that has no answer. Only the social fact is present. All the Lincoln families now are better off, and if this is owing less to their own exertions than to the welfare works of benign government, still they need to feel no humiliation on that account.

The welfare programs of benign government are at first impersonal. They are put forth in terms of public policy. The poor shall be acted upon not because they are poor but because they happen to be numbered among the underprivileged. And if the

underprivileged may be described not as a class but as that one third of the people who are ill-fed, ill-clothed and ill-housed through no fault of their own but only because the wealth of the nation is unfairly distributed, then of course one may belong with no feeling of shame, no sense of dependence and no loss of pride. There may be indeed a sense of injury, as if one had been deprived of something to which one was justly entitled. But as welfare works go on, as the political zeal for them increases, and as the form of the Welfare State begins to rise, this fiction about the underprivileged as a product of social injustice, subject to grand measures of correction, begins to be unwieldy. There is more and more the impulse to act upon the poor as such. Amelioration is not enough. It is both false and unscientific. As a social ideal the poor must have security; and since they are unable to provide it for themselves, or since at least they do not provide it for themselves, the government must see to it. Then you get compulsory social insurance. This is something that must be done for and to the people for their own good. Compulsion, however, is not laid upon all alike. It applies only to those who live in the lower brackets below a certain level of income. Those in the higher brackets are exempt from compulsion and will be taxed for the benefit of the others. So now there are high-bracket people and low-bracket people and it is the law that makes a distinction between them. You may say still that the distinction is economic, not social, and this is for a while a supportable fiction. But it holds only until you come to public housing, which is the next step. There the line is struck, and now definitely a social status attaches to the condition of being poor.

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Reporting the recent Conference of Mayors in Washington, *The New York Times* said: "Senator Taft strongly championed low-cost housing for the poor." The phrase *low-cost housing for the poor* now is commonplace and attracts no special notice. The first argument in support of it is that only by low-cost housing, subsidized by the Federal Government, will it be possible to reach that one fifth of American families whose habitations are substandard. Low-cost housing, as the phrase is, means not that the cost of housing will be reduced but that at public expense rentals will be cheapened for the poor. The secondary argument is that although private enterprise has been freer here than anywhere else in the world it has not solved this problem. It follows as a conclusion that the government must solve it.

That way of speaking of free enterprise as if it were a power in itself, as if it were a total entity with parts and functions and responsibilities, be-

longs to the nonsense of modern demonology. There is no such demon. Private enterprise is not a thing. It is a body of natural spontaneous economic phenomena rising out of the activities of people who produce and exchange wealth with one another with no interference by government. It is not the function of free private enterprise to house the people. It is the business of people to house themselves. And if and as they do it for themselves, they have free private enterprise without knowing it. They had it for more than one hundred years without ever thinking to give it a name. By this definition, re-phrase the assertion and you get something like this: "People were never so free to house themselves and yet they have been unable to do it. Therefore it must be done for them at public expense." But is the public not the people? If the public is the people you may probe further and get this: "The people have been unable to house themselves properly. Therefore the people must do it for the people at the people's expense." That makes no sense whatever. The reason why it makes no sense is that by words and phrases we conceal from ourselves the fact that we are raising up a Welfare State to mind and control our lives. It holds out to people the promise of security and better living provided they are willing to exchange freedom for status in a planned economy.

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Consider the meaning of public housing for the poor. That kind of housing cannot be thrown open to the public. The tenants must be selected. How will they be selected? First, the applicant must be socially desirable. Then he must prove that he is unable to pay what such housing is worth. He will pay what he can and the difference will be represented by the public subsidy. His qualification therefore must be proof of a status of poverty. In order to prove this status, he must submit to investigation. And after he has been accepted as a tenant, still he must submit his private affairs to continuous investigation, for it might happen that he should rise a little in fortune and cease to be poor, in which case he would be no longer entitled to the premises. But while he is poor and because he is poor he will be better off. Again, public housing for the poor is defended on the ground that decent shelter is no less essential than food and clothing. That is certainly true. Why then stop with housing?

Why not public food for the poor and public clothing for the poor and at last public entertainment for the poor? And thus the Welfare State creates its clientele, which is a caste of dependent poor.

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The field of housing is one in which the business of the Welfare State may be easily and speciously expanded, especially when for any reasons there is a temporary shortage of habitations and the necessary hardships are acute. Then a state of emergency is declared and immediate solutions are demanded; but emergency, as we have learned, is the soil in which the Welfare State puts forth its permanent roots. Substandard housing is a chronic problem. Let us ask therefore why so many people live that way, not just now but always, even when there is plenty of housing? They do it for one of three reasons. First, as there are hill and bay people so there are slum people, and though you cleared away all the slums in all the cities of the world you would have them still. Secondly, there are people who are rent misers. Thirdly—and this will be the principal part—there are those who are simply unable to produce the equivalent of good housing. Either housing is too dear or the exertions of these are not adequately rewarded. In neither case does public housing give the right answer. If housing is too dear, public housing is the last way you could think of to reduce the cost of it, for by that way you can only shift the cost of it; and if it is that people are unable by their own labor to produce the equivalent of the cost of good housing, you will not increase their productive power by paying a part of their rent out of the public treasury.

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Finally, there is the argument that in the modern environment, as in the great cities, the resources of private enterprise are not equal to the housing task, which is to say that in the cities, at least, people are no longer able to house themselves. But what of those vast multiple habitations, like little cities in themselves, that the private insurance companies now are building? These operations represent people housing themselves with their own money, and no benefit of government; and the pools of money out of which such operations are financed represent also social security which people have provided for themselves.



# The Government Nobody Knows

By Senator Henry Cabot Lodge, Jr.

*HAVING as it thinks streamlined itself, the Congress now discovers that it cannot appropriate the billions intelligently because it does not know and cannot find out what government is doing. More baffling still, it discovers that government, suffering from elephantiasis of the executive member, does not itself know what it is doing and seems to have no way of finding out—as, for example, when the Navy goes into the market for things that the War Assets Administration is selling as surplus. In this speech Senator Lodge is moving consideration of Senate Bill 164, which is to create a commission to “study and investigate the present organization and methods of operation of all departments, bureaus, agencies, boards, commissions, independent establishments, and instrumentalities of the executive branch of the government,” and report on what shall be done to bring government once more under control, if possible. It would be a commission of twelve, four to be appointed by the President, four from the House and four from the Senate. But the commission itself, if it is created, cannot do the job, because the members will all be too busy conducting government. Therefore it will have to hire experts to explore the caverns.*

—Editor.

**I**F an army or a navy or a business enterprise or a newspaper office were organized the way the United States Government is, it would incur almost certain defeat at the hands of an enemy or of its business competitors.

For example, I was told the other day that 90 high officials report direct to the President of the United States. I started an investigation of my own, and discovered that actually 150 members of boards and commissions, 15 heads of departments and major agencies, 5 persons in the Executive Office of the President, 7 persons in the White House staff proper, 11 in the emergency agencies which are still functioning, and 3 persons from the Joint Chiefs of Staff have direct access to the President.

Merely to illustrate the point, do Senators know how many subordinates General Eisenhower had to talk to in order to direct his ground troops in their invasion of Germany? He talked to three men—Field Marshal Montgomery, commanding the northern group of armies; General Bradley, commanding the central group of armies; and General Devers, commanding the southern group of armies. This is one illustration which could be multiplied countless times in military and business life. But President Truman must talk to as many as 90.

Furthermore, it is a well-known rule of good management that fiscal responsibility—that is, the control of funds—must parallel management responsibility. The bureaus of the government should be involved only in the fiscal affairs of the activities which they control because only thus can the heads

of the departments and the Congress be constantly in possession of accurate information; only thus can waste be avoided at its source before it even starts. But we know that the bureaus are not so organized, either within the departments or among the departments, and waste and confusion are the results.

## *Vertical Billions*

We appropriate in a schematic line that proceeds vertically, while the functions of the government extend horizontally; the result is confusion.

When I hear some of my colleagues say that officials in the executive branch, in order to prevent the making of reductions by the Congress, are deliberately threatening the Congress by the suggestion that economies proposed will result in cutting out essential items, I doubt whether that is true, because I think that the one reason why cuts are not made in the right places in the executive departments is that in many of them modern management methods do not exist. The result is that those who are supposedly operating the departments actually do not know what their departments are doing, and they do not know how to make intelligent cuts. If modern management methods prevailed, then the Congress should do what it wants to do—keep the essential things, and cut out the waste. I refuse to admit that there are not the brains in this body to set up such a system.

There is, however, another cause for the waste of public funds that can be laid at the door of Con-

gress itself. We badly need a study of obsolete legislation because that is another factor which is forcing the departments into extravagance.

### *Aimlessly, Pointlessly*

Anyway, the thing is still mushrooming—aimlessly, pointlessly, pleasing no one and frustrating the very causes which the people want served. The Senator from Virginia [Mr. Byrd], a recognized authority, said recently:

“The conclusion is inescapable that the cessation of hostilities has brought little reduction in the tremendous war expansion of the government. It is inconceivable that the departments and old-line agencies, expanded to 777 component parts at the height of the war, should now need to expand still further to require 920 principal component parts. There is no justification for having 1,200 federal offices in New York, 1,000 in Chicago and over 500 each in Philadelphia and Los Angeles, to mention only a few, as was so recently the case.”

He also pointed out that—

“At present the annual payroll of the executive branch of the government approximates \$6,250,000,000. This is \$1,500,000,000 more than the entire government spent for all purposes in 1933.”

### *Great Duplications*

Another great authority on this subject is Representative Wigglesworth, of Massachusetts. He says:

“There has been great duplication and overlapping of functions. The Comptroller General has stated not so long ago that there were no less than 29 agencies lending government funds, 3 insuring deposits, 34 engaged in the acquisition of land—”

Think of it, Senators, 34 agencies are engaged in activities in connection with the acquisition of land—

“Sixteen in wild life preservation, 10 in government construction, 9 in credit and finance, 12 in home and community planning, 10 in materials and construction, 28 in welfare matters, 14 in forestry matters, 4 in bank examinations, and 65 in gathering statistics. There are in many states more federal employees than there are state employees. Excluding the Army and Navy, there are more federal employees on the payrolls today than there were on V-J day. The Comptroller General of the United States has recently reported the loss of many billions, particularly in connection with cost-plus contracts, renegotiation, and contract termination. He has castigated the procurement agencies of the government for laxity and lack of ethical standards. He has reported in one instance that the United States

Maritime Commission and the War Shipping Administration have failed to account properly for over \$8,000,000,000.”

Representative Wigglesworth then refers to increases which are proposed to be made for the next fiscal year. He points out that it is proposed to appropriate \$947,000,000 as compared with an actual appropriation this year of \$723,000,000 for the Department of Agriculture; \$264,000,000 as compared with \$194,000,000 this year for the Department of Commerce; \$313,000,000 as compared with \$272,000,000 this year for the Department of the Interior; \$111,000,000 as compared with \$99,000,000 this year for the Department of Justice; and \$352,000,000 as compared with \$295,000,000 this year for the Post Office Department.

He tells us that a similar comparison for some of the independent agencies of the government shows an increase *from* \$12,000,000 to \$12,700,000 for the Civil Service Commission, *from* \$5,500,000 to \$7,300,000 for the Federal Communications Commission, *from* \$3,300,000 to \$4,200,000 for the Federal Power Commission, *from* \$2,500,000 to \$3,900,000 for the Federal Trade Commission, *from* \$9,600,000 to \$11,900,000 for the Interstate Commerce Commission, *from* \$1,000,000 to \$1,700,000 for the National Archives, *from* \$4,000,000 to \$7,900,000 for the National Labor Relations Board, *from* \$4,900,000 to \$6,500,000 for the Securities and Exchange Commission.

These, he says, are but examples.

### *Gloomy Statistics*

I shall not burden the Senate with any more of these gloomy statistics. It is sufficient to sum it all up by saying that 30 years ago the number of executive establishments of the rank of a bureau or the equivalent is reported to have been 158. That figure had increased to 521 in 1932. By 1944 it had reached 1,141. During this same period of time the number of civilian employees of the executive branch had increased from 438,057 in 1916 to 528,542 in 1926; to 824,259 in 1936; to about 900,000 in 1939; to the grand total of 2,766,165 in 1946. This means an increase of about 1,400,000 since 1939 which may represent an expenditure of \$5,000,000,000. To which can be added the fact that we have a national debt ten times as large as the maximum debt of World War I.

There we have a brief sketch of the waste and confusion. What are we going to do about it? Remember, we do not know much about the details which make up these totals.

The Senate has been put in the dilemma by being required to approve over-all budget figures without knowing the facts. We were completely in the dark. We are determined, for example, as I said before, to

get rid of the waste in the Army and Navy—and all of us who were in the service or who know anybody who was in the service are aware that there is much waste. We are also resolutely determined not to weaken our Armed Forces in any essential respect. But we have no chance to vote on these matters. We have no chance to express our true policy. No; we are given a choice of several over-all figures and the certainty that no matter what we do it will be wrong. We are sure to cut off too much or not enough.

### *A Light, a Light!*

We can turn on the light. We can go through the Federal Government with a fine-toothed comb and find out what its functions are—there is no one book that can be obtained which lists all its functions—lay bare the waste and duplication and make informed and firm decisions. I refuse to admit that we must always remain in the dilemma of either cutting too much or not cutting enough. I contend that we can eliminate the waste and preserve—and indeed, enhance—all the vital functions of government.

To this end I have introduced a bill, a companion to one introduced in the House by Representative Brown of Ohio. It calls for a study by experts and members of Congress of the reorganization of our executive branch and a report back to Congress in January, 1949, just at the time when the Eighty-first Congress will be beginning. Thus this commission will have a full year and a half to go through the government with a fine-toothed comb and to throw light into all the musty old corners. The non-congressional members, who would be the ones really to carry the load, should be men of stature, like Dr. Compton or Dr. Conant, Mr. Justice Roberts, former Senator LaFollette, or Secretary Forrestal, who has done pioneer work in introducing modern management methods into the government.

This is not a job which Congress alone, working through congressional committees and using its own staffs, can do. We in Congress have not the time. There is no use deluding ourselves about that. We have not the time to do the job that needs to be done. We would have to leave it to our staffs; and our staffs would not have the standing which the members of this commission would have in their relation to the departments. I envisage full-time work for at least a year and a half. All sorts of expert knowledge would be required, possibly, including the services of industrial engineers and management experts. It would take time and money.

Such a study will, I am convinced, make great economies possible. Careful students of the problem have told me that between seven billion five hundred million and eleven billion could be saved in one year.

## *Winds of Opinion*

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MacArthur pointed out that Japan will come back economically much sooner than the Philippines because of the way the Japanese will work. Tokyo and other ruined cities in Japan will not be too long getting rebuilt, whereas Manila will take much longer.—*From a Report to the House on the Far East by Representative Mansfield of Montana.*

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According to unofficial data, twenty-two out of every hundred Netherlanders would like to emigrate. This percentage is a sad commentary on Europe's mental attitude. The figure may vary somewhat in other countries, but everywhere there is the same basic desire to leave the Continent.—*Notes from the Netherlands, Knickerbocker Weekly.*

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It is no good saying that an international organization such as the Monetary Fund can be of no avail unless the several countries follow a wise financial and economic policy; what is needed is that the Fund should endeavor to fulfill the tasks assigned it to the best of its ability.—*Italian Economic Survey.*

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Socialism is elderly, stiff in its joints and unthinking in its reactions. Communism is seen as nothing but a new brand of old tyranny. Liberalism is discredited. The Tories, relapsing from their wartime fire, have difficulty in disengaging themselves from Baldwinism. Under what banner can youth and idealism enlist?—*The Economist, London.*

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Business leaders and political leaders who clamor now for a reduction of taxes are playing the game of the Communists because they are confident that capitalism is too greedy to save itself.—*Senator O'Mahoney.*

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Probably the term would not have become so widely employed had it not been for the fact that Woodrow Wilson, master of English and moving phrases, lifted "democracy" from its century or more of slumber and popularized its sonorous quality, throbbing with old Greek music. As a result,

how many reactionary Old World nations have found it convenient to call themselves "democracies" or "democratic," but how few, if any, of these ever has stood forth boldly for Individual Freedom!—*C. T. Revere.*

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Every civilization faces periodic challenge. That is the kind of a world God put us in, and there is no ground to question His wisdom in that respect.—*John Foster Dulles.*

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The Securities and Exchange Commission ought to investigate the Interstate Commerce Commission.—*Robert R. Young, Chairman of the C. & O.*

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The government is confronted with the certainty, now that the illusions about a liberalization of America's trade policy have finally been dispelled, that a socialist experiment confined only to this country is bound to fail. By collaboration with other countries which are experimenting with planned economies, it must create, during the two years before the loan runs out, an export-import area which radically decreases its present dependence on the New World.—*The New Statesman and Nation.*

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So, while our President is asking for \$400,000,000 to stop communism in Greece and Turkey, our Acting Secretary of State asks that we ship \$25,000,000 more to Russia, and the American head of UNRRA said we should give \$75,000,000 worth of clothing, food, and supplies to the Communists of China. My God, where are we going to come out?—*Representative O'Konski of Wisconsin.*

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Most outside observers have concluded that the U.S.S.R.'s real objective is economic self-sufficiency. She appears to purchase from the outside principally those things which will help her achieve this objective, and exports only when necessary to pay for imports.—*Department of State Bulletin, March 2, 1947.*

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No matter how we look at it, the dross of money left by the war in all countries is still in the market. Perhaps it does not produce the same effect in all places and under all conditions, but the fact that this monetary dross exists contributes to create the

illusion that we are rich, and thereby it also contributes to step up economic activities beyond the limits of what our real economy permits.—*Monthly Bulletin of the Bank of Norway.*

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A good case could be made for making aid to China and other populous Oriental countries contingent on the establishment of public health clinics for the dissemination of birth control information.—*Professor C. Langdon White, Stanford University.*

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Efforts to combat communism with dollars are not likely to succeed. When we have bankrupted ourselves trying to bail out the staggering nations of Europe, communism will have a field day in the United States. The capitalistic system will be blamed for the debacle when actually it is being drained so systematically that even today it has considerable less than an even chance to prove its worth.—*John S. Knight.*

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There will be no financial crisis—our present financial controls are quite strong enough to prevent that.—*Hugh Dalton, British Chancellor of the Exchequer.*

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What kind of monopolists can the 12,000,000 to 14,000,000 trade unionists be if, with all the power they are supposed to have, they still have to go to Congress for help to get a minimum of 75 cents an hour?—*Harvey W. Brown, President, International Association of Machinists.*

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We have not yet arrived at the peak in the payment of benefits to the veterans of our wars.—*Senator Barkley.*

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Now, when for the first time there are socialist governments all over Europe, is the time for Britain to urge their close association. In France, which is allied to Russia, as are we, socialists are rallying to this view.—*Evelyn King, Socialist Member of Parliament supporting the United Europe Committee.*

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We are moving towards the nationalization of the land—and not by slow steps.—*The British Chancellor of the Exchequer.*



# More About the World Trade Charter

*And something about a proposed bonfire of American tariffs  
at Geneva, Switzerland, as a grand prenatal celebration*

*By Gareth Garrett*

WASHINGTON, D. C.

**T**HE proposed International Trade Charter has run into weather. We left it on its way home from London, where the experts of seventeen nations had been working it over to make it fit a totalitarian economy like Russia's, a socialist economy like Great Britain's, and the one great capitalist economy surviving in the world, namely, our own. When it got home it was longer and, except at one point, more obscure.

The State Department published the revised draft. The authorship of the new writing was not indicated, nor could you expect it to be, for if it were people might try to trace the threads of national selfishness or to discover secret motives and reservations, instead of regarding the work as a meeting of expert minds on how the commerce of the world shall be controlled and regulated by international authority for the good of all alike. To write an International Trade Charter that shall confer its benefits impartially upon the weak and the strong, the privileged and the underprivileged, the advanced and the backward, deficit people and surplus people, creditor and debtor nations—that is an inventive feat of almost unimaginable difficulty and the experts must be permitted to work it out first in their own language with perfect freedom of anonymity. Nevertheless, there is one place where the new writing is unmistakably British and that happens also to be one place where clarity is added.

## *Fighting for Imperial Preference*

Ever since the Atlantic Charter was signed by President Roosevelt and Winston Churchill "somewhere in the Atlantic," on August 14, 1941, while this country was still supporting the fiction of neutrality, a certain troublesome subject has been in controversy—the question being: Was Great

Britain morally committed to give up her famous system of Imperial Preference?

That is the system under which members of the British Commonwealth and the colonies of the Empire trade with one another under special terms. The Atlantic Charter was a joint statement of peace aims between the United States and Great Britain. Article 4 declared that all States, great or small, victor or vanquished, should have "access on equal terms to trade and to the raw materials of the world," subject only to the qualifying phrase, "with due respect for existing obligations." Mr. Churchill afterward said that he put the qualifying phrase in and that he had to fight for it and that he did it to save Imperial Preference even at a time "when it was hard to see how the war could be won." The same question arose again over Article 7 of the Master Lend-Lease Agreement, which declared that the ultimate settlements should be made with a view "to the elimination of all forms of discriminatory treatment in international commerce and to the reduction of tariffs and other trade barriers." That seemed to bode ill for the British system of Imperial Preference; but Mr. Churchill said he had received from President Roosevelt explicit personal assurance that the British "were no more committed to abandon Imperial Preference than was the United States to abolish tariffs." Yet there was an obvious discrepancy between the writing and the verbal assurance, and the controversy went on.

Then after the war came the American loan of \$3¾ billions to Great Britain. All during the negotiations the British made a point of saying that if they didn't get the loan they would be obliged to hold fast to their system of Imperial Preference in self-defense. And at the same time the American proponents of the loan made much of saying that if we didn't lend them the money the world would find itself divided in two great trading blocs, one the dollar bloc and one the sterling bloc, and that we should be forcing our best customer to discriminate

against American exports. The loan was made. On receiving it the British Government signed a paper saying it would enter at once into negotiations relating "to tariffs and preferences, quantitative restrictions, subsidies, state trading, cartels, and other types of trade barriers treated in the document published by the United States and referred to above."

This document was the White Paper pinned to the Anglo-American Loan Agreement by the State Department. It contained the original American Proposals for an International Trade Organization. When the Anglo-American Loan Agreement was laid before the British Parliament, the debate on it revolved around that one sore question. Had not England's negotiators at last signed away British Preference, if not actually at least morally? Lord Keynes said no. Going back over the history of the Atlantic Charter and the Master Lend-Lease Agreement, Mr. Churchill said no; he was sure the British had reserved both latitude and judgment.

But when, later, the State Department sent the draft of the International Trade Charter to the London Conference of Experts, the British were taking no more chances. To settle the thing once for all they wrote their Imperial Preference system into it and now it is explicit there. The revised Charter reads that Paragraph 1, Article 14, Section A, Chapter V, forbidding any member nation to grant any exclusive advantage, favor, privilege or immunity to the trade of any other member nation shall *not* apply "between the territories comprised in Annexure A to this Charter." And Annexure A reads as follows:

#### ANNEXURE A

##### *List of Territories Referred to in Subparagraph 2 (a) (ii) of Article 14*

##### 1. *Countries of the British Commonwealth of Nations.*

*The United Kingdom of Great Britain and Northern Ireland and its dependent territories, Canada, The Commonwealth of Australia and its dependent territories, New Zealand and its dependent territories, The Union of South Africa and South West Africa, Ireland, Newfoundland, Southern Rhodesia, Burma, Ceylon.*

In neither the summary of the revised Charter that was published by the State Department nor the summary issued by the Department of Commerce do you find any reference to this interesting addition. You have to read the complete text to find it.

Both summaries say of Chapter V that it "provides for the reduction of governmental barriers of all kinds and for the elimination of trade discriminations." To say that of a chapter that explicitly exempts the British system of Imperial Preference is brevity by omission. However, it would have been very awkward to say of Chapter V, in a summary, that it provides for the reduction of governmental barriers of all kinds and for the elimination of trade discriminations—except British Imperial Preference.

The experts had their troubles. The fiction that they were thinking only of the world and not of their own countries first was always in danger of breaking down. The British kept saying to the Americans: "You except Cuba, don't you? You write in your own charter that preferences in force exclusively between the United States and Cuba shall be immune." This the Americans had to admit. "Well, then," said the British, "why shouldn't the preferences exclusively in force within the British Empire be immune also? Anyhow, we will write it in."

#### *Compromise on State Trading*

One of the extremely touchy subjects was state trading. To begin with, the State Department regarded state trading as one of the barriers to international trade that ought to be negotiated away, and it was definitely so defined in a joint statement of the United States and Great Britain on the American Proposals when the Anglo-American Loan Agreement was signed.

Nevertheless, when it came to writing the original Charter, the State Department decided that state trading had to be accommodated, because otherwise it would be impossible ever to get Russia in, since with Russia all foreign trade is an absolute state monopoly. And secondly, the socialist government of Great Britain was heavily and perhaps irrevocably committed to state trading, as, for example, in cotton, wool, food, and foreign exchange. The original State Department draft of the Charter, therefore, provided for state trading in four paragraphs which aimed to mitigate and isolate, if possible, an evil that was already existing and perhaps could not be got rid of, certainly not all at once.

But in the revised Charter as it comes back from London, state trading is treated as if it were the new way of the world and such counterweights as a capitalist country might have been expected to devise are eased away. This is done by a few deft touches made by some anonymous expert's pen. For example, in the original draft that went to London the Charter said that any member maintaining such state enterprise, or one granting exclusive or special privileges to any enterprise at all, "*shall upon the*

request of any other member . . . provide such specific and detailed information as will make possible a determination as to whether the operations of the enterprise are being conducted in accordance with" the letter and spirit of the Charter. The revised version as it comes back from London reads as follows:

*"The member maintaining such State enterprise or granting exclusive or special privileges to an enterprise shall make available such information as may be appropriate."*

The difference here is simply between what other people want to know about your state trading and what you want them to know.

Of all the new subjects in the field of social theory the one that has produced the most controversy and the most literature is the responsibility of government to provide full employment for its people.

Two years ago, even before the socialists took over, Great Britain adopted the doctrine that full employment *is* a responsibility of government. In this country a diluted version of the same doctrine was adopted in the form of the Employment Act of 1946.

