

American Affairs

A Quarterly Journal of Free Opinion

OCTOBER, 1947

Autumn Number

VOL. IX, No. 4

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SUPPLEMENT

Shall Government Subsidize Our Public Schools?

BY ROBERT A. MILLIKAN

An American Affairs Pamphlet

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Notes on the Contents

The Leaning Tower of Dollars. Warren F. Hickernell is well known for his lectures and writings on panic and depression. Until recently he was head of the Tax and Finance Division of the Department of Commerce, and before that he was economic analyst with the Bureau of the Census. Author of "Financial and Business Forecasting" and "What Makes Stock Market Prices."

False Thinking About Exports. Leverett Lyon is chief executive officer of the Chicago Association of Commerce and Industry. He is the author of "Government and Economic Life," "The Economics of Open Price Systems," and many other books on politics and economics, besides being co-editor of "Text Books in Social Studies."

Moscow's American Forecast. W. A. Jansen is an assumed name. The author is not Russian, but the Russians know him very well, and he has near relations in Soviet Europe who might be troubled. It may be said only that he is an economist with a diplomatic background.

The Taft-Hartley Act. Murray T. Quigg wrote the *American Affairs Pamphlet* entitled "The Law of Labor." He is a member of the New York Bar, was formerly editor of *Law and Labor* and has devoted himself to the study of the principles of political freedom as they apply to an industrial society, with its large-scale organization of work.

The Liquidation of War. Arch W. Shaw, who has retired to an observation tower, was Conservation Director of the War Industries Board in World War I and later Chairman of President Hoover's Committee on Recent Economic Changes, which produced a classic work of reference. He has had, moreover, a successful business career. This article is an abridgment of a pamphlet entitled "The Individual and the Postwar Period."

What Technology Has Done to Us. This disturbing paper by Dr. Roland P. Soule was the feature of Alcoa's Tenth Annual Engineers' Night, at the Hotel Schenley, Pittsburgh, April 28, 1947.

The Price of Freedom. H. W. Prentis, Jr. This is an abridgment of an address delivered at the Midwestern Conference of the Controllers' Institute. Mr. Prentis, who is president of the Armstrong Cork Company, came to business long ago from the academic world. He is widely known for his tireless devotion to educational work and public service. His speeches on the meaning and principles of freedom are memorable.

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.

Published Quarterly by National Industrial Conference Board, Inc. Editorial Office, 247 Park Avenue, New York 17, N. Y. Cable address, NICBOARD, New York. Subscriptions, \$2.50 per year postpaid. Single copies 75 cents. Multiple subscriptions available to Associates of the National Industrial Conference Board for mailing to more than 25 separate addresses, \$1.50 per year.

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GARET GARRETT, *Editor*

OCTOBER, 1947

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Review and Comment

By the Editor

IT is solemn economic jargon to say that the British Government has suspended the convertibility of the pound sterling. What it has suspended, or thinks it has suspended, is the function of price; and what else it has done has been to drive convertibility into the black market. For all the British Government can do, the pound sterling *is* convertible into dollars at a price, and so is any money that is current, even Chinese money. The simple fact is that the world does not think the pound sterling is worth four dollars. The British Government says it is. The International Monetary Fund says it is. Therefore that is the official price. But when, under the terms of the Anglo-American Loan Agreement, the British Government undertook to keep pounds and dollars interchangeable at that official price everybody with a pound wanted four dollars for it and nobody with four dollars would give them for a pound. Thus there was a flight from pounds to dollars. At the end of five weeks the British treasury had to give it up. But instead of letting the pound sterling fall to a price at which the world would not think it was overvalued in terms of dollars the British Government said: "We suspend convertibility."

THE magnificent purpose of the International Monetary Fund was to enable member nations to correct "maladjustments" and states of "disequilibrium" in their trade accounts with one another without resorting to restrictive measures that would be injurious to trade. *Maladjustment* and *disequilibrium* are euphemisms for either a bad debtor position, which may come from over-borrowing, or an adverse balance of trade, which is from buying more than you sell. Well, the International Monetary Fund now is working. If you look at the foreign exchange table in the daily press you will see a wonderful thing. Officially there is perfect monetary stability in the whole world. In

terms of the American dollar the value of other people's money changes hardly at all from day to day or from week to week. But behind these appearances there is nearly everywhere a black market in money, and even where there is no black market there are unofficial rates very different from those you read in the exchange tables. Officially and for all purposes of intergovernmental transactions the pound sterling is quoted at \$4.03, and yet privately in Wall Street you can buy a pound sterling for less than three dollars. Actually, as everybody knows, all over the world there is a concealed monetary chaos, and, contrary to the expectation that the International Monetary Fund would enable countries to correct "maladjustments" and "disequilibrium" without resort to measures injurious to trade, barriers are everywhere rising against American goods. Great Britain has insisted that the terms of the Anglo-American Loan Agreement be modified to permit her to buy more within the British Commonwealth where she can pay with pounds and less from the United States, where she has to pay in dollars, even borrowed dollars. This was one thing she had undertaken not to do because it means discrimination against American goods. This you might have expected.

BUT Latin American countries also are raising barriers against American goods. Hardly was the ink dry on the American loan to Mexico, which was to support the peso and sustain American-Mexican trade, when Mexico announced measures to restrict the buying of American goods. Brazil has suddenly increased her tariffs against American goods. Argentina is doing it. Referring to the "wide restrictions on imports" announced at mid-year by the Central Bank of Argentina, Samuel Montague & Company (London) in its foreign exchange circular said:

"It is not entirely unexpected, as it was known that the government had been making large purchases in the U.S.A. for the National Five-Year Plan; furthermore, the quays on the Buenos Aires docks are stacked

high with crates crowded with vehicles of all kinds, especially lorries, jeeps, *et cetera*, American surplus stocks of war materials. The Argentine authorities are meeting the situation by taking steps to check their heavy flow of imports."