Naturally, therefore, that was an idea that had to be embodied in the American Proposals for an International Trade Organization; and all the more

so because now when a nation like the United States exports its surplus to other countries it may, without intending to do so, be exporting unemployment. How? Well, for example, if the American motorcar industry, which is the most powerful in the world, exports motor vehicles to Australia or South America or to England it may be displacing British-made motorcars. For that reason the employees of the British motorcar industry may be idle or on part-time, while the automobile workers of America are busy. On the other hand, if we did not export our motorcars, all the workers of the British motorcar industry might be busy, and some of our own automobile workers idle.

In the London Conference on the Charter there was trouble with this subject. Some of the experts, especially those representing the British point of view, were for raising a declaration of full employment policy to the plane of universal economic dogma; others were for writing into the Charter a paragraph that would call for penalties and sanctions against any member nation that should fail to impose upon its own economy a proper full-employment policy, like England's. The American experts were unwilling to go the whole way and the result was a compromise. The old text and the new are reproduced below.

### EMPLOYMENT PROVISIONS

*From the original Charter.*

"The Members recognize that the attainment and maintenance of useful employment opportunities for those able, willing, and seeking to work are essential to the full realization of the purposes of the Organization. They also recognize that domestic programs to maintain or expand employment should be consistent with these purposes.

### EMPLOYMENT

*The revised draft as it came back from London.*

"1. Members recognize that the avoidance of unemployment or underemployment through the achievement and maintenance in each country of useful employment opportunities for those able and willing to work and of high and steadily rising effective demand for goods and services is not of domestic concern alone, but is a necessary condition for the expansion of international trade and, in general, for the realization of the purposes of the Organization. They also recognize that measures to sustain demand and employment should be consistent with the other purposes and provisions of the Organization, and that in the choice of such measures, each country should seek to avoid creating balance of payments difficulties for other countries.

"2. They agree that, while the achievement and maintenance of effective demand and employment must depend primarily on domestic measures, such measures should be assisted by the regular exchange of information and views among Members and, so far as possible, be supplemented by international action sponsored by the Economic and Social Council of the United Nations

(Original Draft—Continued)

“Each Member shall take action designed to achieve and maintain full employment within its own jurisdiction through measures appropriate to its political and economic institutions.

“In seeking to maintain or expand employment, no Member shall adopt measures which would have the effect of creating unemployment in other countries or which are incompatible with undertakings designed to promote an expanding volume of international trade and investment.

“The Members agree that they will: (1) make arrangements for the collection, analysis, and exchange of information on employment problems, trends, and policies and for the submission at regular intervals of reports on the measures adopted to give effect to Article 4; (a) consult regularly on employment problems; and (s) hold special conferences in case of threat of widespread unemployment.

“In accordance with the Charter of the United Nations, the Economic and Social Council will be responsible for furthering the objectives of Chapter III and supervising the fulfillment of the obligations assumed under Article 6.”

The last paragraph in the new writing is important, and yet for too many readers it will be obscure. Economists seldom know how difficult their idiom is. *Balance of payments* means what one nation owes to another from having bought more than it could afford to buy or more than it could pay for. And a *fundamental disequilibrium* means either that the creditor nation cannot collect or that the debtor nation cannot pay, either way you like to look at it. And whereas formerly a *disequilibrium* was regarded as an economic problem, it comes now to be thought of as a social problem. The idea is that when a nation sells more to a people than it buys from them it is exporting unemployment, or conversely, that when a nation buys more than it sells it is importing unemployment—provided, that is to say, the goods are competitive. Thus, for example, if Great Britain buys from us goods that she can make for herself and buys them from us only because they are better or cheaper she is importing unemployment.

This paragraph, therefore, means that if, notwithstanding universal full-employment policies,

(Revised Draft—Continued)

and carried out in collaboration with the appropriate inter-governmental organizations, acting within their respective spheres and consistently with the terms and purposes of their basic instruments.

“Members shall take action designed to achieve and maintain full and productive employment and high and stable levels of effective demand within their own jurisdictions through measures appropriate to their political and economic institutions and compatible with the other purposes of the Organization.

“Members, recognizing that all countries have a common interest in the productive use of the world’s resources, agree to take action designed progressively to develop economic resources and to raise standards of productivity within their jurisdiction through measures compatible with the other purposes of the Organization.

“Members, recognizing that all countries have a common interest in the maintenance of fair labour standards related to national productivity, agree to take whatever action may be appropriate and feasible to eliminate substandard conditions of labour in production for export and generally throughout their jurisdiction.

“Members agree that in case of a fundamental disequilibrium in their balance of payments involving other countries in persistent balance of payments difficulties which handicap them in maintaining employment, they will make their full contribution to action designed to correct the maladjustment.”

unemployment does reappear in the world, each nation shall undertake to absorb its own instead of trying in the old-fashioned way to create employment for its own people by increasing its exports. And if it fails to do so, it shall make “its full contribution to action designed to correct the maladjustment.” What that action might be is not explained. The Conference of the International Trade Organization would decide and the offender, which might be the United States, would be pretty helpless with only one vote against the world.

### *The Escape Clause*

The American experts had been rather free with escape clauses, but the experts assembled in London were freer still. So many more escape clauses were written in that now it seems a member nation may do almost anything it likes, under certain circumstances, provided it tells the International Trade Organization about it beforehand and gets permis-

sion. At the end of Chapter V, which is the longest chapter of all and covers general commercial policy, comes this paragraph:

“The Members recognize that there may in exceptional circumstances be justification for new preferential arrangements requiring an exception to the provisions of Chapter V. Any such exception shall be subject to approval by the Organization pursuant to paragraph 2 of Article 66.”

Thus the powers of the International Trade Organization are set free in the unlimited region of discretion. The Conference body, by a two-thirds vote, may suspend the provisions of the Charter itself, and the United States, as the principal creditor among nations, as the only great surplus nation in the world, would have one vote.

The original Charter was written by “a technical staff within the Government of the United States,” with no benefit of advice from American business. Not only was American business not consulted; it knew nothing about the Charter until it was published. Nor was American business invited to the London Conference of Experts.

However, in January, having got its revised Charter back from London, and intending to send it to Geneva, Switzerland, in April to be finally drafted by the experts, the Department of State announced a series of informal hearings to be held in Boston, Chicago, New Orleans and San Francisco. Persons wishing to present oral views would address the Executive Secretary of the Executive Council of Economic Foreign Policy, Washington, D. C., and wait to be notified when and where. Those who might prefer to express their views in writing were welcome to do so.

## II.

**I**N the play *Green Pastures* a little boy in Bible school, hearing for the first time the story of creation, asks how the Lord got the idea of making the world in the first place. Another little boy says that isn't a proper question. The preacher says yes, that is a proper question, and the only reason it hasn't been answered is that the Good Book didn't have time to think of everything. And all the rest of the play is to tell how the Lord got the idea.

And so you will start drama if you ask where the idea of an International Trade Charter came from.

In the year 1934 the Congress surrendered control of the country's tariff policy to the President, who turned it over to the State Department, and ever since then the State Department has been writing an economic scenario for a new world. Cordell Hull started it with his reciprocal trade agreements. Mr. Hull was born a free trader and

regarded protectionism with a baleful Tennessee eye. He believed with a kind of passion that if only nations could be taught to trade with one another in a spirit of ungreedy collaboration the benefits would be so marvelous that the economic reasons for war would be forgotten. He went rather far with it, and although the benefits were never so marvelous as to be indisputable, he never faltered.

Then came the war. The first scenario was ruined. But after the war there would be a chastened world that might be more easily persuaded to receive the light.

In the Atlantic Charter and again in the Master Lend-Lease Agreement the Hull evangel appeared in certain phrases about peacetime aims to which no one just then could afford to object. Thus the ground was prepared, and by the time the design of a world society had begun to take definite form at Dumbarton Oaks—and certainly a good while before the United Nations Organization was brought forth at San Francisco—the State Department must have been writing its new scenario entitled, “Proposals for Expansion of World Trade and Employment.”

## *A New Law for a New World*

No such world as the one the State Department imagined had ever existed. The writing of a trade charter for a nonexistent world is, of course, not difficult; and if it was believed that to create an ideal economic world you had only to write an ideal economic law, that could be understood. It is a familiar fact of history that Americans often confuse vision with reality. If that was what they were doing again, the possibilities might be exciting.

But this was not the kind of vision that overcomes reality. It was a prepared vision—prepared by experts and clothed in a language that only experts could understand; and if you think of a vision as something people believe they see clearly, so clearly that the meaning of it can be written on banners, it was not a vision at all. The people in fact knew nothing about it. The first revelation of it was a document published by the State Department along with the Anglo-American Loan Agreement and this document had soon to be followed by another to “clarify possible obscurities and remove any misunderstandings to which the condensed language of the first may have given rise.”

The second one was entitled:

*“Suggested Charter for an International Trade Organization of the United Nations Organization: An elaboration of 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 of public discussion."*

The first public discussion of it took place not here but in London. So much then for a vision that was never sold to the American people. What of the realities?

### **No Economic Foreign Policy**

Here was the State Department undertaking to give the world a new economic law while at the same time it could not say for sure what America's own economic foreign policy was and most certainly could not give any pledge for what it was going to be. This fact was clearly perceived by other nations and that is one reason why they were reluctant. The British kept saying: "If we embrace this scheme we shall have to relate our economy to yours. How may we do that rationally when you don't know what your economic foreign policy is? And, such as it is, you can't say that it may not be changed suddenly."

Notwithstanding the stupendous scale of American activities abroad, touching material life in every other nation in the world, there is no such thing as an economic foreign policy. Not only is there nothing you could so define; the necessity of having one seems to be very dimly understood.

What is an economic foreign policy? It is properly a synchrony of several powers, and may be thus explained:

Let the first one be your capital power—that is, what you do with your money abroad, how you lend and invest it and why.

The second will be your productive power—that is, what goods and services you are able to produce for sale in foreign markets.

The third will be your trading power—that is, how, on what terms, with whom and with what ultimate purpose of your own, will you exchange your exportable surplus of goods and services for what other people have to offer.

Fourthly, is your diplomatic power, in constant liaison with the other three.

And then, after all this, your economic foreign policy must be geared to the internal economy so that one will react fortunately upon the other.

Taking the last point first, it is remarkable that in their first annual report, December 18th last, the President's Council of Economic Advisers, having the future in view, and having said of it:

"While the prospect for high employment and production in the near term is good—barring the possibility of a brief dip—it is pretty generally recognized that the bases of this activity are

somewhat artificial or at least that activity in the present lines cannot be expected to continue indefinitely"

and having said, further, that after a few good years of catching up—

"In those years, also, if foresight is not keen and action vigorous, the stage will be set for serious unemployment, underproduction, and want in the years that follow"

said not one word about an economic foreign policy, or about the expansion of world trade as a way of supporting prosperity at home. World trade in its relation to the internal American economy was apparently beyond the ken of the President's Council of Economic Advisers. But the State Department and the Department of Commerce at the same time were spreading in the press, in the magazines, and on the air a terrific propaganda, saying that only by a very great extension of our foreign trade could we hope to avoid economic disaster at home and that the way to extend it was to reduce tariffs in a reciprocal manner and embrace the International Trade Charter.

### **Putting Forth Our Billions**

As for the power first named—the power of capital—it has been largely wasted so far. Never before in the world's history has a nation been able to pour forth billions with such recklessness and ease, and certainly never has a nation loaned its wealth abroad without a definite and well-considered economic policy. The Lend-Lease settlements, for example, were discretionary and independent, each case by itself, and although there no doubt was what you might call a Lend-Lease settlement policy, it was in fact not a policy but a program and had no reference to what you would call an economic foreign policy. The Export-Import Bank makes foreign loans under the supervision of a cabinet committee that is supposed to make sense of what we do with our capital abroad, but this committee is bound by no over-all economic foreign policy. The Export-Import Bank's loans have been half political and half commercial; some have been tied and some have been free. A tied loan is one that stipulates in the agreement how and where the money shall be spent, as, for example, the loan to Norway which provided that the goods bought in this country with the proceeds should be moved in American ships. For that reason Norway has not yet touched the money. The Export-Import Bank was supposed to have a billion dollars earmarked for Russia while Russia was refusing to answer Amer-

ican notes requesting her to settle her Lend-Lease account as other nations had done. The American Army of Occupation puts American capital abroad; just how much that will be it is not possible to say until the accounts are audited, but obviously the Army acts as it must, with no reference to any settled economic foreign policy.

The largest single loan was the one of \$3¾ billions to Great Britain. That was a loan voted by the Congress mainly with the idea of saving Great Britain for democracy and building a dam against communism; and Congress at the same time was bitterly complaining that the Export-Import Bank was making political loans over which it had no control. Other borrowing nations have been denied the terms on which Congress voted the loan to Great Britain; therefore, other nations feel injured and call the loan to Great Britain discriminatory, which in fact it was; while in socialist Great Britain one effect of the loan has been to intensify feeling against the wickedness of American capitalism. The State Department was so naïve as to believe that the loan would buy Great Britain's support for its International Trade Charter. When it got the Charter back from London it was disillusioned.

A great deal of American capital now at work abroad was provided by the RFC in its own war-time discretion. The UNRRA scattered American equipment about in the world, a lot of it behind the iron curtain, by rules of judgment that were entirely its own. The United States Treasury is the principal subscriber to the funds of the International Bank, but what the International Bank will do with American capital abroad nobody yet knows.

### ***The Power Not To Lend***

As it puts forth the American billions, first with one hand and then the other, with only a vague idea of acting beneficently on the economic and political future of the world, the thought apparently never occurs to the government that the potential of the dollar you lend is much less than the potential of the dollar you don't lend. After the money has been loaned it is the lender who is anxious and the debtor nation may make terms.

This is so because there is no way for a creditor country to collect from an unwilling debtor. Thus, if any nation now owing money to the United States Treasury should say that unless the conditions of payment were made more favorable it could not pay, the American Government would be perfectly helpless. That happened with Europe's war debts to the United States Treasury before, and there is no reason to suppose it

cannot happen again if default turns out to be cheaper than payment.

This simple truth was recently stated by Jacob Viner, professor of economics at Princeton University, in an essay entitled, "America's Lending Policy," as follows:

"As between great Powers, it is not the creditor status but rather the possibility of refusing to be a creditor which is a potential source of political strength. A loan, once granted, yields no direct fruit beyond those specified in the bond—and often, as we know, not even much of that. Loans, once granted, rarely command gratitude. . . . Once the loan is transferred, moreover, the power shifts from the creditor to the debtor, since the withholding of repayment can be made to exercise the same manner of influence as the withholding of loans. From the point of view of influence on foreign policy, therefore, past loans should be regarded as water over the dam, and the potency of finance as an instrument of diplomacy—or of strategy—should be appraised in terms of our command over the granting of new loans."

A lending policy, however, is still not an economic foreign policy. What a nation does with its capital abroad must be governed by what it wants from foreign trade. What goods and services will you produce for sale in foreign markets and what will you exchange them for?

### ***Beginning of Embarrassment***

Here, unexpectedly, the story takes an embarrassing turn. Having held forth to the world a program of reciprocal tariff reductions, and having tied this program into its proposals for an International Trade Charter, the State Department suddenly discovers that it cannot guarantee an American tariff program. No American government could. Tariff controversy is our favorite political passion. The facts are never settled. There is, for example, no scientific study of what goods we need and can afford to receive from other countries in exchange for what we sell. Such a study would obviously be concerned with the depletion of our natural resources during the war and would indicate the imports necessary to restore them. All of that is another story.

What we look at now is the cause of the State Department's sudden embarrassment. It needs a little telling. The Reciprocal Trade Agreements Act, by which control of the country's tariff policy was surrendered to the President, was enacted by the first New Deal Congress in 1934. It has been renewed four times and unless it is repealed it will

hold until July, 1948. Thus, for twelve years the State Department has treated tariff-making as its own sovereign province. During this time it has negotiated a series of agreements with foreign countries with the intent, of course, to open foreign doors to American exports in consideration of an undertaking on our part to let foreign goods enter the American market more freely.

The general effect of these agreements has been a sweeping reduction of American tariffs. Always there were informal public hearings on what the State Department's economic experts meant to do, but inasmuch as they were going to do it anyhow, and had the legal power to do it for anything business or agriculture might say to the contrary, the hearings were not very important and Congress never touched them.

Now into this picture comes the International Trade Charter as a strange new background. Remember that the original draft of the Charter went to London to be gone over by experts of seventeen nations and came back rewritten. Remember also that with perhaps some new American writing it will go to Geneva, Switzerland, in April, to be finally redrafted by the experts; after that it will be submitted to the Economic and Social Council of the United Nations.

### *As a Mighty Gesture*

Already unhappy over what had happened to the Charter in London, and not at all sure what more a suspicious world would do to it in Geneva, the State Department got a brilliant idea. In Geneva at the same time, and as a mighty gesture of good faith, it would enter into negotiations with eighteen countries for a grand bonfire of tariff barriers. This it announced, and along with the announcement came notice that a limited number of informal public hearings would take place on two matters in parallel, to wit:

(1) Hearings by representatives of the State Department on the revised draft of the International Trade Charter that would be sent to Geneva for expert finishing, and

(2) Hearings by a jury called the Committee for Reciprocity Information on the new tariff proposals the American experts were going to lay before a conference of eighteen nations at Geneva at the same time—proposals, namely, to make a further very drastic reduction of the American tariff in favor of a long list of products.

It was the longest list yet, covering fifty-six pages of print and including even potatoes, at a time when mountains of surplus American potatoes were being photographed on the dump heaps.

People had never been interested in the State Department's proposed International Trade Charter. Few could comprehend it, really. There were even members of Congress who knew nothing about it. But the announcement of what the State Department meant to do to the American system of protective tariff at Geneva was something else. Everybody could understand that.

### *An Unexpected Storm*

Out of a clear sky a storm broke on the State Department. Facing the world, it had been standing with its back to its own country and therefore could not see what was coming. The Republican Party, with its high-tariff tradition, had got control of Congress; but it was much worse than that. Organized labor and organized farmers, as might have been expected, opened a bitter campaign against further tariff reductions. But it was still worse. The Democratic Party, with its opposite low-tariff tradition, began to split. The South, historically on the free trade side, was heard from with a document entitled, "Argument in Brief Comprehending the Views of the Association of Southern Commissioners of Agriculture with Respect to the Proposal to Negotiate Reciprocal Trade Agreements with Australia, Belgium, Brazil, Canada, Chile, China, Cuba, Luxembourg, Netherlands, New Zealand, Norway, Union of South Africa, Union of Soviet Socialist Republics, United Kingdom." The argument was not in brief at all. It was a bitter attack on the entire Reciprocal Trade Agreements program, ending as follows:

"Mr. President, let us in the cotton South sell our farm products in American markets and with the proceeds thereof buy the products of our home industries; America will then have the products and also the industrial goods.

"Buy your farm products abroad and 'tis true you will have the products but they, the foreigners, will have the tractors and automobiles, while our own agriculture goes back to a subsistence level of diet and of life."

This was followed by a schism in the Association of Southern Commissioners of Agriculture and the lines of controversy began happily to set.

### *Congress Slightly Mollified*

In Congress, only the Wallace-Pepper liberals stood firmly by the side of the State Department. A majority seemed inclined to resent the fact that under the law by which control of American tariff policy had been surrendered to the President, Congress was powerless to act, unless it could make up



its mind to repeal the law, which would not be easy to do against the veto of the President. Under the law, Congress had no right to interfere in the Geneva conference. It could only request the State Department to permit it to participate. Never had the Congress been able to touch the trade agreements negotiated by the State Department because the Reciprocal Trade Agreements Act, as its name implies, provided for trade *agreements* and not for trade *treaties*, the difference being that a treaty has to be confirmed by the Senate, whereas an agreement needs only to be signed by the President and the Senate cannot touch it.

To mollify Congress and to keep the Geneva Conference free from embarrassment, if possible, the State Department made one concession. It pledged itself to write into every new trade agreement an "escape clause" so that the United States could withdraw if the effects turned out to be injurious. When the news of this reached London there was what the correspondents called a wave of pessimism about the Geneva Conference. A London financial editor wrote: "America, in reverting to type so far as tariff policy, is concerned, now demands protection against the perfectly fair competition of lower cost producers."

### **Economic Isolationism**

Two facts now complete the view. In their excitement over the State Department's new tariff program, people so to speak stumbled over the International Trade Charter and realized for the first time how one thing was tied to the other; secondly, the State Department found itself on the defensive both as to the Charter and its tariff program. In a long letter to Senator Hugh Butler, who had just called the Reciprocal Trade Agreements "a gigantic hoax on the American people," W. L. Clayton, Under Secretary of State for Economic Affairs, said:

"These negotiations are a necessary prerequisite to the establishment of the International Trade Organization proposed by the United States, and this organization in turn is essential to the whole structure of international cooperation in economic and political affairs. The trade negotiations and the ITO are part and parcel of a program that is designed to promote the prosperity of the United States by obtaining international agreements which will commit the other countries of the world against closing their markets to our goods.

In the same letter Mr. Clayton said:

"This program has always had, and it continues to have, a broad basis of popular support.

Any party that sought to destroy it would tar itself with the brush of economic isolationism, and it is well known that isolationism is a liability rather than an asset in contemporary politics."

So the liberals have a new term of opprobrium. It is economic isolationism. And the country evidently is headed for a blind and old-fashioned struggle over protectionism versus free trade, in the course of which the International Trade Charter may get some kicking around.

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### **What Will the Americans Give?**

From *The Financial Post*

Toronto

**A**T London our trade delegation will discuss with other commonwealth representatives the future of the British preferential tariff system. At Geneva it will begin detailed negotiations for new trade agreements with the United States and sixteen other countries. On the outcome may depend the whole postwar pattern of world trade.

To Canada, Empire preferences are not nearly as important as they were before 1936, when the United States was granted most-favored nation treatment in our tariff schedules. That cut the preference to Empire countries to an average of about 15%.

But Empire preferences remain a powerful bargaining weapon in dealing with the trade barriers of the United States. To Americans these preferences have become something of a political fetish. They regard them as symbols of discrimination—fail to see that they were forced on the Commonwealth when the U. S. market was largely barred.

While there has been some unwelcome revival among some Republican spokesmen of the old "America First" doctrine, major GOP leaders, including Stassen, Vandenberg and Dewey are still stressing the necessity for freer world trade.

Not until negotiations get under way at Geneva in April will it be known what concrete steps the United States is prepared to offer. If its delegates really offer useful and important tariff concessions, then progress may be made both in tariff negotiations and in the preparation of an international trade "charter." Few nations are likely to be interested in joining the proposed world trade "club" unless they can see, in return for observance of the proposed rules, a compensatory benefit through increased opportunities in the lush U. S. market. Everything, in short, depends on the attitude of U. S. negotiators.

# A World Fund To Stabilize Employment

By Jacob Viner

Professor of Economics at Princeton University

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*This extraordinary proposal for an International Employment Stabilization Fund is advanced by Dr. Viner at the latter end of an essay entitled "International Finance in the Postwar World," published in Lloyds Bank Review, London, last October. Both the idea and the supporting argument may be expected to give rise to much controversy in this country, all the more because Dr. Viner generally represents the severities of orthodox thought in the field of economics. Here he advocates a use of international credit beyond anything that may be given as a law of finance.*

—Editor.

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**T**HERE is a major point on which I believe that the Anglo-American planning in the international financial field, so far as that planning has been made public, is seriously lacking in its scope and that is the problem of international cooperation to avoid mass unemployment. The two countries, and most of the other United Nations, have solemnly pledged themselves to cooperation in this field. Article 7 of the Anglo-American Mutual Aid Agreement of February, 1942, calls for "agreed action by the United States of America and the United Kingdom directed to the expansion, by appropriate international and domestic measures, of production, employment and the exchange and consumption of goods." The San Francisco Charter of the United Nations organization goes further. It pledges the member countries to collaboration in maintaining "full employment." It provides for an Economic and Social Council, which has already begun to function, among whose tasks are the exploration of mechanisms whereby this pledge can be implemented.

These pledges should be taken seriously until there is reasonable justification in the record for assuming that they have gone the way of the good resolutions in the economic field which the League of Nations so lavishly supplied. It is true that without abundant American cooperation there will be little likelihood that in case of need the pledge could be effectively carried out, and that at San Francisco the American delegation gave American adherence to the pledge rather reluctantly. I believe, however,

that the American reluctance was due to the spurious precision of the pledge.

"Full employment" is a very precise-sounding term. No government should make precise-sounding pledges about inherently unprecise things to other governments, to itself, or to its constituents. Let us assume, however, that what our two countries and the United Nations in general are committed to is to seek sincerely and earnestly for procedures and mechanisms whereby the threat of world mass unemployment, should it occur, could effectively be met by joint international action. What are the procedures contemplated? What are the most promising ones conceivable in our present state of enlightenment on this issue?

It is my impression that those in charge of the American planning believe that the major contribution which the United States can make to the maximization of employment is by promoting the reduction of trade barriers, including the American ones, and by promoting the export of capital, including, of course, American capital, to countries in need of it. It is my impression also that many economists believe that the international synchronization of fiscal policy is the best available means of coping with the problem of world mass unemployment if we should again be plagued with it and this view has also been expounded by the ILO.

All three of these remedies seem to me either clearly ineffective for the purpose or clearly unavailable.

First, as to the reduction of trade barriers. I strongly believe in its desirability. But it is not a remedy for unemployment, and we should not accept bad arguments even when they are presented in support of the best of causes. It was once widely believed that a low level of trade barriers would contribute effectively to the prevention of mass unemployment. But that was on the basis of a line of argument which, I fear, was unrealistic even then, and which is clearly so now.

Under a free-market system, the main cause of mass unemployment is price- and cost-rigidity. Tariffs and trade barriers are often more important as a protection to national rigidities in prices and costs than as a barrier to imports. Remove tariffs and it becomes much more difficult for private

monopolies to operate on the basis of frozen prices. But this line of argument now seems to me to be obsolescent if not obsolete. Monopolies and price-rigidities are now not left to private initiative to establish and maintain, but are one of the main activities of government under the new dispensation. Governments which have such rigidity as an objective have many ways of achieving it even in the total absence of formal trade barriers.

Leaving this argument aside, the general tendency of the reduction of trade barriers would be to raise the quality, but not particularly to affect the quantity, of employment. If any clear direction of influence of trade barrier reduction on the volume of employment could be posited in advance on theoretical grounds, it would seem rather to be a downward than an upward influence. For the world at large, moderation or elimination of trade barriers should lead to higher real incomes. But the demand for employment tends to fall as the level of income rises; *i.e.*, the higher the level of real incomes, the shorter is likely to be the length of the working week, the longer the length of vacations, the later the school-leaving age, the earlier the retirement from gainful employment, and the lower the birth rate.

### *Things That Have Failed*

In the same way, the argument that the routine export of capital promotes either greater volume of employment or more stability of employment must be rejected. Here again the function of the export of capital is primarily to improve the quality of employment rather than to change its quantity. In the nineteenth century it is true, capital export, in facilitating emigration from crowded to empty countries, did promote growth of population and so also growth of employment. But the era of mass-migration is over, and one of the present-day functions of the export of capital should be to reduce the amount of overemployment, especially in regions where there are too many people and where long hours and child labor are associated with low labor productivity.

Unplanned capital export, also, is likely rather to accentuate cyclical instability than to lessen it. On the whole, the international flow of capital has probably had even more pronounced cyclical swings than the flow of internal capital investment. International capital flows have fed world booms while deflations and depressions have been accentuated by the stoppages of customary capital movements.

Even from a strictly national point of view, I cannot accept the argument by which American participation in the International Bank and the American loan to England have been supported in my own country, that the export of capital from the United

States will maintain employment in the United States. In both cases, the great outflow of capital will occur when there is a strong tendency to inflation in the United States, and when brakes rather than stimuli are what the American economy needs. Debt-service on amortization and interest account reaches and exceeds the annual amount of a constant gross outflow of new capital after a period surprisingly short for those like myself who are still capable of being startled by the wondrous working of compound interest. For American employment to be sustained for any length of time by American capital export, there would be needed an outward gross flow of capital increasing each year at an increasing rate of increase and eventually reaching fantastic levels.

I am unable likewise to accept as practicable the idea that international collaboration to cope with mass unemployment can be made effective through the device of negotiated and planned synchronization of national fiscal policies. It may be that there will be substantial harmony of view throughout the world as to the proper fiscal policy to follow in the face of the threat of a serious depression. This does not seem to me to be a wild hope. But then the synchronization will be a coincidence rather than a negotiated or contractual one. But for the United States at least, and I suspect for many other countries, the constitutional and traditional practices with respect to budgets and control of the purse make it the height of improbability that the legislative bodies would ever consent to surrender their legal powers over expenditure and revenue either to an international authority or to national executives bound by contractual obligations to conform in their fiscal decisions to a predetermined and partially externally determined pattern.

There is no disposition on my part to challenge the desirability and even the urgency of large-scale international collaboration to deal with the problem of mass unemployment. While, therefore, I believe that in this particular area general pledges have gone too far, it seems to me that sober and carefully thought-out planning has not gone far enough, or has not made any progress at all—unless there are schemes on the desks of Washington and London which are still to be disclosed.

### *The Proposal*

I believe there is a workable device which would implement the obligations assumed by our two countries and by all the signatories of the San Francisco Charter. What I would propose would be an International Employment Stabilization Fund, endowed with very great financial resources much along the lines of the International Reconstruction and Development Bank, but on a scale perhaps

three or four times as great. I would have it set up and organized on very similar lines to the International Bank except for two very important particulars. First, it would be obliged to lend freely when depression was threatening and to cut off lending and to press hard for repayment when employment conditions were buoyant.

The International Bank theoretically could operate somewhat in this manner, but it is under obligations to give consideration to all applications while it is in funds, and it is likely to do all its first lending to the limit of its resources during, say, the next five years, and then to have to wait for earnings and repayments to flow in before it can again engage in large operations. The second point on which the agency I propose would differ from the International Bank would be that while prudent management of the resources of the International Bank, presumably in the sense of preservation intact of its capital, is an obligation imposed on its directorate by the Bank's charter, I would authorize the Employment Stabilization Fund management to lend at critical times to the most suitable applicants, however poor credit risks they might be, to the extent necessary to get its funds into operation.

My proposal assumes that there will always be an adequate supply of suitable would-be borrowers. This seems a valid assumption as long as there are capital-starved undeveloped countries. The speed in getting actual investments which is necessary for the successful operation of an agency of this kind can be assured if a stock of approved applications is accumulated in advance, to be financed whenever the authorities of the Fund find it expedient to do

so. Large-scale development projects for backward areas could well be given preferred status in the activities of such an agency, and a good deal of the necessary surveying and planning could be done in advance of actual release of the funds. Similarly, any programs of accumulation of stocks of basic commodities for commodity stabilization and for the maintenance of "ever-normal granaries" could readily be fitted into the operations of this agency. The schedules of amortization of indebtedness to this agency and of interest payments, if any, should be made highly flexible, and should be put at the discretion, within limits, of the agency. There should be deferment of obligation to repay in years of world depression, and increased pressure to pay in years of dangerously rapid expansion of business activity. No other means of dealing internationally with the problem of mass unemployment is visible which would face fewer technical or political problems. For the time being, no doubt, the Bretton Woods Agreements, UNRRA, and the special loans to England and to other countries, are as large a program of financial aid to countries in need as the creditor countries, and especially the United States, could be prevailed upon to accept. But willingness to meet needs for expansion of the program as they become apparent should not be written off in advance as unlikely to be present.

The American program, in its present status, already goes much farther in the direction of planning "development" on an international basis than had ever been even dreamed of before 1940. I have tried to make it clear, nevertheless, that I do not think it goes far enough.

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## Hoosiers Unfooled

*Concurrent Resolution adopted by the House and Senate of the Indiana General Assembly*

**I**NDIANA needs no guardian and intends to have none. We Hoosiers—like the people of our sister states—were fooled for quite a spell with the magician's trick that a dollar taxed out of our pockets and sent to Washington will be bigger when it comes back to us. We have taken a good look at said dollar. We find that it lost weight in its journey to Washington and back. The political brokerage of the bureaucrats has been deducted. We have decided that there is no such thing as federal aid. We know that there is no wealth to tax that is not already within the boundaries of the forty-eight states.

# Our Illusory Labor Force

*As it is and as we use it, can we reproduce our former standard of living?*

*By L. C. Walker*

I AM interested in the relation of employment to the standard of living, and I suspect that our thinking about it has become greatly distorted.

First, the government was in a panic about unemployment after the war. Its economists said there would be eight millions or more out of work shortly after the fighting ceased. The lawmakers had wisely passed a law that employers *must* give jobs back to every enlisted man. They apparently were thinking there would not be jobs enough. Henry Wallace tried to stir things up with his evangel of "sixty million jobs." Short of that, he suggested, industry would have failed to do its job, whereupon the government must act; etc., etc.

I represent a town that was blown up by the war from 16,000 industrial workers to 35,000. We all worried about what would happen to those extra people when we deflated and got back to our peacetime size. We tried to evolve plans to get our labor "imports" to go home, but before we could get very far with that idea a plant or two talked of moving away unless the Chamber of Commerce could guarantee more men. Soon there was more help-wanted advertising than at any time during the war.

I thought at first it was local. Now I am thinking it is national. The second city in Michigan, Grand Rapids, had surplus labor all through the war. Today it's as hard put for men as we are. When we want parts or material and push for delivery on orders long overdue, the answer is always the same: "We need more men." Domestic help isn't plentiful. Office workers are scarce everywhere. Men want higher wages, not more hours at time and a half.

## A Statistical Miracle?

During the five war years we heard much about our high production. Everyone praised industry. The flow of guns and ships and planes to the front was astounding. The President lauded labor on every occasion for its hard work and marvelous productivity. He said industry had been restored to a high place in his esteem (or maybe that's overstated). We all assumed these things to be true, with the gross national product, according to the government's figures, going from \$88 billions in 1939 to \$120 billions in 1941; \$187 billions in 1943; \$197 billions in 1945—and \$200 billions for 1946. Everyone seemed contented with such facts and

there were certain things to be said for them. OPA was keeping official prices down. The statistical cost of living had risen only from the index figure of 96.7 in 1930 to 114.6 in September, 1946 (using 1926 as 100). We believed a miracle had happened in production.

I now am of the opinion that even industry was misled by these magnificent figures. Much adulation may have turned our heads. We don't generally analyze a compliment. We overlooked that war material was bought on a cost-plus basis, or at negotiated prices, with nothing basic to protect the government's purchasing agents and the suppliers protecting themselves. Possibly we were distracted by the OPA propaganda. We forgot to look at the consumer—at what it cost him to survive.

## As Consumers

Let us look now at some comparative prices:

	Autumn, 1946	In 1936	Up
Wheat . . . . .	\$2.10	\$1.11	89%
Corn . . . . .	2.03	.88	130
Cotton-bale . . . . .	192.50	60.10	220

Three automobile dealers handling popular models gave me these figures:

	Autumn, 1946	In 1939	Up
Automobile . . . . .	\$2200.00	\$1250.00	76%
Automobile . . . . .	1600.00	900.00	77
Automobile . . . . .	1039.00	680.00	52

A chain store manager gave me these figures:

	Autumn, 1946	In 1939	Up
House dresses . . . . .	\$5.95	\$1.98	200%
House coats . . . . .	8.95	3.89	130
Gloves . . . . .	2.59-3.49	.98 to 1.00	164
Curtains . . . . .	5.39	1.95	175
Underwear, rayon . . . . .	.59-.69-.79	.25	136
Rayon, No. 1 . . . . .	1.15	.59	95
Towels . . . . .	.66	.36	83
Wash cloths . . . . .	.19	.10	90

I am suggesting that our *high national income* is not a measure of our productivity; that, for what it will actually buy, it is below what the United States has been used to, *even below what is needed to maintain our old standard of living*, and that somebody is hoodwinking the people into believing that

they are going to get the goods they got before, plus extra for some or all of their savings, plus rebuilding Europe and Russia and Japan, re-equipping English mines and plants, starting a manufacturing economy in South America and a few other countries.

I now test my supposition on a different base. I take the period 1929-1930 as a composite year. It was one of the last good years, undisturbed by depression or war—when unemployment was normal (only 3 million total unemployed), when cost of living was an index figure of 97, as compared with 115 now. The gross national product in that year was \$88 billion. It was a year of good living; you could buy anything you wanted.

In the year 1929-1930 much employment was on a 48-hour-a-week basis. Other things being equal, it will take 120 men now to produce as much as was produced by 100 men in 1929-1930, simply because they now work fewer hours. The 40-hour week was made a federal edict in 1934 under the Blue Eagle, the first of the New Deal's regulations of business. Shorter hours appear in more union negotiations all the while and some industries now are working 35 hours a week. For the past twelve years labor, whether organized or not, has been coming steadily closer to a 40-hour week nationally. The workers of the nation march *en masse* to the chant, "Shorter hours for all."

### **The Labor Force**

If it took 46,000,000 gainfully employed to produce our standard of living in 1929-1930 it will probably take 9,000,000 *more* now to produce the same volume of goods and services, other things being equal. And since there are 139 million people in the United States now and there were only 123 million then, it will take 12 per cent more produce, or 12 per cent more producers, to give to all the same standard of living that 123 million enjoyed in 1929-1930. So we now have our 46 million workers increased by 9 million, plus 12 per cent, making a total of 61.6 million workers needed at 40 hours a week to give the old 1929-1930 standard of living to our present population. But that is not all.

Vacations take their toll of production. The old-fashioned two weeks of paid vacation for the office force now is extending to the factory workers. It begins as one week, but an avowed union objective is two weeks and even three for employees long in service. It is doubtful if it will stop short of two weeks in a complete coverage. The paid vacation sounds too reasonable to be opposed and seems in fact to have a place in our higher standard of living. Then holidays are being added. The number is now seven. The ultimate two weeks' vacation means a loss of 4 per cent to production time. In fact, 2 per

cent would be a conservative figure; it allows for office workers, railroad workers, teachers and those others who are already getting vacations. Thus, to make up the vacation loss and still maintain our 1929-1930 standard of living, we need 1,200,000 more workers—bringing the figure to 62,800,000.

### **Unproductive Demands**

But now we have a few increased demands on the labor force, when compared with 1929-1930.

The Federal Government now employs 2,400,000. In 1929-1930 the number was 550,000. So the demand on the labor force is increased by 1,850,000.

Then there is the defense establishment. In 1945, there were 11,300,000 in the military services. In May, 1946, there were 4,000,000, estimated. In 1947-1948 or 1949 there will be, I've heard, some 2,000,000, against some 300,000 in 1929-1930. Assuming half of these would enter gainful employment, we may say the increased military demand on the labor force is 850,000.

Our government is trying to provide for veterans some of the education it took away from them in their four years of war, and there are some 500,000 of them in our colleges for one to four years, off the gainful pay rolls.

Adding all these increased demands to our 62.8 million, we find that the labor force needed to reproduce the 1929-1930 standard of living now is 66 million.

Next we should recognize the effect of our social progress. Benefits of various kinds are drawing off gainful workers from the labor force. The effects of unemployment compensation, old age insurance over 65, and the veteran program are estimated for me at three and one half to four million people, divided as follows: The beneficiaries of the veteran program number 1,600,000; of unemployment compensation, 1,400,000; and of old age pensions 2,000,000. If we discount the old age figure by 75%, and, to be conservative, admit that all the veterans in college are included in the veteran program, it leaves the total of these three social activities at three million workers withdrawn from the labor pool.

It seemed very high to me, but adding these three million brings to 69 million the "labor force" needed to produce now a standard of living equal to that produced in 1929-1930 by a labor force of 46 million.

There are two counteracting factors to be considered—(a) technological advance, which increases output per man hour and decreases the number of workers required, and (b) the growing inefficiency of labor for the past six years which increases the number required.

Technological improvements hitherto have raised industrial production two or three per cent per year;

but for the economy as a whole the average is not more than one to one-and-a-half per cent a year, or eleven to sixteen per cent for the years from 1930 to 1940. From 1940 on, there is no gain in production per man per hour.

The inefficiency of labor is no delusion and it is a tangle that's difficult to unravel and evaluate. Less work for more men seems to be labor's objective. It varies in different plants and different industries. One national service recently estimated the efficiency of labor generally at 65% to 70% of normal. One manufacturer said it took 120 man hours today to produce the equivalent car that 84 man hours produced before the war. If these were typical, it would take 50% more labor to offset this loss. It seems unbelievable, but it has a powerful effect on production and must be considered in an estimate of this kind. To be conservative, we might estimate that the technological advance of sixteen per cent since 1930 would be offset by the inefficiency of labor.

### Have We Got It?

Now, how many workers can be had out of the present population of 139,000,000? If you eliminate children up to fourteen years, there are 108 million left.

In 1929-1930 the number of those above fourteen years of age who accepted gainful employment was 54.5%. If we apply this ratio to the present population the result is 58,860,000. That figure, therefore, represents the total potential of gainfully employed, or, as we call it, the labor force. (Under the pressure of war the figure of 54.5% may have been exceeded as much as 10%, but that is not attainable in peace times.)

The conclusion is that we now have a labor force of approximately 59 million, whereas we need one of 69 million to assure ourselves of a standard of living equal to that of 1929-1930—and we are looking for that 1929-1930 standard again, *with a large plus sign after it*.

This is not a rigid calculation. It is a businessman's approximation, based on some experience, some observation and some help and advice from others on the percentage effects of new conditions. Certainly there is a shortage of labor now and there is reason to believe that this will be true for some years to come.

What effect will this have on labor rates? Will labor efficiency rise while there are more jobs than men? And what then of prices? Must we pile upon an unsatisfied, lopsided domestic demand a lot of foreign orders, and should we encourage them by loans, ostensibly to hold up our prosperity? Would it not be better to work 45 hours a week for a few years than to keep on talking about working less? When we need to recover our own standard of living

by repairing and re-equipping plants that have had six years of hard wear and tear, shall we re-equip the rest of the world first? If so, do we realize it means sacrifice and self-discipline?

### Editorial Note:

Mr. Walker's case may be stated in another way with the same result. First, owing to (a) the shorter work week, (b) more time out for vacations with pay, and (c) the increase of population, we need now a labor force of 62,800,000 to produce as much per capita as we produced and consumed in 1929-30 with a labor force of 46 million—that is to say, we need a labor force greater by 12,800,000 to produce the same standard of living as in 1929-30. Then we look at what we call the labor force, meaning all who are gainfully employed. The rule is that of the total population above the age of fourteen, 54.5% will offer themselves for gainful employment. Thus, in 1929-30 with a total population of 123 million, the labor force was 46 million. By the same ratio a total population of 139 million in 1947 should yield a labor force of 58,860,000. But if it is production you are thinking of, this is an illusory figure because of the way the labor force now is used, or not used. As compared with 1929-30, many more are counted as gainfully employed who are not actually engaged in production, as, for example, men in the Armed Forces and people employed by government; and, furthermore, many who belong to the labor force in a statistical sense are not there, as for example, the veterans who are being educated at public expense. Thus, we arrive at the following calculation:

Theoretical labor force from a total present population of 139,000,000; <i>i.e.</i> , 54.5% of the total population above the age of 14 . . . . .	58,860,000
Now deduct:	
Increase of government employees . . . . .	1,850,000
Increase in military serv- ice . . . . .	850,000
Veterans at school . . . . .	500,000
Beneficiaries of various social programs . . . . .	3,000,000
	6,200,000
Total deductions . . . . .	6,200,000
Remainder . . . . .	52,660,000

This remainder of 52,660,000 is what we now have to compare with what we called the labor force in 1929-30, whereas to produce a standard of living equal to that of 1929-30—that is to say, the same quantity of goods and services per capita—we should need at the present time a labor force of 62,800,000. The apparent shortage is approximately 10 million, and it is a startling figure. This is entirely Mr. Walker's idea. Many economists may be expected to dispute it.

## *Proposal in Maine*

# To Try the Guaranteed Life

THERE is pending in Maine the first formal proposal to try the guaranteed life, beyond the rules and limitations of a money economy. By means of a constitutional amendment the responsibility to see that all citizens enjoy a decent living would be put squarely upon the state.

The proposed amendment reads as follows:

*"All public officials of this state, in the exercise of their official duties, shall act with the aim to maintain as the policy of the state that every citizen, both of the United States and of this state, who is a bona fide resident of this state with more than 2 years of continuous current residence, and who shall have demonstrated his worth as a citizen by good behavior and by willingness to work by diligent application to useful tasks to the extent of his capacities and opportunities, shall be deserving during his lifetime of adequate subsistence and the necessities of comfortable living, both for himself and for his dependents similarly qualified as worthy citizens.*

*"A citizen qualified by residence who shall claim subsistence as a right shall not be deprived of such right of subsistence on grounds of unworthiness except by act of an authorized public agency fully informed and after public hearing, and any citizen so deprived shall have the right of trial by jury.*

*"No person able to work who without just cause refuses to work when work is available shall have any right to subsistence from state or municipality or to qualify as a dependent of another who is entitled to subsistence. No person shall interfere in any way with a citizen seeking work of his own choice, or prevent him from performing diligently the tasks for which he has engaged his services. No person shall be qualified to bargain for another upon terms of employment without his individual express consent and authority. No person shall urge or compel an employee to strike against his employer without a grievance arising in the terms and conditions of his own employment, or in order to put pressure upon another employer or upon the public. No person shall have the right to refuse to work at his usual occupation when such refusal would endanger the public peace, health and safety."*

The citizen shall be worthy, diligent, and willing to work; and in consideration of adequate subsistence guaranteed he shall forego the right to strike when a refusal to work would endanger the public peace, health, or safety.

The idea comes from Edward E. Chase. He himself wrote the amendment, which now lies with the state legislature. Mr. Chase is an investment banker, president of the Maine Securities Company of Portland; he is a Republican, a member of the state legislature, president of the board of trustees

of the University of Maine, and was formerly a member of the New England Council.

*American Affairs* wrote to him asking for a brief statement of his philosophy. His response was as follows:

"I am trying to feel my way to tenable ground where public opinion can be consolidated. One might call this a reconnaissance in small force.

"The Bill of Rights in the Constitution of the United States, and of this state, set down the individual rights recognized by the public opinion of those days, when a man had a better opportunity, or at least a more open opportunity, to look out for himself. Today, when most people have to seek employment by working for another, the sense of social responsibility ought to be further advanced. I think that today most people believe that any man who behaves himself and is willing to work to the extent of his capacities in such opportunities as may be afforded has a right to a decent living. That is what I am trying to get written into the basic law.

"For so long as governments confine themselves to political rights, it is possible to treat citizens as equal; but as soon as a government is drawn into economic affairs, the laws of life have to become—or ought to become—the laws of the land. Human rights are just what they have always been, namely, surplus rights which come into existence when a surplus exists and when property rights are reasonably secure.

"If we want to maintain human rights, we need to work as hard as we can, thinking always in terms of goods and production and work, rather than in terms of money. Money-economics is fallacious—a mathematical absurdity. What we want is better human behavior, directed first to increased production and second to a better distribution of the product by a revaluation of individual contribution in useful work.

"My 'philosophy'—your word—sums up to this. We can afford to affirm the right to a decent living in terms of real goods to any citizen who does as well as he can. The public, acting through government, has to make this affirmation, because the employers missed the chance when by contractual relationship they could have differentiated between workers in assured security on the basis of merit. In order to uphold this individual right to make a decent living we have to put an end to work-preventives, and to change organized labor from a shirker force into a work force.

"There is no organization behind this idea, and so far as I am concerned there will be none. The zeal to organize is a national disease. If this idea has any merit, let it make its own way.

Sincerely yours,  
EDWARD E. CHASE"



# A Dreary Revolution

By Dr. M. J. Bonn

**I**F the English do not know when they are beaten, even less do they know when they are being revolutionized. Their outlook on life is organic; they are great gardeners. They think of change as a slow and natural process. Their institutions have not been made; they have grown. The so-called capitalist system under which they have lived since the full impact of the industrial revolution did not spring from the minds of the great classic economists. It had already grown imperceptibly under their eyes. They only analyzed it and discovered its working principles by observing its development. The Classic School invented *economic man* in order to explain the economic mechanism, but it did not believe the mechanism could be taken apart, reassembled and improved upon. The greatest revolutionary thinker of the nineteenth century was Karl Marx. He shared these views. He, too, believed in natural economic laws, which he had deduced from his study of England during the industrial revolution. These laws were inexorably at work and would in time, he believed, produce a socialist world. Marx had spent most of his adult life in London; his system had been the reflex of almost exclusively British conditions. Yet his influence on English thought—not to speak of British policy—was negligible. Marxian noninterventionism, on its purely doctrinal side, fitted very well into the *laissez-faire* period. The British had no faith in social engineering and little use for the blueprint which early socialist Utopians had drafted. But they had always been empiricists. When they were confronted with pressing practical problems, they tackled them— notwithstanding conflicting theories. In the heydays of Gladstonian noninterventionism, they had passed an Irish Land Act (1881) which had fixed tenants' rents and had gone much further into intervention than anything done—not said—by the most rampant New Dealers. They practiced what might be called social tinkering rather than social engineering.

## The Gentle Fabians

Tinkering, to be effective, requires some knowledge of problems and methods. This at last was provided by the Fabians, a group of learned collectivists. The glamour of revolutionary violence which over and over again had appealed to Marx— notwithstanding his determinism—did not attract them. They had clearly recognized the change in the position of the State involved in the shift of power

from the classes to the masses. They were planning to use it in an attempt to reach definite social objectives by scientific, peaceful means. It was perhaps no accident that the mastermind among their organizers, Sidney Webb (now Lord Passfield), had been a civil servant. They aimed at a bureaucratic rather than a proletarian revolution. They were not making for the Stateless paradise, which was to be the happy ending of Marxist determinist evolution, but for a State-regulated society. They did not know that their planned coercive State had been outlined nearly forty years before the "Communist Manifesto" by a German philosopher, Fichte, whom they would have abhorred on account of both his philosophical subjective egotism and his exuberant nationalism.

The Fabians turned social tinkering into social engineering. They laid the plans for the piecemeal nationalization of England which is now being carried out. By temperament they were moderates, with the exception of Bernard Shaw, whose keynote is warmhearted contrariness, and who would be the most ardent defender of capitalism in a completely socialized State; and by status, they were bourgeois, not proletarians. They represented the victory of reason over convention, the long deferred triumph of Paine and Bentham over Blackstone and Burke.

## Doing It to John Bull

Political scientists are usually content with stating and restating their doctrines and are not much interested in fashioning them for practical application. The Fabians excelled in preparing detailed plans for specific legislative purposes. They reconciled British concrete empiricism with abstract philosophic rationalism, and made socialism digestible for John Bull. He had no use for the fanciful dreams of the early French Utopians, nor for the pedantic "Calvinism without God" of German Marxism, as Eduard Bernstein, one of the band of faithful disciples, had phrased it. Yet they made headway slowly until after World War I, which enormously strengthened the hands of all those who believed in social engineering, for in this war government assumed economic functions which hitherto had been considered beyond its powers. Under the pressure of scarcity, a dictated economy arose which could correctly be described as "planned." Yet it might have been purely transitory. The first two labor governments proved this, apparently. They were as innocuous as their chief, Ramsay Mac-

Donald, who was hardly a greater danger to capitalist society in Great Britain than Norman Thomas is in the United States.

Yet it was MacDonald who led Great Britain into a genuine revolution, probably without ever being aware of it. The devaluation of the pound sterling and the refusal of Great Britain to return to a rigid currency were not mere monetary measures. They signified the end of the system of free exchange which Great Britain had established, and which she had maintained so far as her influence reached. It was but logical that her definite repudiation of the gold standard was followed by a return to protection and the closing of her hitherto open empire. Until this time British national interests had been identical, to a large degree at least, with her international interests. After September, 1931, she became one of the leaders of that economic nationalism which she had so valiantly opposed for nearly a century. She did not rely so much on tariffs as on particular bilateral trade agreements, currency manipulation, and exchange control.

World War II completed the transformation of what had been a fairly free society based on private initiative into a regimented economic life. Both rationing and exchange control were war measures without which victory could not have been won. The strain on Great Britain's recuperative forces made their continuation inevitable. When the Labor Government came into power with a huge majority in the House and practically no majority in the country, it could use them as a reach-me-down economic straitjacket. Any government would have had to make the people wear it for quite a long time. But Triumphant Labor made glory of it. It was getting "Socialism in our own time" by merely affixing the label "Socialism" to a postwar economy.

### *Saving the Peace*

Exchange control in particular provided it with the master switch for the control of all economic activities. Without it the advent of a government with a radical program would have led to a rapid flight of capital. It may be that the existence of exchange control was a fortunate political accident. Had Triumphant Labor been balked by a flight of capital, its radical wing might have imposed its view on the rather conservative-minded trade union majority, even while voicing pious objections to violence.