Canada's foreign trade presents a very lively picture, exports and imports both rising, and yet in her account with the United States there is a serious "disequilibrium" and proposals for correcting it go so far as the suggestion that the amount of money Canadian tourists may spend in the United States shall be limited by law. The *Financial Post* says:

"If the United States takes no steps to meet the European need until some time in 1948, then Canada, like Great Britain, may inevitably have to take pretty stringent and restrictive measures to conserve her dwindling supply of U. S. dollars. Equally, if the Marshall Plan were to collapse entirely, it would be inevitable that Canada would have to reorient her economy almost entirely."

THE truth is that the appearance of monetary stability, vouched for in the foreign exchange table by the line "Rate under International Monetary Fund," is an illusion bought and paid for day by day with American dollars. The truth is that the "disequilibrium" of the world in its accounts with the United States is so extreme, so incredible, so far beyond every shape of experience since the beginning of international finance, that no one can imagine how it may be corrected by any known formula save one, and that one is the formula of free disaster. Somehow it will have to correct itself. The prospect, including the dread of disaster, is commonly accepted with a kind of fatalism. People say the circumstances to begin with were beyond all historical experience. In the postwar world it was only the United States that had a great surplus of productive power; therefore it was obliged to assume the role of universal supplier whether anybody could pay or not. That is true for only part of the way. In so far as it may be true it need not have entailed ruinous consequences. When and if the debacle comes we shall say that some of the worst consequences were unnecessary. Why, for example, should the quays of Buenos Aires be groaning under the weight of American goods? Argentina was not a war-torn country. It was richer after the war than before. Why couldn't its Five Year Plan have waited on the reconstruction of Europe? Partly the "disequilibrium" of the world in its account with the United States is owing to that illusion of monetary stability created by the International Monetary Fund. When it came time for the International Monetary Fund to fix the exchanges, meaning by that the value of the pound, the French franc, the

Argentine paper peso and so on, in terms of the dollar, it was obliged to accept in each case the member country's valuation of its own money, and since every foreign country was going to be either a borrower or a buyer in this dollar country it valued its own money as high as it could. The result is that every important currency in the world is overvalued in terms of the dollar, or, to say it the other way, the dollar is undervalued in terms of foreign currencies. The effect of this is to cheapen the cost of American goods valued in foreign currency; it is as if we had subsidized American exports in favor of foreign buyers.

ONE of the ruinous ideas current in the world is that the United States produces annually an enormous surplus of wealth that must somehow be disposed of in foreign countries. Sir Stafford Cripps, President of the British Board of Trade, says:

"There is a balance of production in the United States of some \$12 to \$13 billion a year, which must be transferred to the rest of the world or the rest of the world must go without."

He exaggerates it somewhat. Our deliveries to the world over what we receive from the world (our net exports) may amount this year to \$10 billion. Last year they were considerably less. You may take the average for two years to be roughly \$7½ billion. Multiply \$7½ billion by four and you get \$30 billion. Right? Hold that figure in your mind for a moment; it will be coming back. In response to the so-called Marshall Plan sixteen deficit European countries, led by Great Britain and France, assembled their finance ministers, their experts and their economists in Paris to determine the very minimum amount of American aid they would need in the next four years. After some weeks of very earnest figure work they arrived at the sum of approximately \$30 billion. The American Government had not intended to interfere. The idea was that the European nations should write their own balance sheet and present it. But when the State Department heard of this astonishing statistical coincidence it sent representatives to Paris to say the figure of \$30 billion was fantastic. In any case the American Congress would never consider it. At this the sixteen nations were not only hurt; they were, to use the words of newspaper correspondents, stiff and recalcitrant. They scaled their figure down but they did it with very ill grace. Their attitude may be explained by reference to a second idea, namely, that the Americans must go on disposing of their surplus production abroad to keep their inflationary boom from going bust. Europe got that idea first from the

Russians. Now it is current in all of Europe. One of the pleasant occupations of the experts of the sixteen countries in Paris was to calculate the disastrous effect upon the American economy if, for want of dollars, they all stopped buying American goods. The French foreign minister said: "The United States is in as great need of lending as we are of borrowing. The timing of the American crisis is problematical; that of Europe exists. The first will be a crisis of overproduction; the latter is a crisis of penury." Mr. Morrison, British Lord President of the Council, has said that American gifts to other countries are a positive advantage to the American economy, promoting stability and higher employment in the United States. Well, but the same idea now is current in American thought. All who advocate sharing our wealth with Europe give other reasons, too, but they never fail to say that an outlet for our surplus production is thereby provided. In his mid-year economic report to Congress the President called attention to the fact that the rise in our national income in the first half of 1947 was largely accounted for by the rate at which foreign countries were spending their borrowed dollars for American goods.

IN that same mid-year statement the President said it must be made clear that we do not embark on foreign programs as "a device for supporting maximum production and employment at home." Then he said that for the sake of the same foreign aid programs we must be willing to endure "temporary shortages for a few commodities within the United States." How is this? A rising national income with shortages at the same time to be endured. One or the other must be illusory. Since we know that the shortages are real, then it is the rise in the national income that must be illusory. Certainly so much of it as may be owing to what the President calls "the effect of these transactions upon the total flow of the nation's income" is dangerously deceptive. Adding to the national income the cost of American aid to foreign countries is a fiction of accounting practice, like putting a profit and loss deficit on the asset side of the balance sheet, only to make the figures balance in the last line. All you need is common sense to know that the national income cannot be increased by transferring goods away to foreign countries. If there is any reasonable expectation of repayment at some future time you may call it an investment, but an investment is not income; if there is no such expectation of repayment you are obliged to regard it as a loss, not income. The delusion of income arises from the fact that the millions whose labor goes abroad receive money wages and their wage money is added to the statisti-

cal picture of national income; but to receive money for your time, so much per hour, is not the same as to receive payment for your work. Whether or not you do actually receive payment for your work will depend upon what happens to the buying power of your wages. This is to be explained.