The Nazis had punished capital flight by death. Nobody knows what might have happened in England. As it was, exchange control saved the peace. It provided, moreover, the stage on which the Labor Chancellor of the Exchequer could accomplish spectacular, though perhaps not very solid, financial triumphs. He could never have suc-

ceeded in reducing the rate of interest on government bonds to  $2\frac{1}{2}\%$  if investors had had the choice of placing their funds outside the sterling area. By rationing and by exchange control, the inflow of foreign goods and the outflow of national goods could be arbitrarily directed; both home production and home consumption could be successfully regimented.

The socialism practiced by the British Labor Government is not the socialism of Karl Marx with its almost passionate cosmopolitan undertone, but the nationalist socialism of Fichte. It is one of the paradoxes of history that at a time when Germany is no longer even a "concept of geography," as Metternich had said, but merely an object of charity, German ideas should rule a large part of the world—for Karl Marx, too, was a German; some of the sections of the Communist Manifesto exhale a measure of German professorial arrogance which even pan-Germans could find it hard to surpass.

The transformation of England from the citadel of free trade and the center of world affairs to a bulwark of economic regimentation whose controllers would vote today for self-sufficiency if it were but feasible, is a stupendous event.

### *The Intellectuals*

For the first time in British history what might be called the minor intelligentsia is strongly represented in Parliament. Its members stand on a far higher level than their American confreres so far as political intelligence is concerned. The latter are much brighter and much more inclined to try new things because they are new. If they admire violence it is because it is spectacular rather than because it is effective. But they rarely jump into the ring, for they abhor the dirty game of politics. They prefer careers as broadcasters, columnists, news hounds.

Their English counterparts are willing to shoulder it. They get seats in Parliament and they want ministerial jobs. They know a good deal of economics—a kind of medley between Marxism and Keynesism. But their Marxism is the activism of Moscow, not the stale determinism of "Das Kapital." They want to do things and they want to do them quickly. Just now they are drunk with power and extremely sensitive to criticism. They have instinctively given up the old British conception of majority rule.

There may be little danger that the Labor Party as a whole will actually employ the methods with which some intellectuals have been playing, and yet, for the time being, it is hypnotized by their slogans.

In domestic affairs, the fear of coercion has gone. Use of coercion is being claimed as the right of any majority elected on a democratic franchise, for the

democratic state is the embodiment of the common will and, as such, heir to kingship by right divine.

As the fear of coercion has declined, so has the fear of monopoly. The old liberals had recognized that certain large-scale types of enterprise were perhaps better carried on by way of monopoly. The question was whether monopoly should be exercised by the State or by private corporations under strict government control. The decision was one of practical expediency, not of principle.

Today monopoly is no longer loathed. Competition is not accused of being a relentless impersonal force which compels individuals to maximum efficiency and which ruthlessly exterminates those who are not up to the mark. It is called wasteful, inefficient, outmoded, antiprogressive. Monopoly, on the other hand, in the hands of the State is supposed to be an engine of progress. It is a prerequisite of nationalization. Competition presupposes a number of conflicting individual wills; they cannot be nationalized, for nationalization implies a single central will. So one is no longer content to nationalize existing monopolies in order to control them; the idea now is to create monopolies in order to nationalize them. Nationalization has become a creed rather than a method of economic administration.

Only the future can tell whether England has really undergone a profound spiritual revolution, whether her slow-footed, cautious empiricism has permanently given way to irresponsible experimentalist rationalism, whether her philosophy has turned from Bacon to Descartes, whether her social tinkers have become social engineers.

### *The Leveling Process*

But there is one change which is not transitory. It has gone on with scant interruption since the early Nineties, when Sir William Harcourt explained, "We are all socialists now." He was a much better prophet than he imagined. The real social revolution which is slowly transforming Great Britain has been made by his successors—the several Chancellors of the Exchequer. They have started a redistribution of income which makes violent confiscation quite superfluous. Here, again, the war has been most helpful by raising the standard rate of income tax to 50%. It has since gone down to 45%, and may be lowered a little by and by. But the supertax has risen so steeply that few net spendable incomes of over £1500 are left. Even under a regime of austerity, the property owning strata no longer live on their income. They are eating up their capital—a process made less painful for the time being by the inflation of capital values, both through credit expansion and artificial reduction of the rate of interest.

The breaking up of large fortunes and big estates

which the death duties had initiated fifty years ago is being accelerated. The stately country houses are passing from the hands of their owners into those of the nation, or of institutions. Many spacious town homes, too, will be cut up into flats or torn down when labor and building materials become available. The Chancellor's cheap money policy is working in the same direction. It is lowering yields both of stocks and bonds with the object of cheapening State credit. It does not merely affect government issues.

### *Coercing Confidence*

Exchange control prevents them from going outside the country, and competition for the limited quantities of equities on the home market has inflated prices and automatically reduced equity yields to about one per cent above those of gilt-edged bonds. This appreciation has benefited owners of stocks; it has enabled them to spend capital without depleting their assets. It is neither a sign of increasing wealth, nor of profound trust in the solvency of the government. It is the result of a policy of coercing confidence made possible by credit expansion and money liquidity caused by short-term government borrowings. It is one of the factors driving up the price level. By doing so it may annul the benefits accruing to the taxpayer from lower debt charges. The cost of administration must rise. The salaries of two million civil servants must be raised when prices rise, and so will be the costs of all government purchases. The deeper the government goes into nationalization, the greater must be its outgoings on both items.

Great Britain is in the midst of a leveling-down process which may finally equalize incomes to a very considerable degree. It is far more important and far more effective than the talk of socialism and the acts of nationalization. The latter, of course, may greatly contribute to it. As they are not conceived with clear-cut financial objectives but as measures of welfare, they may result in the nationalization of losses rather than of profits. By burdening the budget they will increase the pressure of taxation.

In any case, Great Britain need not wait for a spectacular revolution on the Russian pattern. She has been going in for "tax collectors' communism."

It does look rather philistine and has none of the charms of Red Revolution. It will probably bore the bright young men who are willing to spill the last drop of ink for a brave new world. They are, as so often, very much behind their times. While they yell for the great egalitarian revolution, which, if needs be, must be violent, a revolution has already taken place, through very dull detailed acts of technical legislation. It was so noiseless, that their ears, attuned to the roar of mass meetings and the clattering of machine guns have not heard it.

# The Winter of British Socialism

Verdict by *The Economist*

*When, during the coal crisis, the Socialist Government of Great Britain suspended all periodicals for at least two weeks, The Economist printed this bitter notice:*

“When the General Strike stopped the printing trade in 1926, or when *The Economist's* editorial offices and its printers were simultaneously destroyed in 1941, the continuity of issue was preserved; not a week has been missed since 1843. But if the government's prohibition is maintained, we shall have no alternative next week but to obey it and to concede to Mr Shinwell what Goering could not achieve. But we do so under protest. This is not a time to suppress the free discussion of economic policy.”

*What follows is from its comment on the total crisis.*

COAL is, after all, only the most urgent aspect of a much more general problem; it is not even the most intractable element. But unfortunately there is all too much reason to believe that the same improvidence is being displayed in the wider problem as in the narrower. In relation to its economic resources as a whole—its man power, its materials and its mechanical capacity—the nation is over-committed, just as it is in coal. There is an over-all shortage and unless drastic steps are taken to establish priorities, there may be a general breakdown. But the establishing of priorities involves the cutting down of those programs that do not get the first priority, and cutting down is unpopular. So everything is allowed to go ahead indiscriminately—nationalization, social welfare, housing, health, education, industrial reconstruction, exports, defense. The danger is not that the devil will take the hindmost, but that the devil will suddenly swoop and take the lot.

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\*

Three unpleasant resolutions will have to be taken. The first is that the interests of the country will have to come before those of the trade unions. (And of the trade associations, too, but there is less danger of that being forgotten.) It is nonsense to be talking about a 40-hour week in present circumstances. It is folly to interpose any obstacles to the recruitment of labor. It is wicked to limit the fullest possible use of the country's mechanical plant, by double-shift working or otherwise. A Labor Government doubtless finds it hard to say these things; but it is the only kind of government

that can say them and command a hearing. That it must do or forfeit its right to lead the nation.

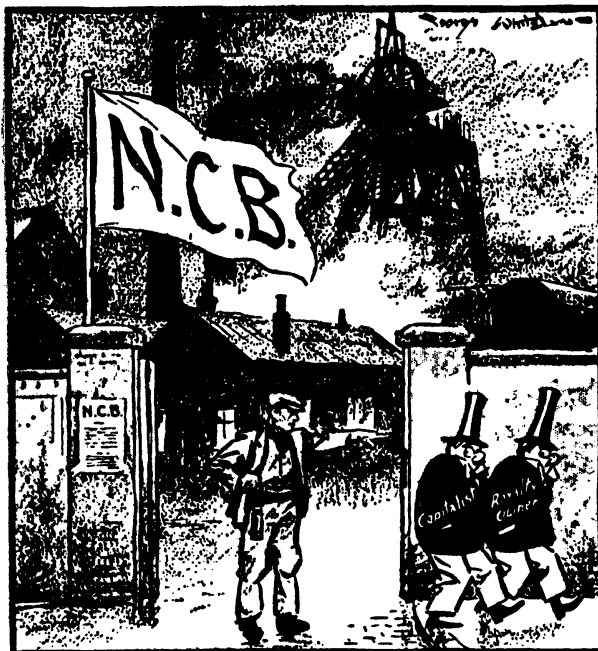
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The second painful acknowledgment that must be made is that there is an inevitable conflict between equity and efficiency, between social justice and social productivity, and that efficiency cannot without peril always be pushed to the wall. A nation that plans its economic affairs with the sole object of fair shares for all will be an impoverished economy. To say this is not to urge a return to the rule of the rich. But it is to say that if unfair privileges for the miners will produce more coal, they must be granted, and that if the demobilization out of turn of certain categories of skilled workers will speed up productivity, it must be done at once, and that if the granting of greater monetary rewards will bring about more enterprise at the cost of less equality, the bargain is well worth while.

The third unpopular confession that must be made is that the planned economy has bitten off more than it can chew and must disgorge something if it is not to choke. There is not enough ministerial wisdom or administrative capacity to go round.

## Exit of the Capitalist

*Daily Herald, London*



NEVER COME BACK

## Thus Great Britain's Mines Were Socialized

Facsimile of a news report from the Daily Herald, London, January 2, 1947

### SAW MINER FATHERS BECOME 'OWNERS'

# Children Join Pit March

#### "DAILY HERALD" REPORTER

In The RHONDDA VALLEY, Wednesday

**A**N hour before dawn today miners' wives took their children, some asleep, and carried them, Welsh fashion, in flannel shawls, up the star-lit frost-covered road to Penallta Colliery, to show them something they would remember for the rest of their lives.

From mining cottages on the hillsides, they came on their eager pilgrimage.

Sleepy-eyed, the children stared. They saw chains of "glow-worms"—hundreds of miners in steel helmets and pit clothes, each carrying his lamp, their fathers, brothers uncles and cousins—winding out of the darkness to the floodlit colliery yard.

A band was playing under the shadow of a pitshaft.

#### Valley Rang

The blue flag of the National Coal Board was hoisted, and lodge chairman "Bob" Silcox, wearing a khaki battledress jacket, shouted into a microphone, "Private enterprise has had it!"

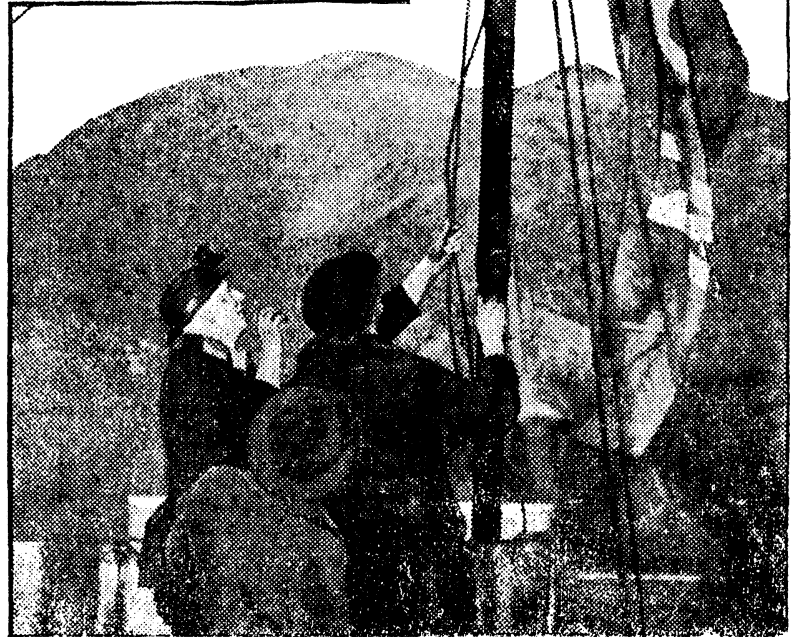
The valley rang with cheers.

As the last of the night shift reached the surface, the "Last Post" was sounded.

Then came the "Reveille," and Sir Reade Godwin-Austen, chairman of the South Western Regional Coal Board passed under a "Welcome" notice the miners had erected for him, and told them that the future policy in the coal industry would be that of serving one another

#### In Same Boat

"Nationalisation," he said, "places a great responsibility on you and on me, and we must rise to that responsibility. I shall do my best and I am certain every



one here will do the same.

"We are all in the same boat. The future of the nation depends on us. We must get down to it."

The miners then descended the shaft to start their first day's work as joint owners in a great partnership.

There were similar but less elaborate scenes at the Deep Navigation Pits, Treharris, and the Taff Merthyr Colliery, Trelewis.

### SIMPLE SCENE AT MINISTRY

Earlier in the day, a simple ceremony at the Ministry of Fuel

and Power signalled the formal passing of the mines to the National Coal Board.

Mr. Shinwell presented a specially bound copy of the Coal Mines (Nationalisation) Act to Lord Hyndley, chairman of the Board.

Mr. Attlee said: "I have complete confidence in you, Lord Hyndley, and your colleagues."

Sir Ben. Smith, chairman of the West Midland division of the Coal Board, presided when the board's flag was unfurled at the regional offices in Birmingham.

"It is the end of a road," he said.

# Aspects of an Empire in Trouble

## Nevertheless

**A**FTER World War I the British Government pursued a policy of deflation and returned to the gold standard. It was a grim undertaking. Greater social expenditures had to be doggedly resisted, the government saying: "Social gains shall have to wait until we are solvent again. That may be hard, but a bankrupt treasury would be much worse." The outcry from socialists and liberals was bitter and they never forgave the government for putting the fetish of solvency above human welfare. They would have done it the other way; they would have put human welfare first and everything else would have come out all right. Well, now they have the government in their own hands. Since the end of World War II they have had their way and since the first of this year they have issued two White Papers on the crisis. In one of these papers they wrote:

"The position of Great Britain is extremely serious. . . . This country is still running into debt abroad. Each month our balance of oversea payments is still unfavorable. Nevertheless, since the end of the war this country has proceeded rapidly to establish schemes of social improvements in the way of a housing program, an improved educational system, comprehensive old age, unemployment and health insurance systems and medical and other services."

This is the utterance of a socialist government shaken by the discovery that social gains do not provide a standard of living. The eloquent word is *nevertheless*.

## Too Little Too Soon

Editorial from *The Times*, London

**T**HE "Economic Survey for 1947," published as a White Paper, is the most disturbing statement ever made by a British Government. The account which it gives of this country's plight is frank and grave. The continued reluctance of the government to insist outright upon the root-and-branch remedies which should follow inexorably from their analysis is at least as alarming. The crippling shortage of coal and power, key materials, machinery, man power, and dollars is lucidly and bluntly described. The general prescriptions for a cure are exemplary. The overriding claims of coal, capital equipment, and exports are repeatedly stated. The paramount importance of productivity, of greater output from each worker, is proclaimed

several times, with the corollary that higher wages or shorter hours can only be justified by greater production. Every kind of restrictive practice, whether by employers or workers, is denounced. "Increased output a man-year is the only way to expand production and the standard of living." . . .

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It is the actual and specific proposals for putting these counsels into effect that fall short, sometimes frighteningly short, of the life-and-death necessities revealed. The program outlined for recruiting miners, economizing in coal, and rationing fuel and power offers no real assurance either that the 200,000,000 tons will be got or that this decisive gap will be bridged. The program of imports lacks the ruthlessness that alone can afford some safeguard against a collapse of the capacity to buy abroad. The distribution of man power among essential and nonessential occupations is left to chance. No practical proposals are made for staffing the undermanned key industries. The man-power budget, wages policy, and hours of work all depend upon pious hopes and good intentions.

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The American and Canadian credits will probably run out before British foreign payments have been balanced or the essential supply of dollars has been assured; to make all sterling convertible into dollars next July, as promised, may prove either impossible or disastrous. The strain imposed last year by the revival of peacetime activity upon "the basic industries, particularly "fuel and power," proved in the end insupportable. Yet work on capital equipment and maintenance amounted to no more than in a normal year before the war, in spite of six years' arrears; living standards did not increase "as fast as hoped"; and increased exports still failed by £200,000,000 to pay for a volume of imports no more than 70% of 1938. This year any "further expansion of our productive effort" will be "extremely difficult." Imports up to 80-85% of the quantity in 1938 will be sought. "We cannot export coal," and exports of steel and cotton textiles cannot be expanded. Thus exports of manufactures will have to be as much as two thirds larger than before the war, and without more coal and power, more labor, and a reduction in supplies for the home market it cannot be done.

The White Paper gives no convincing reason to suppose that it will be done. . . . There are no proposals to stimulate output by fiscal or other incentives. There are only comfortable words about

cooperation in factories. There is no agenda for productivity apart from a belated inquiry into the facts, no actual program for larger food production, no clear plan to make the apparatus of inland transport capable of carrying its burdens. The strongest asset of a Labour Government becomes its weakest because the government cannot issue the required orders without the prior consent of the trade unions. Truly the government may say that "we may never restore the foundations of our national life."

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The working people of this country deserve better than this. It is, after all, their own fate and future that are at stake; it is they who will save their country if they are called. The present crisis is a crisis of underproduction. The shortage is not only of coal but of machinery and manufactures, of the equipment of industry, and of the means of making or buying abroad the necessities and the amenities of life. More than 2,000,000 men now stand idle because too little coal is being mined. Many thousands will be without work for a time in coming months while restrictions on fuel and power remain unavoidable. Millions may again be out of work in the next and worse crisis if the foundations of industry and export cannot be laid firm and level before the dollar credits run out.

The notion of unemployment caused by underproduction is hard for the workers of this country to grasp. They were only too familiar a bare decade ago with the mass idleness brought about by what was called, ironically enough, "overproduction." Today the only way to full employment is by harder work. Only sheer physical effort can hold the line while the re-equipment of industry proceeds and the mechanical means of greater productivity, relieving human exertion, are progressively provided. In this sense the trade unions hold the fate of this country in their hands as the RAF held it seven years ago. But it is the responsibility and the privilege of the government not only to lay down the order of battle but also to lead the attack. This they have not yet done.

### Lamentatio

*From leaflets current in Great Britain*

When we're sitting around fireless grates let us remember that we own the mines!

\* \* \*

When we are parked with relatives and the kids are hungry, it helps a bit to know—We own the Bank of England.

\* \* \*

Every brick of the house we have not got has been zoned, rationed, allocated, prioritied, and planned. So perfect is the official scheme that every hod of mortar is certified under seal to be free from

private profit and wholly devoted to national interest. How happy this makes us as we double up with our cheerful relatives.

\* \* \*

State doctor—

"Now just sit up in bed and sign here—and here—and here.

"And fill out this form.

"And get three neighbors to vouch for it.

"And remember the pains and penalties of perjury!

"Then I will look at your tongue."

\* \* \*

Our quids go down the drain. Another deficit added to the debt, and our government obligations (bonds) buy less and less of more and more of what we haven't got.

## England's Creditors

IN the House of Commons the Chancellor of the Exchequer was asked what progress the government was making toward "the liquidation of blocked sterling balances." The Chancellor replied that preliminary discussions had begun with India. Since then, preliminary discussions have taken place also in Egypt. The following colloquy occurred:

MR. WALTER FLETCHER: In view of the crushing amount of the Indian sterling balances—between £1,000 million and £2,000 million—and the special circumstances attached to them, will the Chancellor of the Exchequer give an assurance that any arrangement now under way will not be finalised until it has been discussed in this House?

MR. DALTON (Chancellor of the Exchequer): The discussions have only just begun, and if we reach any conclusion or any settlement which is satisfactory to the government we shall certainly inform the House.

MR. CHURCHILL: Is it not a fact that the Governor-General of India was notified in the time of the late government that Great Britain reserved her full rights to present a counter-claim on account of the effective defence of India by all means—land, sea, air, and diplomacy—by which the freedom of India from foreign invasion was secured?

MR. DALTON: I cannot charge my memory. The right hon. Gentleman was Prime Minister at the time—and if he says that such a message was sent I would not for a moment challenge him. It is not contrary to my recollection, although I do not exactly recall the message. It may be a fact that that is so.

MR. CHURCHILL: Is that point going to be made? How do we accept the great concessions



made on Lend-Lease by the United States and yet divert a large portion of our remaining assets to payment of an exactly similar war debt to the Indian Government?

MR. DALTON: I would prefer to wait until these preliminary discussions have advanced a stage further.

Blocked sterling balances represent Great Britain's debt to countries in the sterling area. They are in fact open claims on the Bank of England, like demand deposits, and they are called "blocked" because the money can be spent only in Great Britain, or within the sterling area. For example, blocked sterling balances cannot be converted into dollars and spent in the United States because if that were permitted the flight from the pound sterling to the dollar would probably break the Bank of England. Beginning in July, under the terms of the Anglo-American Financial Agreement, all money rising from current trade in the sterling area shall be free and convertible, which is to say that if you receive a pound sterling you may convert it into dollars; but as for the old blocked balances, they remain in that condition until Great Britain can make some kind of settlement with her creditors. That now is what she is trying to do. The aggregate of the debt to be composed is more than \$11 billions, distributed roughly as follows:

Owing to the Caribbean colonies..£	59 million
“ “ Ireland.....	191 million
“ “ Egypt.....	470 million
“ “ South Africa.....	232 million
“ “ Palestine.....	116 million
“ “ Iraq.....	100 million
“ “ India.....	1,217 million
“ “ Australia.....	178 million
“ “ New Zealand.....	91 million
Others in Asia.....	190 million
Total.....	£2,854 million

## Exporting British Socialism

From *The New Statesman and Nation*

**S**PEAKING recently in London, the Colonial Secretary commented on how much easier it was to carry out socialist plans in the Colonies than at home, as so few people bothered about what was being done there anyway. Under this cloud of indifference, a number of socialist measures of first-class importance have been announced over the last few months and are now being introduced into the Colonies.

These measures include the excellent statement on colonial mining, which lays down that all mineral

rights in the Colonies are to be nationalized, and wherever feasible the mines are to be operated by the governments themselves; the plan under which all West African cocoa is to be purchased, shipped and sold under the control of a government-directed board, which will iron out price fluctuations and a good part of middlemen's profits; and the formation of a public utility company to take over the whole of Nigeria's electricity supply.

But perhaps more dramatic than these is the application of the idea of the monster public corporation to run colonial enterprise. The first of these corporations—the Cameroons Development Corporation—was inaugurated on January 1st. With a capital of £1,750,000 raised by the Nigeria Government it will cultivate 250,000 acres of ex-German estates on a communal basis, growing rubber, bananas, and oil-palms. There will be no shareholders in the corporation and all profit will be ploughed back into the Cameroons. The next of these corporations, with a capital of nearly £25 millions, to undertake the production of groundnuts in East Africa, is still more impressive in the boldness of its conception and the immensity of its implications. . . .

This project has already been described as an African TVA. Perhaps that is too optimistic a vision. But here, surely, is a method by which British socialists can bring something new to Africa.—RITA HINDEN.

## The Greek Burden

*In a paper entitled "Britain and European Reconstruction" published in February by the British Information Service, there is the following description of the Greek burden, written evidently before the British Government had developed the idea of handing it to the American Government.*

**T**HE Greek nation, in the wake of Nazi occupation, was economically immobilized and crushed. Livestock, food supplies, consumer goods, capital equipment, transportation, communication, everything had been destroyed or carried away. More than one thousand villages had been wiped out, and tens of thousands of houses and schools destroyed, and a runaway inflation was wrecking the foundation of Greece's currency.

In October, 1944, Mr. Eden (then Foreign Secretary) visited Greece to confer with the Prime Minister, M. Papandreou. Sir David Waley, a British Treasury official, went to Athens at the same time to advise the Greek Government on its currency problems. During this period, the British



made available supplies of foodstuffs and coal to tide the Greeks over till UNRRA could start operations.

Greece received considerable aid from UNRRA during 1945, but it soon became plain that relief alone would not restore her economic life. In January, 1946, therefore, an Anglo-Greek Economic and Financial Agreement was signed, by which Britain offered a wide range of financial and economic assistance to help the Greek Government in its plans for reconstruction and currency stabilization. The provisions of this agreement were as follows:

- A. Britain granted Greece a credit of \$40,000,000\* for the stabilization of Greek currency, to be repaid without interest in ten equal installments beginning July 1, 1951.
- B. The British Government waived repayment of \$192,000,000 loaned to Greece in 1940-41. \$76,000,000 of this loan, still held by the Bank of Greece, was made freely available as additional currency cover and for the purpose of essential imports.
- C. Britain is making available for purchase by the Greek Government supplies for industrial and

agricultural reconstruction. In spite of acute shortages in Britain, \$1,000,000 value in goods, including clothing and agricultural implements, are to be supplied. Material from British military stocks, especially Bailey Bridges, are to be made available for the repair of land communications, and for other essential tasks such as the rebuilding of houses and the restoration of port facilities. Coastal shipping plays an important part in the Greek communications system, and shipping and also dock and salvage material are being furnished to aid its restoration.

In consultation with the U.S.A. and UNRRA, the necessary spare parts and tires are to be provided to enable 4,000 trucks, which had been imported into Greece by UNRRA and by the British Army, to be kept on the road. Under this scheme, other materials are supplied for rebuilding houses, repairing industrial plants, and restoring communications and port facilities.