FOR two years Europe's principal export to the United States has been threat of civil war, revolution and communism, not to mention the threat of revenge in the future such as *The Economist* imagines when it says:

"For the present the Americans still retain the power to make the British Government jump through any hoop they choose. A time will come when Britain will be able to do without dollars at a cost that will be bearable. Do the Americans, when that time comes, want the British to regard the cutting loose from America and the erection of the barriers against America as a boon so great that the highest bearable price will be cheerfully paid for it at the earliest possible moment?"

During the same two years our principal exports to Europe have been what? Not dollars. Not surplus wealth. These are abstract terms. Nor has it been simply a catalogue of food products, raw materials and tools. One thing only we have exported to Europe and that is American labor. Continuously since V-E day the labor of certainly more than three million Americans has been delivered to foreign countries, not in exchange for anything but on credit or by gift. We are exporting coal to Great Britain. What does that mean? It means that American coal miners are digging coal for British coal miners, the British miners digging less and less for their own country as they shorten their hours of labor. Mark that this is not a voluntary contribution of American labor to foreign countries. The American coal miner does not say, "Now I will dig some coal to ease the life of the British miner." He has nothing to say about it in the first place; and to make it worse he may not in the end get paid for it. When the American Government lends dollars to the British Government it does not say: "Here are so many dollars. Put them in your pocket." No. It says: "This entitles you to command so much American labor." The British Government spends the dollars for many things, including coal. The American coal miner receives wages for digging the coal for Great Britain, since Great Britain has borrowed from the American Government the dollars with which to pay his wages, but when the American coal miner comes to buy something with his wage dollar he has to spend it in competition with Great Britain's borrowed dollars and this competition for the available supply of food and goods of all kinds

causes prices to rise; that is to say, it causes the buying power of the miner's dollar to fall, and if it falls far the value of the wage he received for digging coal in place of the British miner is canceled out and he gets nothing for his work.

WHEN *The Economist* can say that Great Britain has the feeling of being "driven into a corner by a complex of American actions and inconsistencies which in combination are quite intolerable," and that while many do not believe with the Communists that "it is the deliberate intent of American policy to ruin Great Britain, still the evidence certainly can be read that way," and when *The Statist* can say it is "hardly surprising if the Americans are inclined to take the attitude that there is a great deal more that can be squeezed out of Britain"—when such sentiments as these can be voiced by the two foremost economic journals of Great Britain, one liberal and one conservative, we ought to be informed that the business of saving Europe with American loans is bankrupt in terms of good will. Great Britain now is divided between those who hate us for our dollars and those who hold with Lord Beaverbrook that the American loan of \$3¾ billion, plus \$650 million of surplus property, did England more harm than good. If we cannot buy good will with our government loans to foreign countries what is it we think we can buy? Shall we regard them as investments? Ask yourself what you would give today for a share in last year's American loan to Great Britain as an investment. Moreover, the necessity for the government to make these loans, if they are to be made at all, is that private capital is unavailable. Why is it unavailable? Because from the point of view of the private investor European governments are not credit worthy. They cannot give security. They cannot even guarantee that after they have received the dollars they will not go Communist. No government can give surety for its political future. So there is left only one light in which to regard the loans. They are expected to produce a brass serpent effect. They are to prove that the American free economy is a sign that can save the world. Our foreign policy is so defined. This is a premise therefore that needs to be carefully examined.

WHY is it that after loans, gifts and credits amounting to more than \$12 billion since the end of the war Europe is still sinking? Why does her general condition worsen so fast that the State Department thinks further aid by the Marshall Plan may be too slow and too late and wants Con-

gress to be called in an emergency session to provide more dollar oxygen? Why is it that no estimate of the cost of saving Europe has been worth writing in ink?

THERE was first what might be called the Bretton Woods estimate, guaranteed by the United States Treasury and the State Department, saying that the reconstruction of Europe would be assured by an International Bank to provide long-term capital, principally American capital, and an International Monetary Fund to stabilize the money of the world, principally with American dollars. As it voted to make American resources available by these two devices Congress thought it was saving Europe. Within ninety days it was on notice that Great Britain had to be separately saved. Then came the loan of \$3¾ billion plus \$650 million of surplus property to Great Britain, and this you may call the estimate of the Anglo-American financial agreement. On receiving the American loan Lord Keynes said it was not plenty but if they used it properly it would be enough. They undertook to consume it sparingly during five years. They were at the end of it in one. Why did their calculations go wrong? They have a planned economy. A Socialist government controls money, prices, wages, the movements of capital, all imports and exports, and at last, consumption itself. Yet it was four fifths wrong. In his economic report to Congress last January the President, on the word of his Council of Economic Advisers, said: "Sufficient resources will be available to foreign countries to finance urgently needed purchases from us . . . the net transactions in 1946 were about the same as we can anticipate for 1947." But here another estimate went wrong. In his mid-year economic report to Congress the President said that the rate at which countries receiving American aid were spending their credits had increased more than 50% over 1946 (whereas the government had expected it to be about the same) and he added, "It seems likely therefore that unless additional credits, governmental or private, are provided the United States net exports of goods and services must be expected to decline before the end of the year."