- D. Technical assistance is being supplied by a highly qualified consultative mission on financial, economic, and industrial matters, led by Lieutenant-General Clark. British advisers have also been appointed to work in Greek Ministries.

\*Note: If Greece should sink, Great Britain probably would never get back the \$40 million.

## The Last Chance To Import People

*The Financial Post, Toronto*

**T**WO million Hollanders, or almost a quarter of the total population of the Netherlands, want to emigrate, according to a *New York Times* dispatch. Many of these are substantial businessmen from Amsterdam and Rotterdam. They would like to live in the United States, Canada or Australia.

Upset by the war and gloomy about the future, these people would like to make a fresh start in a new land far away from Europe. There is little doubt that a similar survey of all western European countries, including Great Britain, would reveal equally significant results. A poll of its readers by the *London Daily Graphic*, for example, showed two out of every three Britishers interested in emigration.

Possibly, with assurance of world peace and better living conditions at home this desire to break away from the land of their forefathers might diminish somewhat, but unquestionably in the next few years there will still be millions of Europeans who would like to move out. Significantly, too, most of them want to go to a country where there is assurance of bringing up their families under a democracy.

In this mass desire there is perhaps a last opportunity for Canada to secure large-scale and highest-

class immigration. Not since the middle of the last century has there been such general unrest in Europe. At that time Canada did receive a substantial influx of population but the better developed United States got far more. Now we have another chance but with the northwestern European birth rate static or nearly so, it may never be repeated.

Without a new and massive wave of immigration, Canada's population, it was estimated recently, will never get far beyond the 15 million mark. That total is away below what the original planners of this country anticipated. It is slim indeed to carry our immense overhead in transportation, communications and government, and dangerously so for national defense.

Already we have serious shortages of labor in our agricultural, mining, forest, heavy construction, and other basic industries, all of which must flourish if the secondary industries depending on them are to thrive. There are literally millions of able-bodied and skilled men across the Atlantic who would be glad to come here and work. It is time that our provincial and Dominion governments did something more than just talk about bringing these people here.

# Senator Bailey's Testament

**"The Plundering of the Republic by the People Is Now Going On"**

*Josiah W. Bailey, the senior Senator from North Carolina, having served three terms, decided not to be again a candidate in 1948, and prepared a statement which he meant to publish, or perhaps to read on the floor of the Senate, when the 80th Congress had been convened in January of this year. On December 15, 1946, he died, and his statement now appears as a posthumous testament. He was a Wilson democrat and went to the Senate the first time in 1930, before the New Deal.—Editor.*

*To the People of North Carolina:*

I COULD not support a considerable number of measures put forward by President Roosevelt because upon reading them it was plain to me that they were unsound and the long-run consequence would be bad for the people. I voted against the Wagner Act. It was and is a plain piece of political class legislation. We now see its consequences. Purporting to avoid strikes, it is an inducement to strike. Proposing to free the working men, it has placed them under the power of labor bosses.

The question in America today is whether this country shall be run by the people or by the labor leaders not responsible to the people. This question must be settled and be settled right. No man should be elected to the Senate from North Carolina who does not ring clear on this issue.

The act can be reformed and I think it will be. It would have been reformed long ago but for the power of the labor organizations in the Senate. The working men ought to be free. They ought to be free to join a union or not to join one. Employers ought also to be free. The labor unions can be made to do bargaining and prevented from dictating. They are now not bargaining but dictating. Certain of the railroad unions went so far as to vote for a strike against this government in the midst of the war. It was a plain and shameful threat to deliver the country over to our enemies unless the labor leaders should have their way. They would have deprived our fighting men of food and munitions on the fields of battle. Recently they and others have been inflicting untold injury upon the entire population. . . .

Any individual has a right not to work at any given task but no group of people has a right to injure and punish others in order to dictate terms

to their employer. Woodrow Wilson was clear enough on this subject in 1916, and there is no reason for confusion. There is no moral right for a group of men to strike and hold up the people of this country, preventing others from working and inflicting untold injury upon millions.

## *A Lesson*

A government that will not put an end to this sort of thing is not worthy to be called a government. The fact is that the American people have never failed to respond appropriately to such a challenge; whenever any group has assumed power to subordinate the general welfare to its special interest, people, President and Congress have taught it the necessary lesson; and so long as this shall be their way, this republic is secure as a government of and for the people. This is precisely what has just happened, and it is most heartening (referring to the 1946 election).

We can apply our anti-trust laws to monopolistic practices in labor relations just as we can apply them to any other relations affecting commerce among the states—and we should do it. We ought to restore the remedy of injunction to prevent irreparable injury. The labor leaders have repudiated collective bargaining and undertaken to substitute dictatorial demand for it.

If collective bargaining shall be preserved, the labor unions must be required to perform their contracts or be held liable in damages.

Controversies ought to be settled in our courts of justice, and not by boards, commissioners, or panels.

The CIO and the PAC are now invading the Southern states and in particular they are invading the Democratic primaries. They have captured the Democratic Party in the North and propose to capture it in the South. The CIO and PAC are political parties and they are united in the American Labor Party—confessedly a radical class party.

The American people will be well advised to realize that the professional Communist proceeds by way of deceit. He will profess to be a Democrat in order to carry his point. He intends that the American Labor Party shall take our party over. The people of North Carolina will do well to suspect any candidate who is supported by the CIO or PAC, whether in the primary or in the general election. They have drawn the issue and we must meet it. It is an issue we must meet squarely and in the open, and any man who runs for office without frankly stating his position ought to be voted against. Amongst other things, they propose to overthrow white supremacy in the South, and vote great masses of the ignorant for their foul purposes.

If this movement by the CIO-PAC shall succeed there is grave danger that the Democratic Party

will go the way of the Liberal Party in England—that is, be absorbed by the Labor Party.

### *Foreign Policy*

I have been greatly disturbed by the international situation. So far, Russia has made a policy of dissent and obstruction. There are those who think that Russia does not intend to destroy the United Nations organization. It is my opinion that Russia does not intend to go along with it unless Russia can have her way. She means to dominate Europe and Asia, and then the whole world.

There is evidence that Russia is operating in this country now by way of propaganda and infiltration. Her partisans are everywhere, professing on some occasions to be Republicans and professing on others to be Democrats, but being at heart Communists loyal to Russia and not to the United States. This issue is drawn in this country and in the world.

If the United Nations Organization fails, this does not necessarily mean war. It does mean that it will be necessary for us to get along in a world not fully organized for peace, which will be most difficult. We must avoid war, engaging therein only when the independence of this country and the security of our people are plainly at stake. Isolation is obsolete. But internationalism does not predicate that our country must have a hand in every controversy or that we should assume responsibility everywhere. Let us press in all events for a world organization to preserve peace throughout the earth.

### *Might in Arms*

This country can get along in the existing circumstances only by way of being armed to the teeth. We must have a mighty Army and a mighty Navy and a mighty Air Force, and a mighty industrial and agricultural capacity, and everything in armaments that will give us superiority. The way to peace for America in such a world is by way of being so strong that we will be able to beat down into the dust of ruin any nation that attacks us—just as we beat Japan down and Germany down. They will not attack us again. They attacked us because they thought we were weak.

If they had known we were strong they would not have dared lift a hand against us. If they had known five years ago what they know now there would have been no world war and we would have been delivered from the ordeal through which we passed in great tribulation. We must not run the risk of being attacked again. We must avoid war and establish our peace. And in order that we may, we

must be so strong that every nation will know that we have the power to crush and to destroy any who rise against us.

This is hard doctrine, but it is necessary. We may hope for a time when the nations disarm in the interest of peace, but we must not be the first to disarm. We must not disarm until we know that every other nation is disarming. This is why I am for the Selective Service and Compulsory Military Training. I am for the peace and security of our country.

### *Our Own Destiny*

I do not think we should tie ourselves up with the destiny of Great Britain. We should be as friendly as possible with every nation, but should act only in our own self-interest. I voted for the Lend-Lease Bill in order to get time in which to prepare this country for the war which was surely coming. Mr. Roosevelt felt that he could head off the war.

I followed Mr. Roosevelt in his measures of foreign policy prior to and throughout the war. This was because I was persuaded that he was doing everything to keep this country out of the war, and once in he was doing all possible to win. He was mistaken because he did not give Japan credit for the ignorance under which that country was laboring.

There is no reason why we should attach our fate to Great Britain. We cannot fight her battles, nor can we afford to make her foreign policy ours. We must have our own foreign policy—the policy of being strong, firm and peaceful, and of getting into no controversy except in clear defense of our own country.

### *Foreign Loans*

I am opposed to the loans to foreign nations, except through the International Bank authorized by the Bretton Woods Agreement. I was paired against the loan to Great Britain. I shall not support a direct loan for Russia nor for France nor for any other country. It is not wise policy.

I question whether we have the right in time of peace to tax the American people for the sake of the economy of any other nation. Other nations will depend upon us and call upon us again and again as long as they find we can be persuaded to borrow money and send it to them. We owe too much now. We have enough here at home to take care of our own people and their security without undertaking to fight either the domestic or foreign battles of other nations.

Our true course is to play the role of umpire in the United Nations organization in matters of no

import to us, undertaking to see that justice is done and that the American security is protected. We cannot be a disinterested umpire in all cases. We must resolve every doubt in favor of the security of our country. I do not think we should be involved in the small quarrels of the little nations of Europe and other portions of the earth. Their interests and ideas are entirely different from ours.

We should protect the Western Hemisphere and we will have our hands full doing that. It is no concern of ours what sort of government Spain may have, or whether Russia is communistic or not, or whether France is communistic or not. Let them have such a government as they please. Let us preserve the American Republic as received from our fathers and proved by experience.

When I took the oath of Senator I was resolved to preserve this republic in the true character in which it had served our people so well for a hundred and fifty years. I was more a follower of Woodrow Wilson than of any other person. It seemed to me he understood the character of our government and was determined to preserve it. I read all of his works in the interim between my nomination and the time I took my oath as Senator. I do not regret the fight I made, but I do not think it was won. I did my best. We will never know what was averted. I do not think the fight has been lost, although I realize our republic has been changed to a great degree and very much to its injury. Much may be retrieved that now seems lost.

### *Plunder*

Let me conclude with one remark. Before the war our country had run a deficit of about three billion dollars every year since 1932. No country has ever spent the earnings and the substance of its people as this country has without ruining itself and its inhabitants.

The war expenditures were necessary, but there is absolutely no excuse for the extravagant civilian expenditure during the period in which I have been Senator. We must have an end of it and without further delay. We must stabilize our currency and our economy at the earliest moment possible if we are to avoid disaster and chaos. No man should be elected to the House or Senate until he has pledged that he will reduce expenditures and balance our budget and keep it balanced.

An eminent historian prophesied early in the nineteenth century that our republic would be plundered in the twentieth century not by a foreign invader but by its own people. *That plundering is now and has been for several years going on.*

*Josiah W. Bailey*

# Shall We Take the Road to Empire?

*By Felix Morley*

*From Human Events*

## I.

WITH little understanding of what is at stake, the American people are at this moment confronting a political decision more momentous than any presented to them since 1776. Then the choice made was to separate from the British Empire and to establish a unique Republic. Now the question is whether that Republic shall be maintained or whether it shall in turn become an empire by assuming responsibility for dependencies which Great Britain can no longer control.

When the American colonists took steps which made the Declaration of Independence inevitable they did not at first admit, and in many cases did not realize, the implications of their acts. Similarly, few now foresee that the consequences of current actions can automatically give rise to fundamental changes in our system of government. The outcome of "measures short of war," however, should at least remind us that political assurances are frequently employed to conceal political realities. It is a reality attested by all history that if a republic assumes imperial functions it will not remain a republic.

But that reality is less obvious, less immediate, and less insistent than the appalling fact that the British Empire is now moving slowly toward dissolution, partly because of centrifugal force affecting its dependencies but even more because the heart has lost its vigor. Physical dissolution is always tragic, and when it proceeds on an imperial scale the pathos is proportionate. Nevertheless, if political science is to make any contribution at such a moment, it must be one in which the power of thought is wholly untrammelled by emotion.

When the eventual post-mortem of the British Empire is written, by scholars not yet born, a complex of social, economic, and political disorders will be analyzed. The proximate cause, however, is already obvious. This small and naturally unfavored island could achieve and hold world influence only by maintaining a balance of power in a stable European State system. The destruction of Europe, or the rise of powerful non-European nations antagonistic to each other, would in either case automatically reduce Great Britain to inferior political status. If the malignant developments should pro-

duce enduring monetary instability, the fate of Britain's heterogeneous empire would be sealed.

It is now all too clear that events since 1914 have doomed that remarkable political agglomeration proudly called "the empire on which the sun never sets." The basic conditions of its survival no longer exist. Simultaneously the United States and Russia, both relatively self-contained, have gained enormously in strength, in political aggressiveness, and most of all in mutual distrust.

## II.

The British people, weary and overburdened, no longer able to stand alone, must soon align themselves with one or the other of the two dominant nations.

Yet Britain, in many respects, is now a liability and not an asset. And there are reservations, perhaps as many in Moscow as in Washington, to assuming the disagreeable role of referee in bankruptcy. The State is a cold-blooded instrumentality of power. Always, when strong enough, it dictates terms. On what terms, then, will either Russia or the United States be willing to bail Great Britain out?

The answer is fairly simple in the case of Russia. Its government is probably less interested in the mere acquisition of foreign territory than is our own. The Soviet objective, confusing to those Americans who think only in terms of physical possessions, is to spread an idea—the doctrine of communism. If Britain will go all out for socialism, which merges imperceptibly into communism, its people may, with the Kremlin's blessing, retain their flag, their king, their ceremonial and as much of the Empire as can be controlled by a communized House of Commons. To dominate that organ, where British sovereignty rests, would be much smarter from the Russian viewpoint than to take over outlying colonies and dependencies.

Like Russia, the United States also represents a political idea, and one which is fundamentally opposed to communism. This idea is that the individual is important for himself; that self-government is far more desirable than political government; that the State is merely a policing agency, from its nature dangerous to liberty and therefore always to be restricted.

Unquestionably the American idea has been greatly weakened by the impact of socialism. Indeed, the outstanding political characteristic of the Roosevelt regime was its repudiation of the native American tradition and its imitative approach to Marxist philosophy. Naturally the Communists

and fellow travelers exploited this golden opportunity to undermine the citadel of capitalistic strength.

This effort has failed, and the failure has a distinct bearing on the situation produced by the decline of the British Empire. For if the United States takes over British dependencies, in Greece or elsewhere, the move will be far more bitterly resented by Russia than if the British stayed there unaided. The Kremlin can be hopeful about British socialism, as it was about the New Deal. But there is no hope at all—as Stalin sees it—in a government controlled by a coalition of capitalistic Republicans and Jeffersonian Democrats. Such a regime will make every endeavor to restore that private enterprise which Communists have organized to destroy.

## III.

The British position, in political thinking, is about midway between that of Russia and that now dominant in the United States. On the one hand the English still cling to the traditional safeguards of liberty—such as free speech, free press, trial by jury, and right of association. But Britain has gone so far in glorification of government as such that the rights of the Englishman as an individual have become more nominal than real. He can speak his mind in Hyde Park, but cannot engage in any occupation which the bureaucracy declares to be "non-essential."

The growing threat to liberty in Great Britain is more real because the British "subject"—a word in which he sees no indignity—possesses no inviolable Constitutional guarantees. Every law passed by Parliament has equal Constitutional force and, unlike the United States, the minority therefore has no rights which the majority is bound to respect. Since the legislative power of the House of Lords was undermined there has been no question that Britain, politically speaking, is more democratic than the United States. But there is also no question that unrestricted majority rule can under pressure of circumstance pass quickly over into tyranny.

In short, it is as likely that Great Britain will move on from State socialism to communism as that it will swing backwards to free enterprise. The advance of collectivism is hastening the liquidation of an empire which was sustained by private trade. And the liquidation of empire will in turn tend to strengthen collectivism in the British Isles because, when the choice is narrowed to liberty or life, most men of every nationality will choose the latter.

So it is gross oversimplification to say that the extremely difficult decision now confronting the

United States admits of but one answer. Obviously it will assist the British Government, and perhaps indirectly the British people, to finance its commitments in Greece. Equally obviously this step will increase the tensions, and consequently the risk of eventual hostilities, between our country and Russia.

There are other ways in which assumption of British burdens by the United States could prove disastrous. Already the military occupation of conquered territory, and minimum relief to starving people, is intensifying inflationary trends and threatening any effective debt or tax reduction. Already our overseas commitments provide a strong argument for that permanent military conscription which we significantly hesitate to call by its true name.

#### IV.

It requires no gift of prophecy to realize that if the United States increases its foreign political commitments, assuming imperial burdens as the British lay them down, the result will be to change our Federal Republic into a strongly centralized empire. The Constitution has proved amazingly elastic. But it will not stretch far enough to serve a modern Rome.

The implied increase of governmental functions, coming on top of those already accepted as inevitable, could easily spell the end of the Republic.

Yet the other alternative is no less disturbing. To abandon the Eastern Mediterranean to Russia would mean, in time, the surrender of Italy, then France, then Spain, to Communist control. Independent of the outcome in Germany, that sequence would mean a Communist Britain, merging much of its former empire with that of Russia. And then the dangers assumed in the case of Hitler would be realities.

After doing nothing to avert it, the United States drifted into the last war. We fought that war on a vindictive policy of "unconditional surrender" of which the utter bankruptcy is now apparent to all. We framed the United Nations in such a manner as to give Russia the means, most skillfully used, to make that organization far less effective than the old League. Nearly two years after the close of hostilities in Europe we have not been able to conclude a single peace treaty.

As the sun sinks slowly on the British Empire it would seem time for the American people to ask themselves, very seriously, whether their leadership in the last ten years has been sufficiently forthright or sufficiently intelligent to encourage trust and confidence now.

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**A**TTEMPTS at a world State are, historically, a very ancient and very disastrous idea. . . . If our current civilization follows the usual grooves, a world State is the grimmest of prospects. Rome and ancient China came to that end—a single empire—but at great cost and destruction. Hitler offered it to us again, and we paid a great deal not to have it.—*Professor Arnold J. Toynbee, historian.*

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**W**HEREVER collective standards, codes, ideals, and motives take the place of individual responsibility, we know from ample experience that the spontaneity and independent responsibility which are essential to moral vigor are sure to be lost.—*William Graham Sumner.*

# Economics in Disgrace

\*By Walter E. Spahr

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SINCE a large proportion of the questions before a government falls in the field of economics, it naturally follows that the scientific economist should be of great value in seeking and supplying the proper answers. But this would be true only if he is a thoroughgoing and experienced scientist.

The unprecedented influx of people calling themselves economists into our Federal Government during the last dozen years can hardly be regarded as indicative of an increased reliance by our government upon economic science. Rather, it seems to have been for the most part a utilization of the services of economists and so-called economists, who for various reasons found it expedient to embrace and to advocate the economic maturity-underconsumption-oversaving-Keynesian-socialist doctrines. Those doctrines, and the theories advanced in support of them, are in most respects thoroughly fallacious, for the simple reason that available evidence either refutes them or provides inadequate support in science.

When a severe business depression engulfs a nation it is common for laymen to embrace many or most of these fallacies, partly for the reason that it is easy to confuse symptoms of a depression with its basic causes. But for what seems to be the first time in our history we have the phenomenon of a large group of economists and so-called economists allying themselves with the unscientific notions that come naturally into vogue during a severe business depression.

The late John Maynard Keynes of England had provided a new technical terminology for old, discredited, depression-time theories of underconsumption and oversaving. This jargon gave his followers, chiefly those youngsters who as economists converged upon Washington in the 1930's, tools with which they were able to create for themselves an atmosphere of austere erudition—perhaps one should describe it as a new variety of academic ostentation—and to appear as the guiding “scientists” in what was in nature a popular political movement far removed from what the science of human welfare seems to teach.

These embracers of old, unscientific theories of business depression offered them as something new,

although essentially all that was new in them was the distinctive terminology, provided chiefly by Keynes, and a related orgy in the use of mathematical formulas to prove some thesis lying perhaps chiefly in the field of imagination or some contention that available evidence would answer much better and possibly refute. Perhaps, as a part of the new economic jargon developed during the 1930's, mention should also be made of that provided by the *Semantic Guide*, used in connection with the hearings of the Temporary National Economic Committee. It was employed to disarm those who could be confused by the use of a new terminology or a familiar terminology used in new ways and who might otherwise have recognized and challenged the theories being propounded.

Through the use of these devices, among other things, these Keynesian economists were able to exercise a dominating influence, in so far as economists were involved, in directing the policies of the Federal Government. This dominance was also extended to the American Economic Association's officers, its quarterly *Review*, and its annual convention programs, and to a large proportion of our college and even high school textbooks in economics.

THE virtual alliance of a temporarily dominating faction of what is supposed to be a scientific body with a political party that happens to be in power, particularly when the party in power advocates and pursues conflicting economic principles, would seem to constitute a serious blow to the field of science. The mischief involved appears to be far-reaching.

For instance, the objective standards for measurement and appraisal which the methods of science are supposed to yield have steadily dwindled in textbooks on economics until, in some of them, such scientific standards have practically disappeared. Subjective descriptions and appraisals have become the dominating features of many if not most of our recent so-called standard works in economics.

This trend in the field of what is supposed to be scientific economics has an intimate relationship with the similar substitution of the subjective for the objective standards of science not only in the fields of administrative and case law but also in our statute lawmaking. Many of the so-called economists in the Federal Government in recent years

\* From an address before the Institute of Business and Economic Problems, University of Pittsburgh.

must accept a large share of the responsibility for this situation.

The government, the country, and the science of economics have suffered immeasurable harm from this apparently unprecedented moral, ethical, and intellectual slump in the field of economics. It should not be surprising, as a consequence, that practically any layman who chooses to write on an economic subject seems to have no hesitation in regarding himself as an economist. It is not his training, experience, and knowledge of economic facts and principles and of the requisites of science that determine whether he should offer himself as an economist; it is, rather, the nature of the subject with which he chooses to deal. Emotion, wishful thinking, and unsupportable assertions become for such people quite satisfactory substitutes for generalizations derived scientifically from adequate evidence.

Many find comfort in the assurance of William Cullen Bryant that "Truth crushed to earth shall rise again." Sometimes it requires a long time to produce the truth in a convincing manner, particularly when it runs counter to popular political movements. Probably no one could predict with accuracy just how long it may require to make clear to a sufficient number of people what the essential facts and principles are regarding the economic maturity-underconsumption-oversaving-Keynesian-socialist and closely related theories that have, as something like a pestilential visitation, afflicted this country in recent years.

Fortunately some economists with unqualified loyalty to the methods of science are putting out evidence that should reveal the unscientific nature of these most unfortunate doctrines. As an example, a recent study entitled, "Economic Research and the Keynesian Thinking of Our Times," by Dr. Arthur F. Burns of the National Bureau of Economic Research, should have a salutary influence if enough people read it. All economists, who really wish to be scientists rather than to parrot followers of a political fad improperly wearing the cloak of scientific economics, should obtain a valuable lesson from Professor Schumpeter's article on "John Maynard Keynes" in the *American Economic Review* of September, 1946, unless they can be misled by the extraordinary politeness which characterizes Dr. Schumpeter's analysis.

UNTIL the basic criteria as to what constitutes a good social organization and a good government in relation to that organization are clearly understood and generally accepted by the majority of government officials, it becomes extremely difficult to enter upon a profitable examination of whether this

or that activity should be undertaken by private enterprise or by government, or whether certain regulatory devices of government are wise or unwise. Furthermore, even with accepted criteria before us, there appear to be a considerable number of problems regarding which their closest students find it difficult, because of inadequate evidence, to state with a high degree of assurance what the best or proper answer is.

In our drift away from these criteria of a proper social organization, a good type of government, and a good economy—assuming the soundness of these criteria—another phenomenon has become conspicuous: It is the reliance of our people upon laws—not law, but *laws*—to solve their problems, whether business or otherwise.

When difficulties arise, the first reaction of people, in general, seems to be that a law should be passed. There appears to be an increasing tendency to pass more and more laws with respect to more and more things. At some sessions of Congress a thousand or more laws are passed. The accumulation of statutes, particularly during recent years, is one of the amazing commentaries on modern times. Our present faith in the efficacy of lawmaking, especially in the value of thousands of statutes that are neither read nor understood by a large proportion of our people, presents a problem for the social psychologist. We are being swamped with laws; we have so many on our statute books (to say nothing of administrative rulings) that we do not know what they are; the general public makes no pretense of reading them; we do not know when we are violating or obeying them, and yet there appears to be a persistent clamor for more.

We have been living in a period of frenzied legislation, particularly legislation by *preamble* in which supposedly laudable purposes are set forth at great length to gain the support of a gullible public, the vague notion or superstition being that if only we can pass a law—its economic soundness often being not a paramount consideration—our problem or problems will be solved and we shall be saved from our troubles.

ONE may advance several plausible reasons for this remarkable faith in the virtues of statutes that are neither read nor understood generally. Among these reasons may be an undermined confidence in the virtues of competition and self-reliance, and a lack of understanding and perspective regarding the unwise acts of governments in contributing to economic and social maladjustments. Whatever the reason may be, we seem to have become a nation of law worshipers—particularly laws dressed up with persuasive and, sometimes, apparently dishonest, preambles which have no legal significance what-



ever—a fact regarding which the general public seems quite unaware.

At the same time, these laws are slowly bending, if not breaking, our backs. They have brought upon us greater costs; destructive taxation; an unprecedented and mounting public debt; more governmental supervision; a growth in bureaucracy; a pronounced trend toward personal government; a development of class consciousness, class strife, and class hatred; a startling spread of demagoguery in politics; a serious decline in objective statesmanship; an insidious attack upon the virtues of hard work, thrift, and self-reliance; a conspicuous disregard for economic facts and principles; a growing and disturbing complexity in life and business; a loss of freedom in many directions; a widespread pessimism and fear regarding the future; and the consequent development of a great weight which, for the last dozen or more years, has had the appearance of bearing down more heavily upon us each year.

The question arises as to whether in the end this piling of law upon law, combined with the deluge of administrative rulings, may not destroy much or all that is worth while and healthy in our economic, social, and political life if we do not soon reverse this trend and embark upon a program of repeal of all statutes and rulings which do not clearly contribute to our well-being as indicated in the criteria of what constitutes a good government and a good economy.

Connected with (a) our unfortunate, if not dangerous, drift away from the principles of good government and (b) our remarkable reliance upon statutes, many with preambles that are misleading, or outright dishonest, to solve our problems, is a widespread notion that both developments are symptomatic of progress. Often they are pointed to as marks of liberalism in this country.

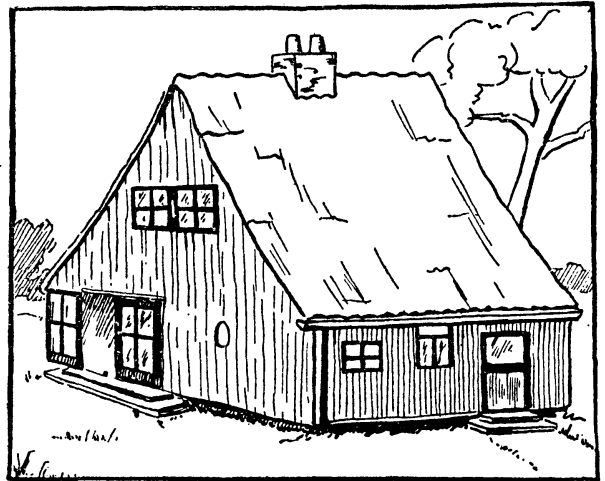
The fact seems to be that they are indicative, rather, of an insidious social disease which is slowly undermining our general social health and well-being and pointing toward some form of social retrogression. They clearly indicate an increasing amount of coercion, much of which is undoubtedly of an undesirable sort.

Time and experience have made it amply clear that those things which do not raise the general level of living in the long run, as against a short run, and which impair, rather than enlarge, the freedom of the individual, are retrogressive in nature. Most unfortunately, this spreading spirit of coercion and retrogression, in recent years and today, is frequently called *liberalism*, and the advocates of this coercion and authoritarianism often call themselves *liberals*. But this return to coercion is the antithesis of liberalism; it is illiberalism and retrogression. The philosophy of these self-styled, but false, liberals is

that the individual must be regimented for his own sake—a philosophy that has characterized tyrants, dictators, and coercionists throughout human history. True liberalism has been associated with that long, painful struggle of humanity to free itself from regimentation, coercion, and authoritarianism.

## Swapping Fish for Houses

THE Netherlands Government has purchased 800 wooden houses from Austria, which are to be paid for in dehydrated vegetables and fish. These



houses, which are mainly destined for the stricken areas, occupy a space of 8 x 9 m., and are one-storied.—*Holland Shipping and Trading*.

## Hard Money

*A Prediction by Francis W. Hirst*

IF the atomic bomb does not finish us all off, I will hazard the prediction that some of you here will live to see intrinsic value money of gold and silver take the place of inconvertible paper in all civilized and commercial countries. It is a pretty safe prediction, for it is an indisputable fact that all inconvertible paper currencies have depreciated and disappeared after a comparatively few years. The truth is, as my friend, Lord Bradbury, once put it in a nutshell, that “good money must be foolproof and knaveproof.” Our American friends, who have had plenty of experience, distinguish between “hard” money and “soft” money. “Hard” money is worth its face value when melted down. “Soft” money burns or crumples up and depends for its purchasing power on the hope that the Government which prints it will some day stabilize it in terms of gold or silver.

# The Marxian Virus in American Thought

By Towner Phelan

**P**ERHAPS the greatest influence of communism in the United States is upon the political thinking of the American people. Many ideas that have achieved widespread acceptance in the United States on the part of people who have no sympathy with communism, are derived directly from Marxist doctrine, but most people who hold those ideas are ignorant of their source.

Marxian communism, unlike traditional liberalism, is based on a materialistic concept of life. Liberalism looks upon life primarily in moral terms. The Marxian doctrine that "economics determines all human life" assumes that men act, not on a basis of principles or any standard of morality, but that their actions are determined solely by their material wants. It assumes that man is not interested in freedom but only in a full belly. This Marxian doctrine is implicit in the New Deal view that *in an industrial age* government should control and regulate every phase of our economy and that the powers of government should be greatly expanded and the rights of the individual correspondingly limited.

This view has been reiterated again and again by New Dealers in statements of which the following are representative:

"It may be necessary to make a public utility out of agriculture. . . . Every plowed field would have its permit sticking up on its post." (Henry Wallace)<sup>1</sup> "It has been a long fight to put the control of our economic system in the hands of the government." (Mrs. Eleanor Roosevelt)<sup>2</sup> "The Constitution is used as a holy of holies within which the ugly practices of free competition can be hid from vulgar eyes." (Rexford Guy Tugwell)<sup>3</sup> "The Government will have to enter into the direct financing of activities now supposed to be private; and . . . the Government ultimately will control and own these activities." (A. A. Berle, Jr.)<sup>4</sup>

This viewpoint, that modern industrialization requires government control of every human activity, clearly, is derived from the Marxian doctrine of eco-

conomic determinism. It assumes that the degree of economic development of our society determines the degree of freedom the individual should retain and the degree of power the government should have. This is in direct conflict with the views of the founders of this Republic, who believed "that all men are endowed by their Creator with certain inalienable rights"<sup>5</sup> and "that to secure these rights, governments are instituted among men."<sup>6</sup> These were not intended as scientific statements of fact but as a declaration of moral principles. They do not mean that all men are actually free to exercise inalienable rights, but rather that all men *should* be free to exercise them. The traditional liberal does not believe that the rights of man depend upon economics. He regards human freedom, individual liberty, and the relation of man to the state as being primarily moral problems, not economic problems. He regards liberty, not as a by-product of the "horse and buggy age," but as an inalienable human right.

In the Marxian view, all human actions are based on material wants and are determined by economic considerations. History, according to Marxian communism, is a "class struggle" based on economics. In this "class struggle," the workers are exploited by "monopoly capitalism," government is an instrument of oppression by which the dominant social class exploits other classes, laws and the courts are used to uphold the interests of the dominant class and to enslave the working class, capitalism leads to imperialism and war, and salvation can come only through a revolution which will transfer power to the working class.

**A**LL of these ideas appear in the New Deal dressed in slight changes of language to make them more palatable to the American public. These doctrines constitute both the core of Marxian communism and the intellectual foundation of the New Deal. The doctrines of the "class struggle," of the exploitation of workers by "monopoly capitalism," and of government as constituting an instrument of oppression by which the dominant class exploits other classes, have echoed again and again in every political campaign since 1933. They may be ex-

<sup>1</sup> "America Must Choose," by Henry Wallace.

<sup>2</sup> "My Day," April 30, 1946.

<sup>3</sup> "The Battle for Democracy," by Rexford Guy Tugwell.

<sup>4</sup> "A Banking System for Capital and Capital Credit," May 23, 1939, T. N. E. C. Monograph.

<sup>5</sup> The Declaration of Independence.

<sup>6</sup> *Ibid.*

pected to appear in future campaigns despite their recent public repudiation at the polls. The exhortation of all businessmen as "economic royalists," "Tories," and representatives of "intrenched greed," as well as the references to the "forgotten man" and to one third of our population as being "ill clad, ill housed and ill fed," express the Marxian doctrines of "class warfare" and the exploitation of workers by "monopoly capitalism." Such statements foment class hatreds and, in so doing, tend to create the class struggle which they assume to be the normal and inevitable condition of mankind. Class warfare is an ever recurrent New Deal theme. In its crudest form the doctrine of class warfare is expressed in the recent statement of CIO president, Philip Murray, "Inflation is here because of the lust and greed of American business and industry."<sup>7</sup>

The communist doctrine that government is an instrument of oppression by which the dominant class exploits the working class was expressed by the late President Roosevelt in the statement that the

"new instruments of public power" which he created could be used to "provide shackles for the liberties of the people" if the government were ". . . in the hands of political puppets of an economic autocracy."<sup>8</sup>

Acting upon the Marxian view of history as a class struggle and government as an instrument by which "financial and industrial groups" oppress other classes and exploit the workers, Mr. Roosevelt undertook to transfer power to the "working class" which he did not regard as predatory. This policy was implemented by legislation bestowing special privileges upon organized labor and imposing restrictions upon ordinary citizens to deprive them of rights that once had been considered inalienable. Thus, the National Labor Relations Board repeatedly tried to deny businessmen the right of free speech. The "due process clauses" of the United States Constitution were whittled away by court construction and narrowed to deprive the ordinary citizen of protection in the ownership of property. At the same time, the commerce clause was broadened to give the Federal Government unrestricted sway in purely local matters.

Mr. Roosevelt's statement that "financial and industrial groups" controlled the government prior to the New Deal, was not true. This is clearly evidenced by the long list of measures that became law, prior to 1933, despite the opposition of business interests. These include the establishment of the Interstate Commerce Commission in 1887, the

Sherman Anti-Trust Law in 1890, the Pure Food and Drug Act in 1906, a statute limiting the hours of employment on railroads in 1907, the eight-hour day on public works in 1912, the Federal Income Tax Amendment in 1913, the Clayton Act exempting labor from the Anti-Trust Laws in 1914, the establishment of the Federal Trade Commission in 1914 and the Adamson Act in 1916. Although some of these measures would not be opposed by business at the present time, all were passed against the opposition of business interests. It is clearly nonsense to assert that business controlled the government.

**M**ANY groups influence government to a greater or lesser degree. In the past, business exerted far too much power but neither business, nor any other group, controlled the country. No group has ever before exerted as dominant an influence upon government as labor does today. The dominant position of labor results from the special legal privileges Mr. Roosevelt gave it. Special privilege made it a predatory class powerful enough to defy the government with impunity. Any class will become predatory if given too much power—the history of power is the history of the abuse of power. The fact that labor can and does dictate to the government has been written into the record again and again.

The recent election demonstrated that organized labor's political power is based far more upon the fears of politicians than upon its ability to deliver the votes. Its ability to defy the government rests on the solid foundation of economic monopoly conferred upon it by law. Labor's power to stop the wheels of industry, to paralyze our economy, to halt public transportation and to cut off supplies of food, fuel, and vital services, will not be changed by defeat at the polls. We need to dismantle the whole legal structure on which the irresponsible and excessive power of labor is based. Its foundation is special legal privilege and immunity from laws to which the ordinary citizen is subject.

In fairness to Mr. Roosevelt, it must be observed that he did not start the revolution by which communistic concepts have replaced the philosophy of liberty under the law. In fact, the most far-reaching step in this direction was taken under the Hoover administration by the passage of the Norris-LaGuardia Anti-Injunction Act. This act gave unions practical immunity from injunctions, greatly broadened their exemptions from the antitrust laws and relieved unions and union officials from liability for the wrongful acts of their agents.

**T**HE Marxian element in the Norris-LaGuardia Anti-Injunction Act lies in the fact that it makes

<sup>7</sup> *St. Louis Post-Dispatch*, October 26, 1946.

<sup>8</sup> President Roosevelt's Annual Message to Congress, January 3, 1936.

employees, *as a class*, a proper party to a dispute involving a particular employer and his employees. Under previously established legal principles an industrial dispute was a matter between an employer and his employees and was not a conflict between employers *as a class* and employees *as a class*. There is no more reason for making employees as a class a proper party to a dispute between a particular employer and his employees than to make husbands, as a class, a proper party to a dispute between a particular husband and his wife. Under the Norris-LaGuardia Act, however, we have written into our law the revolutionary concept that persons engaged in the same industry, trade, craft or occupation and *having no relations whatsoever to a particular employer* are proper parties to a dispute between that employer and his employees. This principle stems directly from Marx's doctrine of class warfare; its purpose can only be to promote class warfare. As Murray T. Quigg expresses it,

"Finally, the act comes to the essence of the revolution, namely, whether industrial conflict is a matter between an employer and his employees or a matter of class warfare."<sup>9</sup>

The Duplex Printing Press Company case, arising prior to the enactment of the Norris-LaGuardia Act, illustrates the principle involved. Eleven out of some two hundred machinists employed by that company at Battle Creek, Michigan, went on strike. Thereupon, machinists in New York City who were not employees of the Duplex Company, as part of a nation-wide union conspiracy, warned customers of that company not to purchase or install Duplex presses and threatened them with sympathetic strikes by other unions. Truck drivers' unions were warned not to transport Duplex presses and repair shops not to repair presses. Finally, a proposed strike against an exposition company, which intended to exhibit Duplex presses, was halted by an injunction. The Supreme Court sustained the injunction on appeal and held that the Clayton Act did not authorize unlawful activities by a union or an illegal conspiracy in restraint of trade. The case turned upon the definition of "employees and employers" in the act, and the court held that the "employees" referred to the employees of the particular company involved in the dispute and not employees as a general class. The court said, "The Congress had in mind particular industrial controversies, not a general class war."<sup>10</sup> This principle was abandoned by the passage of the Norris-LaGuardia Act which was construed to mean that

employees as a class are proper parties to an industrial dispute. This act writes into our law the Marxian communist doctrine of class warfare.

THE consequences of our widespread acceptance of the Marxian view of the class struggle are extremely serious. What men do depends upon what men think and believe. If the majority of our citizens come to believe that life is a struggle between hostile and warring classes, democratic government cannot long endure. Democratic government depends upon the consent of the governed. It presupposes a willingness of both sides to abide by the verdict of the polls. Class warfare has destroyed democracy in Spain, Greece, and other countries and has seriously undermined it in France. In the United States the current wave of wildcat strikes, strikes over trivial matters, slow-down strikes, and the general low productivity of labor are the natural fruit of the class hatreds engendered by thirteen long years of propaganda fomenting class warfare. They are not the result of low wages and bad working conditions, because labor in America, today, is enjoying a degree of prosperity far exceeding that of the best prewar years. In fact, Senator Briggs boasts that American wage earners have gained more since 1933 "than in all the previous history of the nation."<sup>11</sup> Present labor unrest is ideological and is an ominous portent for the future.

Before the popularization of the Marxian doctrine of the class struggle, we had in the United States a classless society in the best sense of the term. It was not a classless society in the Marxian sense of regimented equality of possessions. The Marxian type of classless society would reduce all men to a common level of mediocrity. It ignores differences in ability, industry, and intellect. Our pre-New Deal society was classless in the sense that there were no artificial class distinctions based upon status or accident of birth. Classes were fluid. People could and did move freely from one class to another. The phrase "shirt sleeves to shirt sleeves in three generations" epitomizes our type of classless society. We had this type of society because we thought of ourselves as American citizens, equal under the law, and regarded it as normal and natural for a man to rise from the humblest beginnings to become a president of the United States, a justice of the United States Supreme Court, an outstanding scientist or a Henry Ford.

Today all this is changing. We are developing class consciousness—the first long step in the building of a class society. We have gone back to the reactionary principle of *status*. That was the principle of the medieval world with one law for the nobility,

<sup>9</sup> *American Affairs Pamphlet* "The Law of Labor" by Murray T. Quigg, p. 21.

<sup>10</sup> *Duplex Printing Press Co. v. Deering*, 254 U. S. 443 (see account in *American Affairs Pamphlet* "The Law of Labor" by Murray T. Quigg).

<sup>11</sup> *St. Louis Globe-Democrat*, October 31, 1946.

another law for the clergy and a third law for the peasants. We are on the way to a stratified class society.

**BOTH** Marxian communism and the New Deal have elements of religious evangelism in their doctrines of salvation through revolution. Marx teaches that salvation will come in the form of a millennium here on earth as a result of the "proletarian revolution." In the New Deal, the "proletarian revolution" that is to bring salvation is renamed the "people's revolution" (a term more acceptable to American ears). Henry Wallace expresses it as follows:

"The people's revolution is on the march, and the devil and all his angels cannot prevail against it."<sup>12</sup> "Those of us who realize the inevitability of revolution are anxious that it be bloodless and gradual, instead of bloody and sudden."<sup>13</sup>

As Mrs. Eleanor Roosevelt phrases it,

"The war is but a step in the revolution. After the war must come the realization of the things for which we have fought—the dream of a new world."<sup>14</sup>

The Marxian doctrine that capitalism inevitably leads to war finds expression in the statements of many of our neo-liberals and New Dealers who condemn British, French, Dutch and American imperialism, while, at one and the same time, they passionately defend the far more ruthless imperialism of Soviet Russia. Condemnation is not based upon what is done, or upon why it is done, but simply on a basis of who does it. Thus, imperialism is bad if practiced by a western democracy. It is good if practiced by the Soviet Union. The only reasonable basis for such a view is found in the Marxian assumption that capitalism (western democracy) leads to war while the dictatorship of the proletariat leads to peace.

The doctrine that political freedom (freedom under the law) is not freedom is common both to communism and to the New Deal. Communism teaches that man cannot be free until a class revolution brings the workers to power and a classless society is established resulting in the brotherhood of man in a society so perfect that "government will wither away" and will be no longer needed. Molotov tells us that our conception of freedom is not freedom. In his recent attack on Baruch he said:

". . . his [Baruch's] conception of freedom is far removed from the real aspirations of common

people for freedom. . . . He would like to see all people satisfied with the freedom under which only the lucky ones can enjoy the benefits of life. . . ."<sup>15</sup>

Henry Wallace expresses the same view as follows:

"We can, if we choose, look backward with longing to the old kind of liberty, which was more often license for the few and economic serfdom for the many." ". . . Things that are happening now . . . may be the beginning of a new epoch, in which democracy, embracing the economic as well as the political field, becomes for the first time reality."<sup>16</sup>

**WE** have outlined the principal doctrines that constitute both the Marxian creed and the intellectual foundation of the New Deal. To state this is not to brand the New Deal as communistic. The New Deal is a product not only of Marxian doctrine but also of native American traditions. Here in the United States, ideas of communist origin collide with powerful traditions representing the heritage of three hundred years of liberal thought. Our pattern of thinking is derived from many sources, of which communism certainly is not predominant. The contradictions and mental confusion that characterize the New Deal and neo-liberalism arise from their attempt to harmonize traditional liberalism with the doctrines of Karl Marx. The result is neither liberalism nor communism but moral stultification and mental confusion. This is the explanation of those anomalies which arise when individuals and publications, posing as champions of civil liberties, refer to governments behind the iron curtain, where civil liberties do not exist, as "democracies." The New Deal is not communistic, it is merely the ill-begotten offspring of an attempt to mate communist doctrines with American traditions.

Neo-liberalism and the New Deal accept and expound Americanized versions of those Marxian doctrines which constitute the Marxian diagnosis of the ills of society. They part company with Marx when it comes to the cure for these ills. The Marxian cure is *violent* revolution and totalitarian dictatorship. As Stalin expressed it, "The dictatorship of the proletariat is the domination of the proletariat over the bourgeoisie, *unobstructed by law and based upon violence.*"<sup>17</sup> The neo-liberal, New Deal cure is a *peaceful* revolution followed, not by totalitarian dictatorship, but by a curious blend of totalitarianism with liberty. Under the New Deal cure, civil

<sup>12</sup> Address before Free World Association, New York City, May 8, 1942.

<sup>13</sup> *Washington Times Herald*, February 21, 1944.

<sup>14</sup> "What Are We Fighting For?" *American Magazine*, July, 1942.

<sup>15</sup> Address before the United Nations General Assembly October 30, 1946.

<sup>16</sup> "New Frontiers," 1934, p. 267.

<sup>17</sup> "Problems of Leninism," by Stalin.

liberties are to be retained, but on a selective basis. They will depend, not upon the nature of the liberties, but upon *whose liberty*. Laws will be applied more and more on a selective basis—the important question being the *status* of the individual involved. Thus, a *union* man has a right to strike but a *non-union* man does not have a right to work. He cannot cross a picket line or remain out of a union if the closed shop is imposed upon his employer. A corporation is liable for the wrongful acts of its agent, but a union is relieved of such liability under the Norris-LaGuardia Act. The law is based, not on what is done, but upon *who* does it. Under New Deal theory, government will control all aspects of economic life but the outward forms of capitalism will be retained. The national income will be allocated very largely through government controls of prices, wages, interest rates, etc., but business, nominally, will remain in private hands. As Ludwig von Mises points out, this solution, advocated by Professor Hansen and other New Deal economists,

“is very old indeed . . . all the essential ideas of present-day interventionist progressivism were neatly expounded by the supreme brain-trusters of imperial Germany, Professors Schmoller and Wagner. . . .”

Dr. von Mises refers to the clash between New Deal economics and classical economics as “the clash of two orthodoxies; the Bismarck orthodoxy versus the Jefferson orthodoxy.”<sup>18</sup> The fundamental assumption underlying the neo-liberal, New Deal cure for the ills of society is that it is possible to make the government virtually an economic dictator and still have our citizens retain a substantial portion of their individual liberties. It represents the ancient fallacy of those who are unwilling to face the facts—the fallacy that you can “eat your cake and have it too.” In the words of Henry Wallace, “America Must Choose.” It must choose dictatorship or liberty—it cannot have both.

**M**ANY people will conclude from the recent election returns that America has chosen. No assumption can be more dangerous. The New Deal is the American manifestation of the world-wide trend which produced fascism, communism and British socialism. It results from the desire of man to escape individual responsibility, to lean upon the all-powerful state and to trade his freedom for the politician’s promise of security. The recent election may conceivably mark the first step in the reversal of this world-wide trend. But, it may represent merely the desire to change the personnel of those administering centralized authority, or at most, a temporary reversal in the long-term trend.

<sup>18</sup> “Economic Planning,” by Dr. Ludwig von Mises, p. 2.

## Books

### About Freedom

*Struggle for Freedom*, by Sterling E. Edmunds, LL.D. Bruce Publishing Company, Milwaukee.

*By Vote of the People*, by Willis J. Ballinger. Charles Scribner’s Sons, New York.

**T**HERE are many new books about freedom and the number of them is increasing. They recite history and sometimes enrich it, but the theme is one of foreboding and the purpose invariably is to tell people that freedom is in peril. If it were only that people were indifferent and thoughtless that would be bad enough. The fact is that each time another stone is torn loose from the foundations of political freedom the event is celebrated as a sign of social progress and a victory for the people over the forces of reactionism. Why is that? Or why should it ever be necessary to exhort people to defend freedom once they have won it and know its blessings? In these books about freedom the common answer is that the people do not know what they are doing. They have not been properly forewarned of the consequences. In “Struggle for Freedom,” by Dr. Sterling E. Edmunds, there is that answer, among others. Yet when he comes to the American history of his subject you see that forewarnings have been eloquent and continuous from the beginning. In *The Federalist*, expounding the Constitution and the reason for its limited use of the *democratic principle*, Madison wrote:

“Pure democracies have ever been spectacles of turbulence and contention, have ever been found incompatible with personal security and the rights of property, and have in general been as short in their lives as they have been violent in their deaths.”

In the first session of Congress, speaking in opposition to a proposed bounty for agriculture, Madison said:

“If Congress can employ money indefinitely to the general welfare, and are the sole and supreme judges of the general welfare, they may take the care of religion into their own hands; they may appoint teachers in every state, county and parish and pay them out of the public treasury; they may take into their hands the education of children, establishing in like manner schools throughout the Union; they may assume the provision for the poor; . . . in short, everything from the highest object of state legislation down to the most minute object of police, would be

thrown under the power of Congress. . . . I venture to declare it is my opinion that, were the power of Congress to be established in the latitude contended for, it would subvert the very foundations, and transform the very nature of the limited government established by the people of America."

In 1798, Thomas Jefferson said:

"It would be a dangerous delusion, were a confidence in the men of our choice to silence our fears for the safety of our rights; confidence is everywhere the parent of despotism; free government is founded in jealousy; it is jealousy and not confidence which prescribes limited constitutions to bind down those whom we are obliged to trust with power. Our Constitution has accordingly fixed the limits to which and no further our confidence may go."

In 1889, George Ticknor Curtis, in his "Constitutional History of the United States," wrote:

"We hear much nowadays about the so-called 'general welfare' clause of the Constitution. . . . Now, look at the stupendous communism that is wrapped up in the taxing power on the supposition that it includes a power to tax for the promotion of the welfare of individuals. . . . All the property of the country may be taxed for the legitimate objects of taxation. If one of those legitimate objects is the welfare of individuals or masses or classes or the whole people, the two Houses of Congress and any President, acting together, can divide up all the property of the country on the plea that a general division will promote welfare."

In 1907, Woodrow Wilson, then President of Princeton, said:

"The proposed federal legislation with regard to the regulation of child labor affords a striking example. If the power to regulate commerce between the states can be stretched to include the regulation of labor in mills and factories, it can be made to embrace every particular of the industrial organization and action of the country."

In 1933, when the New Deal Congress, in a passion for the general welfare, was handing control of the public purse to the President, James N. Beck said:

". . . As the shadows of evening are lengthening with us now, the shadows of a lasting night are falling upon the old constitutional edifice, which the genius of Washington, Franklin, Madison, Hamilton and Jefferson built with such surpassing wisdom. . . . If there be a representative of either the employer class or the laboring class in the galleries, I say to them both by way of prediction . . . that, as large as is the appropria-

tion of \$3,300,000,000, they are selling the constitutional liberties of the American people for a petty price, for this sum is the 'thirty pieces of silver' with which the ancient liberties of the American people . . . are being betrayed."

These are examples of the historic warning. What was it the people did not know about the principles and safeguards of freedom? What was it they were not told?

Dr. Edmunds gives also another explanation for the decline of American freedom. We get our tradition from England. That is to say, we brought it here. "England," he says, "has remained racially unchanged and her traditions are part of the flesh and blood of her people," whereas:

"The people of the United States once had this history and tradition, but the English stock, the Anglo-Americans, who transplanted Magna Charta and its principles in America, and who have fought a losing battle to sustain them, have been overwhelmed and submerged by a vast agglomeration of aliens drawn from every corner of Europe who now dominate the political system."

The weakness of this is obvious. In England, for all the purity of the tradition there, freedom is declining even faster than here. There, too, people are willing, even more than here, to exchange freedom for status and security. In his very fine chapter on "The Federal Republic," Dr. Edmunds tells how the temple of freedom was built. It was the master feat of man's political genius. There were two great pillars—one distrust of government and one distrust of people. The structure resting upon these pillars was definitely not a democracy. It was a republic. Dr. Edmunds writes:

"At no time before World War I had we considered our form of government a democracy, nor were we interested in the defense and extension of democracy, though we traditionally gave moral encouragement to all people struggling to free themselves from the oppressions of monarchical and despotic rule. It was fully known to all who were familiar with our history that the Founders of our Republic were chiefly concerned to make the New World safe, not for, but against, both democracy and monarchy. Democracy was viewed by the Founders, not as a workable polity but as license, as a turbulent social phase in the transition from anarchy to order. Madison's 'Journal of the Constitutional Convention' discloses clearly this distrust on the part of the delegates.