WHAT Europe needed after the war was (1) food relief until she could restore her agriculture, which should not have taken more than two years and (2) the raw materials out of which to manufacture goods for exchange and export. These two simple needs could have been estimated with approximate accuracy by any ordinary committee of bankers, industrialists and economists. Why was

everybody so wrong? The answer is that the present sickness of Europe is not from the wounds of war. This crisis has been created by policies deliberately adopted and pursued since the war—economic and social policies that are definitely and aggressively anticapitalistic. Consider, therefore, the pure malice of events. Socialist Europe appeals to the last great capitalist country to save her with dollars while at the same time denouncing the system that provides the dollars and wishing its downfall—not just yet but later. And this capitalistic country, intending to defend in the world the principles of free economy, finds itself obliged to subsidize with its billions and its labor the European resolution to socialize wealth. It is not necessary to say, as Winston Churchill says, that the American loan to Great Britain was frittered away or wasted. Suppose every dollar had been spent for essential things. The result nevertheless would be that the British Government had been relieved of certain essential expenditures and was able to use that much more of its own resources to sustain an illusion of welfare under a Socialist regime. Sir Stafford Cripps says the American loan postponed the crisis. In the *New English Review* Douglas Jerrold writes:

“No one knows today, or can know, the real value of what he is producing in terms of what he desires to consume. We are not producing enough to pay for more than two thirds of what we actually consume. And not enough to pay for half of what we wish to consume. But we have deliberately kept the knowledge of this plain fact from the producers themselves. We have fed and clothed ourselves on borrowed money and subsidized food so that our bankruptcy is doubly concealed from everybody.”

And the same will be true of a loan to any government that is pursuing socialistic policies.

HERE then is irony compounded. American loans to the governments of Europe have in every case the effect of increasing the power of the state over the economic life of the people and do therefore actually weaken what is left of free enterprise in Europe. This aspect of the Marshall Plan apparently has not been considered. If our faith in the freedom of capital and our wish to restore it in the world had anything like the ruthless zealotry of European anticapitalism the design of our foreign lending would be very different. To be effective as a political weapon the loans would need only to be economically sound. We have almost forgotten that a foreign loan is sound only provided it will be used to produce the equivalent of the dollars borrowed, surety for this to be given and

forfeits posted. No Socialist government can meet these ordinary requirements. It could not if it would. The credit worthiness of a government is general, not particular. Even its guarantee to use a specific loan in a certain way would be meaningless unless it were able at the same time to guarantee that its own resources would be employed in a solvent manner. Unless it is solvent as a whole, with no chronic “disequilibrium,” it will never repay a foreign loan. A private loan by contrast is particular. A loan by a consortium of American bankers to a syndicate of French or British industrialists would be used to produce the equivalent of the dollars borrowed and for no other purpose. The understanding would be very strict and policed by a committee of trustees. Such a loan creates no “disequilibrium” at all, no “balance of payment problem.” But that kind of lending and borrowing has almost disappeared. There is still some private enterprise in Europe and it needs capital. So far it has been unable to compete with Socialist governments for access to capital in a capitalist country; and moreover now it would be impossible for any private enterprise in Europe to give assurance that it will not be swallowed up by government. Suppose the British steel industry came to Wall Street seeking a loan from an American banking syndicate. The American bankers first of all would ask: “How soon are you going to be nationalized? You are next in turn are you not?” And suppose the British steel makers said: “If your government will stop lending money to the Labor Government of Great Britain we may escape.” What would the American bankers say? They would probably say: “We can’t do anything about that.”

IN the Autumn Number of *American Affairs* will be found an article entitled “Moscow’s American Forecast.” It is compiled from the writings of Russian economists and represents of course the mind of the Kremlin. The Russians believe that our foreign loan policy, which they denounce as dollar imperialism, will get us into serious economic trouble and bring about ultimately an American collapse. Logically, therefore, they wish to see this country pour more and more billions into Europe, not for any good it will do them but for the damage they hope it will do to the American economy. This they cannot say. But it may have occurred to their subtle Asiatic intelligence that a speech such as Vishinsky was sent here to make before the General Assembly of the United Nations would almost certainly weaken American opposition to the Marshall Plan or any other device for saving Europe from Communism with dollars.

Winds of Opinion

The United States is not prepared to keep its economy at full production. Neither among the people nor from representatives of agriculture, labor, and business has there emerged a conception of full production that is valid. Instead, thus far, for the most part, we have been making politics and not policies to deal with this matter. The conditions necessary to achieve this important objective are not understood.—*Edwin G. Nourse, chairman of the President's Council of Economic Advisers.*

In erroneous emphasis on college education there is a real danger of creating a white-collared proletariat, an army of unemployed, because many more will desire professional work than our society can support.—*Dr. James B. Conant, president of Harvard.*

Whatever may be the immediate prospects, the longer term outlook suggests continuing inflationary pressures resulting from gradual changes in the class structure of American society. . . . America has been typically a middle-class nation, and the point of view that traditionally has been dominant, has been that of relatively small independent business. . . . Though middle-class business is still very strong, and its point of view of industry and thrift is still much in evidence, yet industrial wage workers, and even white-collar workers, are becoming more aggressive. Individual restraints are weakening, and the demand for government services is increasing.—*Iowa Business Digest, State University of Iowa.*

Perhaps nothing can save us.—*Robert M. Hutchins, chancellor of the University of Chicago.*

Sooner or later the symptoms of recession will appear. From that moment every public official will be besieged with proposals designed to prevent further depression and to cure whatever degree of recession may have taken place already. The most general fallacy is that depressions are due to overproduction, and hence are to be remedied by curtailments of physical output. A whole series of related fallacies will appear in the guise of fair trade practice. It will be found that a very large portion of them will be merely ways of preventing active competition from bringing about readjustments. They will be founded on the theory that the maintenance of the status quo in financial terms, whether

wages or prices or profit margins, is the significant objective of recovery.—*Leverett S. Lyon, Chicago Association of Commerce and Industry.*

We, in America, have been fooling ourselves since V-E day and V-J day. We thought that everyone wanted one world with the creation of wealth through production and international trade to raise the health and happiness and standard of living of all the people everywhere. Unfortunately, it is not true.—*William E. Knox, president of Westinghouse Electric International, before the American Chamber of Commerce in London.*