"In the Constitutional Convention, Elbridge Gerry said the evils of the times 'flow from an excess of democracy.' Edmund Randolph declared that the primary object of the Convention was 'to provide a cure for present evils' and that



'every man found their origin in the turbulence and follies of democracy.' Madison said the Convention must establish 'a republican system,' with 'republican liberty,' so safeguarded that the minority could not be plundered by the majority. Hamilton pointed out that the powers of the government must be limited, otherwise, he said, the few will use it to oppress the many, or the many the few.

"George Mason said 'the democratic principle,' that is, direct participation by the people, should actuate only one part of the government, namely, in the popular election of members for the lower House of the legislature."

The Constitution makers had before them the great book of the time, which was "The Spirit of Laws," by Montesquieu, who had said that unless the powers of government were separated all principles would be swallowed up in their unitary exercise, and that "when you give titles of nobility you know what you give, but when you give power you know not what you give." The first problem, therefore, was to limit the power of government, and this was done by the famous device of checks and balances, explained at the time by John Adams as follows:

"First, the states are balanced against the general government. Second, the House of Representatives is balanced against the Senate, and the Senate against the House. Third, the executive authority is in some degree balanced against the legislature. Fourth, the Judiciary is balanced against the legislature, the executive and the state governments. Fifth, the Senate is balanced against the President in all appointments to office, and in all treaties. Sixth, the people hold in their hands the balance against their own representatives by periodical elections. Seventh, the electors are balanced against the people in choice of President and Vice President."

But there was another power to be limited. That was the power of the people to act in an impulsive manner on government. Observe how this was done. The democratic principle was permitted to operate fully in the direct election of members of the House of Representatives. As for the Senate, the democratic principle was once removed by the provision that senators should be elected by the state legislatures. As to the President, the democratic principle was twice removed by a provision that the President should be elected by an electoral college, the electors of this electoral college to be chosen by the state legislatures. And as to the Judiciary, it was thrice removed from the democratic principle by the provision that members of the Supreme Court should be appointed by the President, "who was elected by the electors, who were chosen by

members of the state legislatures, who were elected by the people." In one more way the power of the people was limited. Suffrage was restricted. Generally in the original thirteen states only those could vote who owned a minimum amount of property.

Nevertheless, and for all the restraint of the democratic principle, the one final and absolute power did remain in the hands of the people. That was the power to change the Constitution; and the Constitution, as the people wanted it, was the supreme law of the land. In every form of government, sovereignty at last must rest somewhere. In the American scheme it rests with the people. That is to say, they are free, and always were, to destroy the temple.

Such were the foundations of American liberty. In Dr. Edmund's book, if you do not already know, you will find the true historical statement of what has happened to the foundations from the ceaseless water of the democratic principle which, though it may be many times repelled—

Yet back it comes again,  
Wearing down the rigid strength.

Can the foundations be restored? Can the free play of the democratic principle be confined again to the House of Representatives where it was at first, once removed from the Senate, twice removed from the election of the President and thrice removed from the Judiciary? Above all, can the suffrage ever again be limited? If the foundations cannot be restored—if as a matter of practical politics you cannot imagine it—then we have pure democracy. And if we have pure democracy these books about freedom are but an exercise in nostalgia. The democratic principle alone cannot govern without a compensating principle to restrain its impulsive sovereignty—call it conservative, aristocratic, or what you like. Government by the democratic principle alone is like a motor vehicle rushing headlong down a declivity without brakes. What then? Will government perish? No, not government. Only freedom. The last sovereign act of pure democracy is to vote the obsequies of freedom. Dr. Edmunds says:

"Democracy has been aptly termed 'inverted monarchy,' the king and the majority having merely changed places. In fact, monarchies, autocracies, oligarchies, aristocracies, and democracies are fundamentally identical systems, with a mere variation in the numbers who wield uncontrolled power, or sovereignty. But the only instances in history in which a democracy has ever produced a condition of social order, with the semblance of justice, have been those paradoxical ones in which it ceased to exist, by sur-



rendering its supreme power into the hands of a single autocrat.

“This was so in Athens under the long rule by Pericles; in Rome, when Augustus, by the *lex regia*, received the supreme power from the people and inaugurated the empire; in France, when the revolutionary democracy made Napoleon emperor; and very recently in Germany, when the Social Democrats conferred upon Adolf Hitler the absolute and unquestioned sovereignty in his own person.”

ANOTHER new book about freedom is “By Vote of the People,” Willis J. Ballinger, “dedicated to the proposition that political liberty is possible only in a soundly functioning capitalistic economy.” This is a curious book. The author says, “There were few people I could trust with the secret that I was preparing a book attacking the New Deal’s sacred cow of government spending.” One wonders why that was a dangerous secret. Probably it was because Mr. Ballinger was supposed to be a New Dealer. Until 1946 he was economic adviser to the Federal Trade Commission and somewhat of a star in the firmament of “government economists.” Yet he seems never to have believed in the New Deal, certainly not in its Blue Eagle. Magnificent spending by government, with the plausible intent of providing people with purchasing power, is bound, if you go far enough, to destroy both capitalism and freedom—capitalism, because there is no sound recovery of a capitalist system from depression “unless the system can proceed on its own income power without financial assistance from government”; and freedom, because the sequel is bound to be a surrender of freedom by the people to the government in return for income and security. They might not realize what they were doing, not until it was too late, because:

“The approach of dictatorship in the life of a free people has always been an unalarming process for a number of reasons. Of great importance is the fact that the beginning of dictatorial government has always been a very pleasant experience for the people. The people find themselves rescued from unemployment and hunger. Government spending seems to promise economic security and the future seems bright for the masses. Under its hypnotic influence the people are ignorant of the truth that it is the process by which other free peoples lost their liberty, or that when dictatorship has been once firmly established their hopes for economic abundance will be rudely shattered. . . . The approach of dictatorship is also beguiling because dictatorship in a free government has always been established, with the solitary exception of Venice, by a

‘friend’ of the people. . . . Finally, the stealthy approach of dictatorship may be extremely difficult to detect because it may be precipitated by a political leader who actually believes in free government and who has no conscious intention of destroying it.”

And, finally:

“. . . Even if these people knew—which most of them don’t—that such an economic system would inevitably create dictatorship and extinguish freedom, the prospects of plenty would still entice them. Liberty which cannot be translated into a decent subsistence is lightly valued.”

From these induced premises the author turns to history. Beginning with Athens he identifies eight governments under which people have enjoyed political liberty and free enterprise. Of these eight only two were overcome by violence—Athens by the Macedonians and the Third French Republic by Hitler. The free government of Venice was overcome by fraud. The other five “perished peaceably *by vote of the people*,” namely, Rome, Florence, the First French Republic, the Weimar Republic and Italy. Thus:

“History presents the strange paradox of despotic government created by consent of the governed—a result as strange as if an absolute monarch had voluntarily relinquished his despotic powers and conferred sovereignty upon the people.”

Why did the people do it? The author finds that in every case they did it because economic conditions had become intolerable; free enterprise had ceased to function properly. Invariably the cause of economic distress was the concentration of wealth in the hands of a few. Here he says: “The economic force which has caused underproduction in every previous capitalist system is *the concentration of wealth*.” And the same cause, he believes, is acting here.

This is weak history. Mr. Ballinger is not an historian, and he writes, moreover, with a congenital hatred of great fortunes. The special capacity which makes some men far richer than others, he says, is “an ability to force, cheat and maneuver other people into giving up their liberty”; and he continues:

“Many legends have been written about the superior efficiency of the men who made great fortunes in capitalist systems. The sober truth is that great riches have generally not been the reward of unusual business ability, but of unusual opportunities to hold up the public—opportunities which democratic government should not have permitted. The exploitative techniques by

which wealth has been amassed have, in all ages, closely resembled the methods of the thief."

What would he say of the Ford fortune? Many times in the book he puts *the concentration of wealth* in italics and gives it as the one primary cause for the economic troubles that have historically brought about the ruin of capitalism and the loss of political liberty. And yet one cannot be sure what he means. If he means that the rich get richer and the poor get poorer, that might have happened in Rome; it certainly has not happened here, as anyone may know who will so much as glance at the changing picture of the American income tax structure. Again it seems that he means also monopoly and bigness, with no distinction between them. Both monopoly and bigness, he holds, systematically defeat the natural forces of production.

Of all the magnified simplifications of the economic story this is perhaps the one that has the widest appeal to popular imagination. Bigness, as such, may be assailed on grounds of social and public policy, but that it has generally retarded production in the American economy and strangled competition is certainly not true. Bigness is the American trade-mark and here the things that satisfy human wants have been multiplied as nowhere else in the world. One may say that with less bigness they might have been multiplied more. But that is somewhat like saying that if your aunt wore boots she might have been your uncle. It was necessary for Mr. Ballinger to identify a single cause because he meant to come out with a specific remedy. And his remedy is to restore free and unlimited competition, and to do this he would destroy every kind of monopoly, even if it had to be confiscated.

Labor monopolies are as bad as any other kind, he believes, and he would destroy these too. But how, if necessary, a labor monopoly could be confiscated he does not say.—G. G.

### *Enemy Ally*

THE use of the iron curtain may be not so much to conceal anything as it is to confuse the evidence, so that people will not know what reports to believe. When it is lifted or goes crash we shall find out who has been telling the truth. One of the very fine reporting jobs that has been done on Russia is "The Strange Alliance," by John R. Deane.\* He has that way of telling what he tells that causes something to click in your intuitive apparatus, provided your psychic mechanism is free. It is not a professional job, and all the better for that.

Major General Deane, now retired, was head of

\*"The Strange Alliance," by John R. Deane. Viking Press. New York.

the United States Military Mission in Moscow during the years 1943-45. Here then is the firsthand story of collaboration between the United States and Soviet Russia as allies in war. It began before we entered the war. One week after Hitler had attacked Russia a temporary committee in Washington was routing supplies to the Soviet Union. Food, munitions, machines, and industrial equipment were already moving before Russia had been formally declared eligible for Lend-Lease aid. In September, 1941, Averell Harriman for the United States and Lord Beaverbrook for Great Britain were in Moscow to prepare a program. What they offered was not enough:

"... They found that Stalin, Molotov, and Commissar of Foreign Trade Mikoyan, were difficult to deal with and shrewd negotiators. Harriman and Beaverbrook were given a rough time by Stalin when they presented their first list of offerings. He questioned the good faith of the Western Allies and the sincerity of their desire to assist the Soviet Union. Harriman and Beaverbrook, without benefit of advice from their governments, hurriedly revised their list of offerings. When the revision was presented to Stalin the atmosphere changed, the agreement was signed, Harriman and Beaverbrook were given their Kremlin banquet and departed for home."

That was the beginning. From October 1, 1941, to May 31, 1945, 2,660 ships were sent to Russia with 16½ million tons of Lend-Lease supplies, of which 15¼ million tons safely arrived. The cargoes included 427,284 trucks, 13,303 combat vehicles, 13,170 motorcycles and 2,328 ordnance vehicles; besides more than a billion dollars' worth of machines and industrial equipment, more than 2½ million tons of petroleum, food, medical supplies, clothing, and so forth, to a total value of \$11 billion.

The Military Mission arrived in Moscow in October, 1943, and after that the great American supplier's agent was on the premises to receive orders direct from the Kremlin. In Washington the word was to give Russian demands first priority. It was necessary only for the Russians to make a declaration of need and the order went through. How much waste there was, how much over-ordering, the Military Mission could never find out because "we were not permitted to observe the use made of American equipment." But once, when American technicians were called for to install some Diesel engines, the Military Mission discovered that the Russians had already received more engines than they had boats for and were ordering many more at a time when the engines were classed as "short supply." Still nothing could be done about it and they got the engines. Then came a very large order for aluminum, nickel, copper wire, and alcohol. All these were in "short supply," and for that

reason the Russians for once were asked to prove the urgency of their need. At this they were indignant. They took the ground that the Russian Government's word for it was enough. Moreover, the Russian Commissar who did the ordering threatened to appeal to Washington over the Military Mission's head, and then the Military Mission would see that for anything it could do about it the Russians would get their stuff. At this point General Deane says: "The hell of it was I was afraid he was right." Nevertheless, the Military Mission did insist upon having the facts to prove the need and it was supported in this position by the American Ambassador, until a telegram came from Washington signed by Harry Hopkins saying to give the Russians anything they wanted. That was final.

For anything they wanted the Russians could move fast enough, but if it was something the Military Mission wanted, such for example as air bases, they were dilatory, procrastinating, and forgetful, and this very often to their own disadvantage as it turned out. It was, as General Deane says, a strange alliance. Suspicion is an official Russian reflex. The outlander is an enemy always to be distrusted, even as an ally in war, even when he comes bearing \$11 billion of Lend-Lease aid—or perhaps most of all then.

General Deane's judgments are not harsh. Some of them are friendly. But the Russians will resent them, especially because he does not take them to be the most wonderful people in the world. His last chapter, devoted to their motivations and qualities, is remarkable for its power of penetration. There can be no doubt, he says, that Soviet leadership is obsessed with the idea that capitalism and communism cannot coexist in the world. One must destroy the other. In this warfare:

“. . . the tactics to be employed will vary with circumstances. If the end can be reached without resort to force, so much the better; if not, force will be used when it is safe to do so. Where the adversary is strong the advance will be delayed until a soft spot is found which will permit a further move forward. Whether the advance is accomplished by force of arms, by diplomatic maneuvering, or by psychological methods, it will always have the advantage of the unity of command that comes with centralization of authority in one individual. This means that the struggle will be directed without the diversionary influence of public opinion or the necessity of composing conflicting views regarding the tactics to be employed. Public opinion will be kept in hand through controlled propaganda, and public support will be enforced by the secret police.”

On the other hand, he believes:

“. . . that the democracies of the world have let their attitudes and actions be influenced by a

gross overestimation of the Soviet Union's present and potential strength. . . . It is true that Russia has almost unlimited natural resources, but industrially she is an infant. Even her natural resources are limited in their importance by a lack of communications which renders them inaccessible. She has begun an industrialization program which so far is restricted and specialized. Her industry is dependent on foreign machine tools, and unless assisted by foreign technical advice it is stumbling and inefficient. My experience and observations convince me that the Russian people simply do not have industrial 'know how' comparable to ours and that they will not attain it until it becomes inbred through several generations of industrial life. I base my conclusions on my observations of the tire plant they attempted to construct in Moscow, on the oil refineries they tried to build in several localities while I was in Russia, on the reports of our engineers regarding the maintenance of American equipment, on the visits I made to their factories, and on the writings of foreigners and Russians alike who have worked in Soviet industry.”

This is a crucial point. Can the Russians conquer the machine? Do they have the feeling of it in their hands? Is it possible for them to become a machine people? If not, their power is illusory. It is political only and cannot sustain itself in a machine world. Oswald Spengler's conclusion may have been forgotten. In "The Decline of the West" he wrote:

“The socialist theory of the present day has insisted upon looking only at the workman's contribution and has claimed the word *work* for him alone. But it has all become possible only through the positive and decisive achievement of the entrepreneur. Marx is quite right; this is one of the conditions—the proudest creations of the bourgeoisie. But he has failed to note that it is only the bourgeoisie of this one single culture that is master of the destiny of the machine. So long as it dominates the earth every non-European tries and will try to fathom the secret of this terrible weapon. Nevertheless, inwardly he abhors it, be he Indian or Japanese, Russian or Arab. . . . The Russian looks with fear and hatred at this tyranny of wheels, cables, and rails, and if he adapts himself for today and tomorrow to the inevitable, yet there will come a time when he will blot out the whole thing from his memory and his environment and will create about himself a whole new world in which nothing of this devil's technique will be left.”

General Deane says of the atomic bomb:

“. . . Until the Soviet Union has atomic bombs of her own, she will be restrained from crossing swords with those who have. It is true that her quest for this weapon has been facilitated by the knowledge that it is possible of attainment, but without our help she will not only have to

discover the formula but devote the resources, develop the ingenuity, and have the luck to translate it from theory to reality. . . .”

And again:

“Whenever I am asked how long it will take the Russians to produce an atomic bomb, I think first of the vast American plants at Oak Ridge and elsewhere and then of the way the Russians set up a tire plant which was already designed, built, and ready for installation; when I hear how long it is before the first tire rolls out of the Moscow plant I shall have some basis for guessing at an answer.”

And so how should we deal with the Russians? General Deane says:

“In preparing our counterprogram, plans should be worked out in advance regarding the action we should take in meeting a conflict of interests with the Soviet Union in each of the sore spots of the world. We should avoid settlement of such conflicts on an opportunistic basis without regard to the effect which action taken ‘here’ may have later in protecting American interests ‘there.’ I believe we can foresee now with considerable accuracy where the Soviet program and our counterprogram may clash. To mention only a few, there are the questions of the future of Germany, control of the Mediterranean, the future of Japan and Korea, American bases in the Pacific, and the control of atomic energy. If the action we plan in connection with these and similar questions is to be effective, it must have the support of American public opinion. This will be forthcoming if the people are authoritatively informed concerning the American interests involved in each case. Planning of this sort represents a colossal task.

“Passage of time and changing conditions will call for continuous revision. In many respects plans will be obsolete before they are completed and new ones will have to be prepared. However, since the preservation of the democratic way of life is at stake, we should certainly not balk at exerting extraordinary efforts.

“The chances of attaining our objective by peaceful means will be enhanced immeasurably if we are prepared to defend our position by force at any point where it is threatened. Nothing induces greater restraint on the part of Soviet leaders than a display of strength by their adversaries. In this connection I believe our military program should be designed to meet the specialized situation which war with Russia would entail. In such a war it seems evident that we should avoid being drawn into a land battle on the continents of Europe and Asia. This would be the type of battle for which Russia, with her huge Red Army, would be best prepared. . . .”

This book is in the rapids of current history.  
—G. G.

## What We Have Bought With Our Billions

*By Representative Alvin E. O’Konski*

**T**HE tragedy of Greece is an American tragedy. The tragedy of Greece is a plain indication that our national leadership has no more idea of which direction it is going now than it had for the past fifteen years. The tragedy of Greece is a tragedy of our own making and our own thinking.

From 1933 to 1941, the leadership of our country was crying for the poor Chinese who were being slaughtered by the Japanese. But at the same time our country was feeding scrap iron, gasoline, and money to the Japanese war machine. In that period our national leadership gave the Japanese more than 8,000,000 tons of steel. In that period, our national leadership gave the Japanese tanks and high-octane gasoline to a degree where Japan had enough war materials and money from the United States of America to fight a war against us.

The German war machine was built up and encouraged by the national leadership of the United States from 1933 to 1938. This was done under the guise of stopping communism in Europe.

Then we pour \$10 billion into Communist Russia and build them a war machine. With our \$10 billion we made them so strong that they are now threatening the peace of the world.

With our money, Yugoslavia has not only built its own army but it has called in the revolutionists of Greece and trained them in typical communist tactics. The Yugoslavian Communist Government now is infiltrating those revolutionists into Greece to start a revolution and civil war in Greece. Now comes the President of the United States of America before the Congress of the United States of America, pleading that we have got to pour hundreds of millions of dollars into Greece in order to save Greece from communism.

As far as I can see, in the past fourteen years we have had only one principle involved in our foreign policy. That principle has been to try to buy a potential enemy with money. It seems that the only destiny that our President has indicated for our country is more blood, sweat, and tears. More billions to build up potential enemies.

To continue to pour out millions abroad is merely playing the communist game to bankrupt us and destroy us. We can stop communism in Europe most effectively by refusing to finance it. Thus far our own nation has been the biggest financier of communism in Europe.

## Labor

# The Closed Shop

By Cecil B. De Mille

*Although it may be regarded generally as a problem in labor relations, the question of the closed shop has further and deeper implications. The jealous political principle of minority rights is involved. Opinion on both sides is torn. Employers are both for and against the closed shop and the silent thought of organized labor is divided. Perhaps the most interesting paper on this one subject so far presented to the Labor Committee of the House of Representatives was that of Cecil B. De Mille. Its main features are reproduced here.—Editor.*

THE American workman is regarded as raw material by most business management and most labor management. Congress must give the workman protection from both. I am not a big businessman. I am a union member who has had some personal experience of a union's power over its members. That experience and a citizen's interest in the general welfare of the United States are my only credentials before this committee. In a democracy these credentials are sufficient.

I am a member of the Screen Directors Guild. I am a member of the American Federation of Radio Artists (known as AFRA). I have been a member of AFRA since it was organized. Under AFRA's union-shop contract with the radio industry, every radio artist is obliged to join the union in order to work at his profession. In 1944 my local of AFRA levied upon all its members an assessment of \$1 to finance a campaign against a proposition appearing on the California ballot at the general election of that year. I personally favored the proposition. I refused to pay a dollar to oppose my own convictions as a citizen. For this adherence to my political right, I was suspended by AFRA and, under the provisions of the union shop, prevented from appearing on the radio program which I had produced for more than eight years.

Because I refused to pay a political assessment, I was deprived of the right to work.

I am not seeking from this committee a judgment on my individual case. I am stating it as one example—one example among many that could be

adduced—to show the power a union has under the closed or union shop.

There is no need of a fact-finding commission to spend months discovering facts that are clearly apparent to every member of the Congress and every citizen of the United States.

The only question is, Can the closed shop be regulated so as to protect fully the freedom and rights of the individual worker, or do the workers' freedom and rights demand the abolition of the closed shop?

For the purposes of this brief, I make no distinction between the closed shop and the union shop. In this use of language, I follow the precedent of President Franklin D. Roosevelt, who said, with reference to the United Mine Workers' demand for a union shop in 1941: "The Government of the United States will not order, nor will Congress pass legislation ordering, a so-called closed shop." (Quoted in Harold W. Metz, *Labor Policy of the Federal Government*, pp. 145-146.) While the union shop may allow the employer greater freedom in hiring than the closed shop does, the effect upon the individual worker is the same in either case. His right to work is made dependent upon membership and good standing in a union, and it is for the worker rather than the employer that I am appearing before this committee.

### 1. *The Closed Shop Is a Monopoly*

That the closed shop is a monopoly of labor is self-evident. A monopoly is defined as "exclusive control of the supply of any commodity or service in a given market" (Webster's *Collegiate Dictionary*, fifth edition.)

I am not here primarily concerned with the monopolistic aspect of the closed shop as it affects the employer or the industry in question. Much could be said about this. In my own industry, motion pictures, for example, there is no doubt that closed shop practices are keeping fresh and needed talent out of the industry. I could cite instances from my own experience. For more than thirty years I have felt it part of my duty to motion pictures to give a hand and a start to creative young minds. More than once recently I have found that I cannot do that any more in certain fields, where the union has decided that seniority is a substitute for talent.

But here and now I am more concerned with the monopolistic effect of the closed shop upon the individual worker. It monopolizes his very right to work. This fact is established by these words of the Supreme Court of California:

"Where a union has . . . attained a monopoly of the supply of labor by means of closed-shop agree-

ments and other forms of collective-labor action, such a union occupies a quasi-public position similar to that of a public-service business and it has certain corresponding obligations. It may no longer claim the same freedom from legal restraint enjoyed by golf clubs or fraternal associations. Its asserted right to choose its own members does not merely relate to social relations; it affects the fundamental right to work for a living. . . . The question presented . . . is not one of prices or of serving the public but one of employment. . . . However, the principle is the same." (*Joseph James v. Marinship Corp. et al.* (25 Calif. (2d) 721, pp. 731-732.)

My union, the American Federation of Radio Artists, is an example of a labor monopoly. It has an industry-wide contract, under which no one can work as a radio artist unless he joins AFRA and keeps in good standing in the union. I cannot work as a radio artist anywhere in the United States where AFRA's contract is in force because I refused to pay a political assessment. When a man's right to work depends upon his submitting to such an imposition, the union's monopolistic power is too apparent to require further proof.

Americans instinctively dislike monopoly. We recognize that some monopolies are necessary—but these are either publicly owned, like the post office, or placed under strict public regulation, like the telephone company. Transportation of the mails has been a government function since the beginning of our Republic; and, as Stuart Chase says, "You would go crazy with half a dozen competing telephone companies running a line into your house." (*Democracy Under Pressure*, p. 58.) But our American tendency and tradition is to restrict monopoly to areas where it is absolutely necessary and keep all other areas open to free enterprise. Thus the Supreme Court, in the *Associated Press* case, "held the bylaws of the *Associated Press* to contravene public policy because their effect was to restrict the entry of new publishers into the newspaper business." (*Ludwig Teller, A Labor Policy for America*, p. 135.)

American public policy then is antimonopoly. This policy should be invoked against any monopoly of the right to work. No likeness exists between the closed shop and such legitimate monopolies as the post office or the telephone company. If, as Teller says (p. 135), "there perhaps was a time . . . when control of the job market, though unjustified, was organized labor's only method for protecting its meager existence," that is not at all true today, when federal legislation explicitly recognizes and protects labor's right to organize and bargain collectively. In Teller's words again, "the right to combine in proper cases for mutual protection is one thing; the right to monopolize quite another" (p. 134). Coercion and collective bargaining are two

different things. There is a difference between an agreement and a hold-up.

The only way to end this unnecessary and dangerous monopoly is to abolish the closed shop.

## 2. *The Closed Shop Is Undemocratic*

Under the Wagner Act, a union is certified as collective bargaining agent for any unit of industry when it represents the free choice of a majority of the workers in that unit. This is a reasonable and democratic procedure.

But the advocates of the closed shop go further. They demand (and recent government policy has supported their demand) that the minority be forced to join the union of the majority's choice. This is not democracy. This, to quote President Roosevelt again, is "much like the Hitler method." (*Metz*, p. 146.)

Democracy in America has never meant that the majority has the right to enforce its will in disregard of the minority's rights. Democracy has worked in America because majority rule has gone hand in hand with minority rights.

Thomas Jefferson expressed the American concept when he said: "The minority possess their equal rights, which equal laws must protect and to violate which would be oppression."

Every worker in industry has an equal right to work. He has a right to join a union if he sees fit. He has a right to choose which union he will join. Federal law, as I understand it, guarantees these rights.

These rights are not lost to any individual simply because fifty-one per cent of his coworkers choose to exercise their rights in a different way. These rights are among the minority rights which Jefferson said equal laws must protect and to violate which would be oppression.

But the closed shop strips the minority of these equal rights.