Statements by General Dwight D. Eisenhower, former Justice Owen J. Roberts and numerous Army and Navy leaders, stressing the elements of our weakness without emphasizing sufficiently our factors of strength, have somewhat distorted the actual picture and have created in some minds an illusion of United States military "weakness." The statements, of course, have been intended for domestic consumption as part of a drive to secure the passage of universal military training. But unfortunately they are transmitted abroad.—*Hanson W. Baldwin, military critic, The New York Times.*

It is doubtless only a coincidence, but nevertheless a disturbing one, that during the same period that expenditures per pupil for public education have increased substantially the problems of juvenile delinquency likewise have increased.—*Walter O. Howe, executive vice president of the Citizens National Committee.*

Should one conclude that Germany had not enough science, or that science alone is not sufficient to prevent a nation's ultimate downfall?—*Professor Harvey Lethman of Ohio University.*

No power of the state will reform the spirit of man.—*Pope Pius XII.*

Wendell Willkie's "one world" is being buried deep under growing economic chaos and Russian obstruction in both Europe and Asia. That is my gloomy report from a quick flight around the world last month on the inauguration of the new Pan American World Airways service. On this latest

trip, I saw evidences of deterioration which had not been visible in the world even at the height of the war when I had the privilege of accompanying Mr. Willkie on his famous global flight to Russia and China.—*Gardner Cowles, editor of Look.*

The unique marks of the coming period, which we think we can discern in these times of stress, may be comprised in three words: mass, technique, propaganda—mass instead of personality, technique instead of art, propaganda instead of statesmanship. Personality, art, and statesmanship were vital forms of the bourgeois world. Of the coming world one can say with certainty only that it is still farther from paradise than its predecessor.—*Wilhelm Stapel in The New English Review.*

We are dealing with the most adult-minded audiences in motion picture history, due to the early mental maturing of modern youngsters, via the newspapers and radio, as well as the screen.—*Jack L. Warner, vice president of Warner Brothers Pictures.*

In Victorian days there was talk about the submerged tenth of the population; under the Socialists it is no longer a case of helping the submerged tenth but of submerging the other nine tenths.—*Winston Churchill.*

I am one of those who hopes that Russia will make a grand and glorious success of communism—in Russia.—*Henry A. Wallace.*

Something must be put in its place. Even those who hate war the most would not choose to cancel out most of the political changes wrought by past

wars and restore the international position of 500 years ago or 100 years ago or even fifty years ago.—*John Foster Dulles, American delegate to the General Assembly of the United Nations.*

It looks more and more as though the United States will have to accept a two-world concept.—*General Eisenhower.*

The harnessing of nature's forces in furtherance of war's destructiveness will progress until the means are at hand to exterminate the human race and destroy the material structure of the modern world.—*General Douglas MacArthur.*

The moment the present activity turns downward, the tax burden will tend to produce a slide into depression.—*Senator Taft.*

But above all, it should be kept in mind that while Washington may provide soothing promises of lower prices to reduce the cost of living, the votes lie with the producers instead of that impersonal entity known as the consumer, and that such a thing as drastic deflation is about as remote as the canals on Mars so long as politics and Planned Economy are in the saddle. Irregular gyrations, yes, but with an upward tendency until a new factor appears.—*C. T. Revere.*

If—as is the case—all countries are trying to increase their export trade, there must either be a great expansion of the total of world trade or the most cutthroat competition to share what is not enough for all.—*Sir Stafford Cripps, president of the British Board of Trade.*

When a Man Hath No Freedom To Fight For at Home

When a man hath no freedom to fight for at home
Let him combat for that of his neighbors;
Let him think of the glories of Greece and of Rome
And get knock'd on the head for his labours.
To do good to mankind is the chivalrous plan
And is always as nobly requited;
Then battle for freedom wherever you can
And, if not shot or hang'd, you'll get knighted.

LORD BYRON to Thomas Moore, year 1820.

NOTE: Three years later Lord Byron entered Greece in a spectacular manner to help the Greeks cast off the Turkish yoke and lost his life.

The Leaning Tower of Dollars

Reflections on the Forgotten Danger of Putting Forth Foreign Loans on a Hurricane Wind

By Warren F. Hickernell

In this article Mr. Hickernell recalls the great Gold Raid of 1931 which involved us in the worst monetary debacle in our history. What made it almost incredible was the fact that it was engineered and conducted by our European debtors. Owing us already on their long-term notes more than they could pay, they were able nevertheless, by reason of their bank deposits payable in gold on demand and their possession of convertible securities, to raid our gold reserve. In six weeks they took away \$730 million in gold. This depletion of our gold reserve entailed a terrific liquidation of loans. In sixty days 827 banks failed. And our European debtors did this because we had stopped lending them money. Mr. Hickernell thinks it could happen again. He estimates that there is at least \$10 billion of migratory money in the United States, represented by bank deposits, ear-marked gold accounts, and convertible assets. It is probably more. There is a great deal of refugee money here that has never been accounted for. And so it is possible for our European debtors again to raid our gold reserve. One weakness in our handling of foreign loans is that we run them in what may be called the nation's general account, so that if anything happens to them, the whole account is affected. Mr. Hickernell's proposal is to set up against them a special gold reserve fund of \$7 billion to which American banks could repair for gold certificates to replenish their reserves if some day again their foreign depositors began all at once to demand gold.—Editor.

THE business structure of the United States is like a house with an outward bulge on the East side, the West side being pushed in by a hurricane. The hurricane on the inland side is the lobbying in Washington for money to pay for excessive shipments of goods to Europe. The bulge on the East side is the excessive exportation of goods going abroad at the expense of American savings, with foreign propaganda urging on the lobbying in Washington.

Meanwhile, foreign interests have accumulated a great deal of cash in the United States—about 6 billion dollars in the money market, and nearly 4 billions of gold earmarked outside of the control of the Treasury. It may be desirable to make foreign interests richer up to a point. The point is reached when exhaustion of American savings causes damage at home out of proportion to the good being done abroad. By moderating the hurricane on the inland side and reducing the bulge on the Atlantic side, we may bring the house back to a position of equilibrium before it caves in. If we exercise such self-control, however, it will be the first time since 1825. The record shows that when Americans promote a hurricane boom, nine times out of ten they go on

promoting until there is a bust. The new loans and gifts being planned by the Department of State may be another case in point.

Farmers want continuation of war prices. Manufacturers, having lost Lend-Lease orders, want continuing shipments of their products abroad. Congress has responded with loans and gifts of money and commodities to foreign countries. This is more dangerous than the "domestic" pump priming in the 1930's. Creation of new money for domestic pump priming means more money in the pockets and bank balances of people in the United States. Foreign loans, however, can cause a money crisis and a prolonged depression—and clamor for escape by dollar devaluation and domestic pump priming.

History of a Foreign Loan Bust

While our banks are still sound, Congress might profit by a study of the money panic of 1931, caused by foreign loans. The foreign loan policy in 1947 is the same as it was in 1928. An Italian manufacturer, in 1928, exclaimed: "Americans lend money to my company in Italy to make automobiles; they lend

money to Peru to buy my cars. It is wonderful for me—but I do not understand Americans.” A few years of this type of lending produced a crisis. In 1931, bankers in Paris, London, and Amsterdam understood the money exhaustion in the United States, because Europe had caused it. International speculators abroad sold short on the United States. A Greek speculator in Paris sold 86,000 shares of American stocks short because he knew that French bankers were about to withdraw gold from New York. He said it might have been difficult for him to be such a bear if he had lived in America, with its many skyscrapers and millions of automobiles, but he had never crossed the Atlantic and his thinking was not influenced by physical evidence of wealth. He had made his money by selling short on weak currencies before they declined in market value—German marks in 1919, French francs in 1920, and others—and in 1931, by his method of analysis, it was the turn of the “almighty weak” American dollar to crack.

The money crisis in 1931 was much discussed in Europe; it was hushed up in New York and little suspected in Cleveland, Detroit, and Chicago. The Senate Committee on Banking received no timely warning from any source. Shortly after the panic started on September 21, Senator Carter Glass, “father” of the Federal Reserve System, went to the White House to ask President Hoover whether he could explain the panic. Senator Glass emerged from the conference to face reporters with the comment: “It appears that foreign bankers have outwitted our Federal Reserve authorities.”

The Gold Raid in 1931 and Its Consequences

The Gold Raid of 1931 is still fresh in the minds of white-haired bankers. It was the aftermath of the foreign lending of 1924–1930. During those years there were luncheons and banquets at hotels and clubs in New York at which the agents of European borrowers indoctrinated financial writers and bankers on how a war-torn world could be reconstructed. One member of a European propaganda staff, speaking to a luncheon group, including the writer, put it this way: “You in America have great resources, but no experience in international matters. We have had long experience in world affairs. The logical procedure is for our experience to direct the use of American money in rehabilitating the world.” Accordingly, in 1924, a European plan to have American investors lend money to Germany to enable her to pay reparations to France and Great Britain was adopted.

The lending fever spread. Agents came to New York to borrow money to expand factories and build

highways and camps in Germany—encouraged by the German Army General Staff. Herr Schacht came over from Berlin to assure American investors that Germany would pay her debts. Germany was made strong as a bulwark against communism. When the bottom fell out of the market for German bonds in 1930, however, the German Army General Staff decided that the pockets of American investors were empty and ordered the Hitler election in September of that year.

Meanwhile, European bankers kept large deposits in American banks to bolster their ability to make further foreign loans. To withdraw all the money borrowed would have throttled American bankers and killed the goose that was laying the golden egg. In 1931, however, the jig was up. Foreign bankers ascertained that America was in for a banking panic and ripped Wall Street wide apart by withdrawing gold. Banks failed. The Soviet Government opened a trading account in New York and sold short on wheat before prices declined while the Washington wheat buying fund was supporting the market. Farmers became bankrupt and wage earners lost their jobs. Hysteria increased and the public fervor to save the world completely disappeared, which brought joy to Tokio. The Japanese generals lost no time in seizing Manchuria, much to the chagrin of the Department of State. The State Department had sponsored the foreign loans, but now was rendered impotent by the Gold Raid. Diplomacy becomes defunct when the people are bankrupt.

In Paris, bankers shrugged their shoulders and asked: “If American bankers insisted on making those ‘foolish’ loans to Germany, what could we do about it?” In London, Amsterdam and Berne comment was more subdued, but it was remarked that Americans had been “soft and gullible.”

The Federal Reserve Board, which had taken no action to prevent the Gold Raid, summarized the impact of the foreign run on our banks as follows: In six weeks after Great Britain devalued the pound sterling on September 21, the United States lost 730 million dollars of gold. Foreign banks not only drew down their deposits, but also converted into cash certain securities which they had purchased here. In September and October 827 banks failed.

Bank failures for 1931 totaled 2,298 followed by 1,453 bank closings in 1932. At the end of 1933 the number of banks in the United States was down to 15,000 as compared with 25,000 serving the public in 1929. A great explosion.

Conditions in 1947 are different from 1931. It could not happen again—exactly. It might happen again—differently.

In 1947, Europe considers that American bankers have more sense than in the 1920's, but it is assumed that Washington is “soft and gullible” and will make “foolish” loans—charging foreign borrowers

much less than the interest rates which bankers must charge domestic borrowers of equal or better credit standing.

The Story of Three French Premiers

Some Americans naively thought that the foreign countries helped most by the United States would reciprocate with financial cooperation when this country faced collapse. We learned, however, that foreign countries may have different men in charge of foreign dealings according to whether they are borrowing or paying. In case of France, we dealt with three very different men in 13 years—a warrior, a mathematician and a French pro-German.