If fifty-one per cent of the citizens of any county are Republicans, that does not mean that the other forty-nine per cent must join the Republican Party.

If fifty-one per cent of the people in any city are Protestants, that does not mean that the other forty-nine per cent must join the Protestant church.

This committee reports bills to the House by a majority vote—but the minority members of the committee do not lose their seats when they vote against the bill.

But a working man in a closed shop can lose his job if he opposes a union majority.

A Justice of the Supreme Court is not stripped of his robes if he dissents from the majority of his brethren.

But a worker in a closed shop can be stripped of

his right to work if he dissents from a union majority.

This is not democracy. It is collectivist absolutism. There is not an iota of difference in principle between it and the dictatorships which we have lately defeated on the field of battle. Hitler and Mussolini had their majorities. Did that make them right?

We are dealing here with what I can only call a false mysticism of numbers. The idea seems to be that some infallible wisdom resides in fifty-one per cent. This is a delusion common to both fascism and communism, if we can judge from the lengths to which both systems go to roll up majorities.

Our American idea of democracy is totally different. We accept majority rule, limited by a constitution, as the most practical and equitable alternative to anarchy. But, with us, the majority's rights end at the point where they would begin to infringe the equal rights of the minority.

One reason we must doggedly defend the equal rights of the minority is to safeguard one of the most precious of them—the minority's right to hold to its opinion and work by every lawful means to become a majority.

But the closed shop union is a grotesque departure from American democracy. Its power is absolute. Through control of the right to work, it controls the right to live. With this crushing weapon in its hands, it can make short work of any minority or any individual member who dares to oppose the sacred will of the fifty-one per cent.

### ***3. The Closed Shop by Its Very Nature Leads to the Invasion of Rights Guaranteed by the Constitution***

The Constitution guarantees to the people certain rights. It does not create those rights. Their origin is expressed in the second sentence of the Declaration of Independence: "We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are life, liberty, and the pursuit of happiness."

That sentence expresses the American philosophy of government. Scholars call it the doctrine of natural rights. But a child can understand it. Our Creator gave us the right to everything we need to fulfill our destiny as His creatures. No power under God can take those rights away, unless we forfeit some of them by crime.

The framers of the Declaration of Independence specified the rights to life, liberty, and the pursuit

of happiness. But they did not imply that those are our only unalienable rights. They said that life, liberty, and the pursuit of happiness are among the unalienable rights of man—implying that there are others. . . .

The ninth amendment is still more explicit: "The enumeration in the Constitution of certain rights shall not be construed to deny or disparage others retained by the people."

There is no right more fundamental than the right of the human being to work. It is by work that men live. The right to life, specified in the Declaration of Independence and guaranteed by the fifth and fourteenth amendments to the Constitution, clearly implies the right to work.

The closed shop places in jeopardy this fundamental right to work. I am not arguing the unconstitutionality of the closed shop in itself. That is a matter for the courts. I am stating the facts of the actual situation in our country, wherever the closed shop prevails.

These facts can best be seen in an industry-wide closed shop—which is the "ideal" aimed at by many unions. But the situation is comparable in any closed shop, in greater or less degree.

Wherever the closed shop prevails, if a union member is expelled or suspended by his union, he loses his right to work in that shop. In an industry-wide closed shop, he loses his right to work in that industry. In a completely unionized society, under a universal closed shop, expulsion from a union would mean complete and absolute loss of the right to work.

A closed-shop union, able to deprive a man of the right to work, is in a sense more powerful than government itself. The government does not claim the power to take away a man's right to work, unless he has been convicted of crime, after fair trial and due process of law. When the government puts a man in prison, it assumes the responsibility for keeping him alive, at least, with food and medical care—as well as shelter. A closed-shop union takes no such responsibility for a member who has incurred its displeasure. As far as the union is concerned, he is left with the right to starve.

The right to work is only one of the constitutional rights which the closed shop, by its very nature, tends to invade.

In my own case, the right of political freedom was invaded when I was given the choice between working or paying a political assessment.

You can read through the Bill of Rights and find scarcely one which has not been invaded by a closed-shop union.

The first amendment to the Constitution forbids Congress to make any law "prohibiting the free exercise" of religion. But a closed-shop union has



usurped power that surpasses the power of Congress in this respect.

No freedom is more precious to us than religious freedom, but I have seen a copy of a letter from a union officer to an official of a church, some of whose members had refused to join the union because, they said, it was contrary to their religious beliefs. The union officer wrote: "If we are compelled to enforce agreements and one of your people should take this stand, there is nothing else that we could do but to insist on its enforcement," which means that a man could not work if his religion forbids him to join a union. I am not at liberty to cite the names involved in this correspondence. Neither do I wish to discuss the tenets of any religious denomination. I quote only that one sentence from the union officer's letter, to show that at least one union is prepared to override religious freedom in order to compel men to join the union—and the closed shop gives the union the power to carry out its threat.

Congress is forbidden by the same amendment to abridge "the freedom of speech . . . or the right of the people peaceably to assemble." But in some unions no member dares to speak out or to combine with his fellow members against the entrenched power of the union boss or so-called union majority. It would make this brief far from brief if I attempted to list all the cases of infringement of free speech by closed-shop unions that have come to my attention. I will cite only one case, mentioned by the Senator from Minnesota [Mr. Ball], in a recent article: "A wireless telegrapher with a family to support was expelled from a union and lost his job merely because he spoke up in meeting against Communist leadership." (*Liberty*, January 18, 1947, p. 54.)

The first amendment further forbids Congress to abridge the people's right "to petition the Government for redress of grievances." But a Massachusetts teamster was expelled from his union because he appeared before a legislative committee on behalf of a bill that the union opposed.

The fifth amendment states that "no person shall be . . . deprived of life, liberty, or property, without due process of law." For any union member to appeal to the courts is practically equivalent to signing his death warrant as far as his union membership is concerned. In Hollywood, three members of one union were suspended for appealing to the courts against a political assessment—and two others were suspended because they spoke up in a union meeting in defense of the other three.

The eighth amendment forbids "cruel and unusual punishments." The courts cannot inflict such punishments—but a closed-shop union can deprive a man of his livelihood, often for the most frivolous of reasons. Only a few weeks ago, a young man in

Chicago was expelled from his union and his job because he drew a mustache on a picture of a union officer. The union has assumed more power than the courts. The union can inflict cruel punishment—and can make it "usual."

It is said by advocates of the closed shop—even by some judges—that the unions are justified in going to these lengths because otherwise their existence might be threatened. Is the existence of any private organization so important that this government should permit it to override the natural and constitutional rights of its citizens?

It is said that union members sign away some of their individual rights when they join the union. Is it sound public policy to permit this—especially when membership is not voluntary, but forced, as it is under the closed shop? On the contrary, any contract which pretends to sign away an unalienable right should be regarded as null and void. It is said that the constitution of the union permits these excesses and therefore the courts should sustain them. This raises the question which this Congress and the nation must face once and for all:

Does the constitution of a union take precedence over the Constitution of the United States?

Under the closed shop, it does.

We need a second Emancipation Proclamation to free those who have been forced to sign away their individual liberty.

That is the primary reason why the closed shop must go.

#### ***4. There Is at Present No Practical Redress Available to a Union Member Whose Rights Have Been Violated by a Closed-Shop Union***

Under a closed-shop contract the employer must discharge any employee when the latter is expelled or suspended by his union. In practical terms, for probably ninety-nine per cent of union members, this means that the man's livelihood is cut off. He may have small savings on which to live for a short time; he may be able to get another job in another trade or profession or business, usually at wages lower than he has been receiving—but these are matters of chance. He cannot do his chosen work, in which he is trained and skilled, in any shop where his union has jurisdiction.

The most ardent prounion advocate will grant that a union might unjustly expel a member. What can he do about it?

The union constitutions provide for appeals, from the local trial board all the way up to the national convention. The convention may be anywhere from 1 to 5 years from the time the member was expelled.



How many wage earners can wait that long without working?

The average union member cannot take his case to court. Most courts will insist that he first exhaust his remedies within the union—which may mean months or years of carrying a prejudged case through the farcical mumbo-jumbo of appeals from one union body to another.

But suppose he does exhaust his so-called remedies within the union and is still not satisfied that justice has been done him. He may then go to court—and face, with his meager resources, the expensive talent of the union's legal department and the union's increased determination to make an example of him. Let us be realistic. How many workers—even if they were working steadily—could afford the long-drawn-out litigation thus forced upon them? How much less can a man afford it when he has been out of work for months or years?

The average man has absolutely no available redress of wrongs done him by a closed-shop union. The average union member, wronged by his union, has to battle with empty hands—with hands emptied when the union took away his right to work. What chance has he? To say that he has any chance is to deal in fictions as cruel as they are unreal.

It is not surprising that men and women with no income but their wages, with families to support and educate, many with debts to pay, have submitted to wrongs imposed by closed-shop unions rather than face the impossible task of seeking redress.

It is not surprising, but is it any longer tolerable? That is the question which this Congress must answer.

### ***5. Nothing Short of Abolition of the Closed Shop Can Effectively Remedy Its Abuses***

A poultice will not cure a cancer. Regulation cannot remedy the abuses to which the closed shop, by its very nature, tends.

The closed shop, controlling the individual's right to work, represents absolute power.

The only way absolute power can be controlled is by rendering it no longer absolute. The only way to eliminate the corruptions born of the closed shop is by taking control of the right to work out of the hands of any private individual or group.

If all unions were administered by angels, absolute control of the members' right to work would still be too great a power to leave even in angelic hands. And the record shows that union power is all too often in hands that are all too human.

Numerous proposals to regulate the closed shop have been put forward by sincere men who are fully

aware of its abuses. But I submit to this committee that no law or set of laws could be drawn that would forestall all the possible abuses, because no legislative body could foresee their limitless extent.

Who could have drawn, ahead of time, a law to protect the boy who lost his job because he drew a mustache on a union officer's picture?

Such regulatory laws would necessarily have to be worded in general terms. Their interpretation would necessarily be left to the courts. And we have seen that appeal to the courts is, for the average union member, an illusory privilege.

The vices of the closed shop are not accidental. They are inherent in its nature. They grow directly out of putting control of the right to work within the power of the union—which is the very essence of the closed shop.

The only practical result of attempting to regulate the closed shop would be to create another army of bureaucrats, reaching into the internal affairs of unions and businesses, patching and tinkering with a system that would inevitably defeat their efforts because its power is absolute. Attempting to regulate the closed shop would only extend the reign of administrative law, of which we have had more than enough. The result would be confusion worse confounded and corruption made more easily corrupt. Abolition of the closed shop is the only answer.

### ***6. Labor's Gains Need Not Be Adversely Affected by Abolition of the Closed Shop***

The Senator from Oregon [Mr. Morse] is quoted by the Associated Press as saying, "We have to protect working men from employers who want to destroy the right to organize for economic benefit." (*Hollywood Citizen-News*, February 5, 1947, p. 1.)

I am entirely in agreement with that statement.

I need not tell this committee the story of the unions' rise from handfuls of brave pioneers, defying the economic tyranny of shortsighted employers, to the great organizations that they are today. Through organization and collective bargaining, the unions have won substantial gains for labor.

I do not want to see any of labor's just gains destroyed or diminished.

The abolition of the closed shop need not either destroy or diminish them.

Present law guarantees labor's right to organize and bargain collectively. Abolition of the closed shop will not touch that right.

Present law, forbidding the "yellow-dog contract," guarantees the individual's right to join a union without loss of his right to work. The closed shop is simply the "yellow-dog contract" in reverse.

Abolishing it will not affect a man's freedom to join a union. It will restore his freedom to join or not to join as he sees fit.

Abolition of the closed shop will not affect wage-and-hour legislation or legislation governing working conditions. It will not affect the unions' right to campaign by lawful means for improvements in wages, hours, and working conditions, wherever improvement is needed and possible.

Abolition of the closed shop will not weaken the unions—if the unions are doing a job for their members. Any man will gladly and freely join an organization whose benefits to himself he plainly sees.

Union leaders must have little faith in their unions if they claim that the closed shop is necessary to the union's existence.

The Railway Labor Act specifically forbids the closed shop on the railroads. Yet the railroad unions are among the strongest and best in the country.

The success of the railroads unions is not explained away by saying that they succeeded in spite of open shop. To stop with that observation is to neglect the most significant fact, viz., that these unions became powerful not in spite of but because of open-shop conditions.

"The explanation is simple. The abolition of continuous compulsory membership placed the control of the unions in the hands of the employees and prevented it from reverting into the hands of union officials. The employees now had the whip of rejecting an unsatisfactory union. Normal political opposition within the union could not be aborted because there was no job control in the hands of the officials. The result was that the unions became truly representative; the union officials were secure so long as, but only so long as, they performed their functions honestly and efficiently; wherefore they performed their functions honestly and efficiently. Employees in unorganized units, no longer fearing racketeering or maladministration and no longer fearing being organized only to be sold down the river, flocked to the unions. Under those conditions unions served their needs, did their bidding, sought sane solutions for their problems. Thus unionism spread in the railroad field, and thus it continues to spread, because unions cannot rest upon force; they have to be good to succeed. To succeed, they become good; being good, they succeed in larger measure." (Bernard H. Fitzpatrick, *Understanding Labor*, p. 158.)

With this example before us, we can justly be suspicious of those who cry "antilabor" whenever the closed shop is criticized. Are they interested in labor or their own power?

In point of fact, abolition of the closed shop will be pro-labor legislation—if by labor we mean the man who does the work. It will free him from a

serfdom unparalleled in American history since the abolition of slavery.

There is only one argument for the closed shop that has any shadow of merit—the argument of the "free ride." Its proponents say that if a union gets benefits for all the workers in a shop, all should bear a fair share of the costs of negotiating and administering the contract. The reasoning is sound, but the conclusion—that therefore every worker should be forced to join the union—goes far beyond the premises. It would be one thing if a man could pay tribute to a union for the benefits he receives and then be let alone to live his life and pursue his destiny in freedom, but it is entirely another thing when, after having paid his tribute and become a member, his entire life is circumscribed and his fundamental rights laid open to invasion by the union—as we have seen above.

The free ride can be wholly eliminated, without the closed shop. It has been done in Canada. It can be done here. If nonunion workers derive real benefits from a union contract, they can reasonably be expected to pay a fair share of the cost of negotiating and administering the contract. This formula is in operation in some twenty Canadian plants and seems to work to the satisfaction of all concerned.

This involves no signing away of freedom or rights. The nonunion worker retains his rights, but pays a reasonable charge for services rendered, comparable to the fees one might pay an attorney or an agent.

Some such arrangement could be written into our law—not as compulsory, but permissive. It would demolish the free-ride argument completely. It should of course provide that the service charge must be fair and not excessive. Political assessments and other improper levies should be absolutely banned in any case.

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## Senator Wagner on the Wagner Act

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*Senator Robert F. Wagner's contribution to the subject of new labor legislation is a long statement in which he finds the National Labor Relations Act—called also the Wagner Act—to be practically perfect. The statement appears in the Congressional Record, March 5 last. Excerpts from it follow.*

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**C**ONGRESS is currently engaged in reviewing our national labor policy. If this examination is to be fruitful, we in Congress and the public generally must guard against being sucked into the

swirling pools of misleading propaganda which have surrounded so fundamental a measure as the National Labor Relations Act. Before we determine whither we go, it is well that we know whence we come and where we are.

We may begin with a single fact: organized labor has grown in membership from about 3,000,000 when the National Labor Relations Act was passed in 1935 to about 15,000,000 in 1946. This is a simple fact, but of elemental significance. It shows that as soon as the obstacle of employer interference was removed, American workers eagerly sought to exercise their right of self-organization.

Moreover, all the propaganda to the contrary notwithstanding, the phenomenal growth of labor organization has taken place without any diminution of the employers' constitutional right to free speech in labor relations. The talk of restoring free speech to the employer is a polite way of reintroducing employer interference, economic retaliation, and other insidious means of discouraging union membership and union activity, thereby greatly diminishing and restricting the exercise of free speech and free choice by the working men and women of America.

### ***Groundless Forebodings***

The grave forebodings now so widely broadcast concerning the consequences of foremen's collective bargaining are contradicted by actual situations where such bargaining does exist, and will prove as groundless against the experience of the next decade as the equally dire prophecies of a decade ago concerning the effect of collective bargaining generally.

Labor's increasing interest in the operation and conduct of industry carries with it responsibility for results. Even in the few exceptional crafts and industries where make-work schemes, generally known as featherbedding, are practiced, labor's interest in productivity would prevail were the fear of unemployment banished.

Ill-advised as these practices are, their effect on our economy is insignificant compared to capital monopoly and cartel restrictions of production and price-fixing.

But collective bargaining alone is inadequate to provide for full employment and adequate social insurance in our complex society. That responsibility rests upon the government. This has been recognized by our social security laws and the Full Employment Act of 1946. Our system of free enterprise and political liberty cannot survive without economic security for the mass of our people.

To apply the antitrust laws to business encourages competition in prices and is economically desirable. To apply the antitrust laws, however, to

break up unions would promote competition to reduce wages and the purchasing power of the workers.

In case of an unauthorized strike, in violation of the contract, sanctions and penalties are provided against those who are responsible or who participate in it, including the union, union leaders, and the employees. Under the National Labor Relations Act, employees may be and have been discharged for violation of an agreement.

### ***Wildcat Strikes Will Cease***

I personally believe that as employers, union leaders, and employees gain maturity in the process of collective bargaining, the unauthorized strike will have gone out of existence irrespective of the presence or absence of sanctions in the trade agreement.

Even now unions may be sued as entities in the federal courts and in many of the states. Contrary to expectations, employers would suffer most from court litigation because there are many more grievances of employees against employers than vice versa.

A favorite and oft-repeated charge is that the National Labor Relations Act is one-sided because it imposes obligations on the employer without imposing corresponding duties on the unions, particularly for the protection of the individual union member against arbitrary union leadership. This claim ignores a whole body of case law by the National Labor Relations Board and the courts, which constitutes an ever-growing system of union regulation having as its purpose responsibility by the union to the rank and file.

The Supreme Court itself has declared that federal protection of collective bargaining has imposed upon unions obligations analogous to those of a legislature to protect equally those they represent.

Our constitutional system does not consist solely of the few pages of the written document but of the whole living framework of laws, court decisions, and political practices. Similarly, the National Labor Relations Act, as interpreted and applied by the NLRB and the courts, has, through the inner logic of its relationships, become a bill of rights for the protection of individual and minority rights. I welcome the deepening of this trend.

Together with my fellow Americans I am, however, deeply disturbed at the rash of strikes which have occurred during reconversion from war to peace. It would be well, though, that in examining proposals dealing with this problem we should not mistake hysteria for statesmanship.

The recent headline strikes have not been organization strikes but those arising out of differences over conditions of employment, chiefly wages. The

National Labor Relations Act has proved successful in its purpose of reducing to a minimum strikes arising over union recognition which in the past loomed largest and were the most difficult to handle.

It wouldn't do to take refuge in irrelevant issues such as the proposals made in regard to picketing. The current wave of strikes, with a few minor exceptions, has been as free from violence as a Sunday-school picnic. The elimination of the labor spy, saboteur, and strikebreaker and the thorough organization of labor have eliminated violence and the sit-down as strike factors.

### *Picketing Issue Irrelevant*

There is little evidence that local authorities are unable to deal with picket-line violence. The attempt to revive the labor injunction might hamstring labor and result in bloodshed, but would contribute not an iota to reducing the number of strikes.

Similarly lacking in reality are proposals that would make strike votes mandatory. The strikers are those who sustain greatest economic loss and risk losing employment through being displaced in strikes. Despite this, strike leaders have had the unbroken support of the rank and file, in many cases the strike pressure coming from below.

More in point are proposals dealing with the settlement of labor disputes and limitations on the

right to strike. The proposal for strike limitation calling for the "cooling-off" period has been discredited by our war experience as a solvent of labor disputes. Prohibition of the right to strike can be effective only in dictatorships under a system of industrial serfdom. Compulsory arbitration has not been successful in eliminating strikes where it has been tried in democratic countries such as Australia and New Zealand.

There is no short-cut panacea for the solution of the strike problem within the framework of a democratic system. Ultimate reliance in industrial democracy, as in its political counterpart, must be placed, not on suppression, but on the willingness of the parties involved to resolve their differences by mutual accord.

There has come to public notice significant evidence that labor and management are relearning the art of collective bargaining neglected during the war.

With the end of war fatigue and the quieting of war nerves, with the dissipation of inflationary pressures by full production, and with the bridging of the gulf between wages and the cost of living, we can expect more maturity in collective bargaining—if it is given a chance. With this will come an era of industrial peace and harmonious labor-management relations, fulfilling the objectives of the act of which I am very proud to be the author.

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### **Any Legislation**

**W**HAT is any legislation but class legislation or the formulation by one group of people of what they deem a policy in their interests? Few laws are passed by unanimous consent. It follows, then, that tariff legislation is class legislation in the interests of manufacturers; that free trade is class legislation in the interests of consumers; that our laws protecting property are class legislation handed down from the Middle Ages when the property holding classes controlled the government, made the laws, and directed their administration.

—*Samuel Gompers, in "Labor and the Common Welfare," about 1912.*

# Now Back to Banking

*As the one great borrower stops borrowing and begins to pay*

*\*By Joseph M. Dodge*

President of The Detroit Bank

**T**ODAY the banks are living in a situation which is completely changed from a year ago. Their biggest and best borrower [the government] has stopped borrowing and begun to pay its debts. The force which dramatically inflated bank deposits, supplied banks with prime and liquid assets, and automatically injected money means into the hands of individuals and businesses has reversed itself.

This force made debt payment easy, and practically nobody failed at anything. Without government deficit financing and new government borrowing and with government debt payment, deposits will stabilize or decline except as they are offset or increased by the shift of funds to banks from non-bank holders of paid-off government bonds and new deposits with their source in nongovernment borrowing. That means we are engaged in a process of shifting our assets from nonrisk to risk, and not the least of these is mortgages.

Banks have the largest source of available mortgage funds. New loans are being made by banks at a tremendous rate. Many are being made and will be made at peak prices and perhaps peak costs. We have some obligations and some problems in relation to this situation. Let us consider a number of them.

1. "Easy credit" has become a political lending slogan. It has undermined the good sense of entirely too many people. Translated into plain English, it is merely an invitation to go into debt. Debt is easy to get into and may appear to be a pleasant and profitable idea. However, when you are in debt and have to meet the principal and interest payments, it has other aspects not so comfortable.

In an age when everyone is being encouraged, from every side, to mortgage his future earnings, it is always well to remember that one of the obligations of bankers is to defend the borrower from unwise commitments, and to establish him as the owner of the property, not merely the renter or user. It is not easy to deflate an inflated selling price by making a realistic appraisal, yet it must be done.

It is particularly difficult now, when bankers are extremely anxious to get back into the lending business and out of the government bond buying business; also because lending opportunities are always most tempting at market peaks. However, that is the time when judicious resistance will pay large dividends in later good will.

2. The liquidity and safety back of expanded bank deposits has been multiplied by the combination of a liquidation of old debt and the acquisition of large amounts of prime assets. It is much greater than the normal ratios of capital coverage on risk assets. Deposits are and will remain expanded, but excess funds will convert into risk assets more rapidly than capital ratios can increase. This suggests care in the amount and quality of risks accepted in the present market.

3. The conversion of two per cent or two and one half per cent governments to four per cent mortgages appears desirable and attractive, but the cost of carefully investing in and properly servicing \$5 million of mortgages is substantial compared to the cost of investing in and servicing the same amount of governments. If the loss in liquidity and the risks assumed are taken into account, the interest differential in favor of the mortgage is not as great as it may seem to be.

4. At the rate mortgage loans are being made, and at prices which substantially increase the average mortgage, mortgage loan totals will rise more rapidly than you think. Surprisingly enough, some banks are loaned up now. You may find you have to stop lending sooner than you expect, particularly if you do not overlend as in the past, and give proper regard to the capital coverage on increasing risk assets.

5. Good banking standards also will suggest the advantages to banks, home buyers, and the economy of having available a substantial lending power when it is most constructive to use it, and most needed by the economy. There will come a time when it will be more of an advantage to expand loans than it is now, and when refusing loans or demanding payment will contribute to an economic

\* From an address before the American Bankers Association.

downtrend. Also consideration of good banking standards will restrain any contribution toward further price inflation and the already dangerous supply of monetary means (inflationary potential) now existing.

6. Prices of land, materials, and labor are extremely high. New building will proceed to catch up with the demand. There will be fewer shortages of building components and there will be an improvement in quality, design, and workmanship. This will add depreciation and obsolescence to structures built at their present prices. There is some danger of new construction being priced out of the market, and it is not impossible there may come a time when we will find a substantial amount of builder capital and bank loans frozen in unsold houses. Without conservative appraisals the equities in loans made now or made recently will tend to disappear.

7. Certainly this is not the time to be led astray by the volume accomplishments of unsound competition. It is the standards set by the competition of opportunists which lead banks into transactions that appear to give them a temporary advantage but which, at the same time, sow the seeds of longer-term losses and instabilities in the economy. There is ample evidence that there are too many decisions being made today in the mortgage-lending business which have their foundations solely in the objective

of immediate profit and entirely overlook the indirect and longer-term effects of the immediate transaction. The diseases arising from shortsighted motives and policies, particularly if they become epidemic, in the past have been sources of a number of major banking problems. I refer specifically to the mortgage-lending boom of the middle 1920's. One of our most important economic and financial obligations is not to repeat any of them.

8. We have been working in a falsely stimulated economy where neither business nor prices has been under pressure for years. There has been no test of either banks or borrowers for a dozen years. The odds are piling up against this continuing much longer. Any real reversal of the present activity and price level may lead to a depreciation of the quality of risk assets.

9. Whether for the individual mortgage or the total mortgage investment portfolio of a bank, sound standards require taking into account the fact that the level of business in the immediate past has not been normal, and we are not necessarily in a permanent new level of economic activity. The much-discussed correction or recession, if it takes place, perhaps would only reduce the level of economic activity to one which, in the past, has been looked upon as extremely prosperous. Nevertheless it would bring its problems.

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A leader is best  
 When people barely know that he exists,  
 Not so good when people obey and acclaim him,  
 Worst when they despise him.  
 "Fail to honor people,  
 They fail to honor you."  
 But of a good leader, who talks little,  
 When his work is done, his aim fulfilled,  
 They will all say, "We did this ourselves."

—*Tao Teh Ching.*

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