Premier "Tiger" Clemenceau, in 1919, borrowed 400 million dollars from the United States Treasury to buy American military supplies in France at the end of the First World War. These supplies were distributed to Poles, Czechs and Yugoslavs in a program to encircle Germany with bayonets. When Raymond Poincaré became Premier, he not only paid annual interest of 5% but accumulated a gold balance of 400 millions in New York to pay the principal in full. In 1931, however, Pierre Laval was Premier of France. He was not interested in saving the United States from financial collapse, but insisted on taking out every gold dollar to which France had legal claim. The withdrawal of the Poincaré gold from American banks during the panic caused them to deflate loans, and this entailed a decline of over 40 billion dollars in the value of property in the United States.

The action of Pierre Laval in wrecking American banks was not entirely without good reason from the standpoint of a gold speculator. France had some 600 million dollars of money in London banks in 1931. Laval decided to fetch it home to Paris. The British beat Laval to the punch by dropping the market value of the British pound 30% before the French money could be withdrawn. The Bank of France lost all of its capital when its deposits in London suddenly depreciated 30%. Laval lost his bout with the British in full view of American observers, but Uncle Sam sat inert while Laval thugged and sandbagged American farmers and wage earners by wrecking our banks. Laval felt quite virtuous about it, because France, in his opinion, had lost enough at the hands of London bankers and could not wait for a possible decline in the dollar to add to the London loss. The moral is that one country can outwit another country only if it has some wit.

After the Gold Raid was completed, the American public was permitted to know about it. *The New York Times*, June 15, 1932, reported: Leading

bankers express satisfaction that the long, anxious strain involved in nine months of gold exports was ended. They stated that the gold export movement had been one of the principal factors making for lack of confidence and hesitation in business. In nine months gold shipments have amounted to 748 millions to France, 180 to Holland, 113 to Switzerland, and 88 to Belgium; and 337 millions have been taken out of banks and put in earmarked accounts here.

After the dollar was devalued, some of this gold was sold back to the United States at a dollar profit of over 60%.

Foreign Loan Policy in Action and Reaction

A banker with an eye for the optimistic side of things once remarked that foreign loans usually look good on the surface because we are temporarily helped before we are finally ruined.

Each foreign loan in itself may stimulate trade. When the total loans exhaust our savings, however, our domestic industry suffers from the financial crisis.

The public would like to feel that the government carefully considers that the total foreign loans will not impair jobs at home by producing a crisis. Washington bureaucrats, however, seldom overstep the bounds of statutory authority. They dare not act unless there is a law permitting it. The federal statutes do not require the Department of State, which sponsors huge foreign loans, to display any responsibility for the stability of domestic employment. One must look elsewhere for such responsibility. Where is elsewhere? One looks to the Federal Reserve Board, which controls the banks. It can point out that the law gives the board no control over foreign loans. When the Federal Reserve Act was passed, responsibility for preventing gold raids was reserved to Congress.

Looking ahead several years, one might well worry about the lack of central money control in Washington. Owing to fear of communism in Central Europe, refugee bankers and business people from Continental Europe hold six billion dollars of their money here rather than risk it in helping to rehabilitate their own countries. They are asking the American taxpayer to do that. The Department of State has, in effect, proposed to use the foreign money here in making loans abroad. But suppose conditions abroad improve and the refugee money goes back to Europe—after we have loaned it all over the world. Our banking system would be whipsawed with another gold raid and financial crisis. It is simple arithmetic. Suppose Jones receives \$10,000 from Smith for 30 days, and loans it to John Doe. If

Jones cannot collect from Doe, he cannot return the money to Smith. Jones becomes bankrupt.

From the standpoint of our domestic well-being, it would appear that there are too many foreign mouths at the American money trough in 1947. Since the end of the war new mouths have appeared—Germany, Italy, and Japan. England and France are getting lend-lease under another name. Countries not entitled to wartime lend-lease are invited to come to the money trough. The “save us” propaganda which engulfed New York bankers in the 1920’s has swarmed over Congress in 1947. It starts: “Your farmers will export powdered eggs and canned milk if you continue lend-lease donations. Europe will buy cotton and wheat in Asia, Africa, and South America, instead of in the United States, unless you make foreign loans.” The farmer expects the city dweller to pay the cost of the exported food. This calls for propaganda for the Senators from the big towns—“Your factories will shut down unless you make foreign loans.” The factory expects the farmer to pay the cost. If our friendly allies will desist from propaganda and give us a breathing spell to plan more carefully, we should think in terms of priorities in the use of savings to avoid financial exhaustion.

Elements of American Prosperity

First, since 95% of our national income depends upon business within our 48 states, most of our savings will have to be invested in homes, factories, highways and utilities at home to insure stability of jobs. We cannot export our cake and eat it too. First priority goes to perpetuate jobs for the GI’s, whose lives were disrupted by the war, and to the forgotten WAC, now in the kitchen.

Second, there is the problem of a strong Army and Navy—strong enough so that most foreign countries will not choose to fight. The war veterans, their wives and mothers, will doubtless be glad to take a cut of 5% in their standard of living for the next 30 years to pay the taxes necessary to maintain a strong Army and Navy if this is the best way to insure peace. It will be farsighted to make sure that they will have steady jobs and the ability to pay such taxes by preventing a foreign-loan money crisis and the unemployment and decline in federal revenues which would immediately follow.

Thirdly comes the money for the needy abroad and the foreign political loans. These gifts and loans, which are exhausting the financial reserves needed for home use, will have little importance in winning a possible future war. By dissipating our financial resources, they can weaken our diplomacy. They may bring on a financial crisis, if squandered on the

colossal scale proposed by the Department of State. In addition to 13 billions already granted, the Department proposes 25 billions more, and in too much of a hurry. Europe desires the money quickly before we have a financial crisis—before the stable door is closed perforce. But money for reconstruction abroad must be spread more thinly over a period of years to avoid financial trouble. The United States has reached the stage of financial attenuation where the spending of a few extra billions causes price and wage inflation to get out of hand.

It would be better to by-pass foreign statesmen and have the Red Cross distribute food to the actual needy abroad, as was done successfully in Russia in the 1920’s in the face of the displeasure of local Soviet politicians. This would permit us to count our own dollars. Abroad, it would appear more like sincere philanthropy and less like a declaration of war.

When We Stop Lending

The Sword of Damocles overhanging the general economic picture is the drop in exports coming when gifts and loans to foreign countries are curtailed. A decrease of five billions in annual shipments is needed to restore commercial stability and financial equilibrium—to get us off the limb. It is urgent to achieve this while our banks are still strong enough to avoid compulsory liquidation of customers—a controlled letdown now instead of a big slump later. To postpone the drop in excessive foreign loans until it is forced by a financial crisis would create trouble at home and economic difficulties abroad which would be blamed on the United States. This is important to world leadership. It is necessary to show that our economic system works to retain prestige abroad. An empty pocketbook will lose it—and will be proclaimed in Moscow as proof of the inferiority of the free enterprise system. The sooner the letdown, the less severe the impact.

Sir Stafford Cripps, President of the British Board of Trade, was guilty of two major fallacies in his talk to the American Congressional Committee on Foreign Aid on September 2, in London. He said: “The United States must buy more or stop selling.” The fallacy is in calling a “donation surplus” of exports a “selling surplus.” He continued: “The real problem is the United States ten billion dollar export surplus.”

The British proposal is that the United States should reduce tariffs on manufactured goods so that foreign countries can sell an extra ten billions of goods to the United States. Obviously, the United States does not have the purchasing power to buy imported goods if it does not get paid for exports.

The only way we can buy an extra ten billions of imports is for Great Britain, France, and South America to donate ten billion dollars' worth of pounds, francs and pesos annually to America to pay for the imported goods. Unless foreign countries are willing to donate these currencies to America, we cannot buy the extra ten billions of imports. We are faced with a shortage of pounds, francs and other foreign currencies.

It is also obvious that the export surplus mentioned by Sir Stafford is caused entirely by the fact that Europe has too many dollars in 1947. The talk of dollar shortage is the opposite of the truth.

As soon as the donation business is halted, foreign countries will fix a market value for their currencies which will permit other countries to buy their goods. The French franc, for instance, is worth around 250 francs per dollar, but the official rate is 117 francs. American businessmen cannot pay twice the true value, and hence French factory workers are not permitted to work full time on producing for export. Other countries cannot afford to buy French goods at twice their true market value. It is the same in all countries where American money is requested to maintain a false value for the foreign currencies. The Bretton Woods Fund has thus been started on a fictitious basis. Its money is not being used to finance sound trade, but to buy overvalued currencies.

Anatomy of the Money Bubble

It is not the purpose of this article to suggest that foreign loans should be discontinued entirely. We are thinking of what can happen to 145 million people in the United States unless we do what is possible to prevent a collapse of the present money bubble from deflating production and employment. The sharp rise in commodity prices is evidence of a money bubble, however much we may disagree as to the cause.

During the fiscal year July, 1946-June, 1947, the "foreign" disbursements of the Treasury totaled \$4,011 million, including \$2,050 million to Great Britain, \$963 million to the Bretton Woods International Fund, \$938 million for the Export-Import Bank to help France and a few smaller countries and \$60 million to the Bretton Woods International Bank. This bank obtains its money primarily by selling securities to private investors. An unfortunate phase is that the International Bank is getting some money from insurance companies. Manufacturers who supply products for use in building construction will suffer to the extent that the insurance premiums collected from the public are put into foreign loans of doubtful value

instead of being used to finance home building in the United States.

During the fiscal year which began July 1, 1947, the Treasury will disburse probably \$1,700 millions to Great Britain, a billion or more for the Bretton Woods Fund and the Export-Import Bank and \$750 millions for Greece, Turkey and foreign relief. These "foreign" disbursements and the cost of American Army operations abroad show no signs of a letdown in the current fiscal year.

Protection Against Financial Collapse

After the money bubble passes its crest and industrial curtailment begins, attention will be directed to the protection of business loans and the stability of the payrolls which depend upon such loans. In 1931, deflation of payrolls started in New York. Foreign interests withdrew money, reducing bank reserves. Banks were forced to decrease loans. Prices of cotton, wheat, hogs and securities dropped, and the customers of 25,000 banks outside of New York suffered losses. The 25,000 banks withdrew money previously deposited in New York. This caused the New York banks to deflate further—a vicious cycle of deflation and depression.

In 1947, the New York banks hold \$1,100 million of money belonging to foreign banks and \$2,800 million belonging to 13,000 banks in 48 states. In addition, foreign interests have some \$4,000 million of money here which can be taken out. The total of nervous money is \$8,000 million, which is more than twice the legal reserves of the New York banks—\$3,600 million. Thus, the New York banks have no cash of their own. They operate with reserves representing cash belonging to other banks and foreign interests. Thus they are always in a vulnerable position to operate safely as an "international" money market. The Bretton Woods Fund, theoretically, might help New York meet a run on its reserves, but that is not likely. It was conceived for the benefit of Europe. Americans, on the record, have never given attention to financial weak spots until an autopsy was in order.

A Weakness at the Source of Dollars

We have spent three years on superficial and, in some cases, unsound plans to help foreign countries solve their money problems. We should now spend a year on serious planning to prevent a money crisis in the United States.

Human nature is a constant factor. In all nations people hoard money when banks appear unsafe, but promptly deposit it when reassured as to a bank's

soundness. This applies to the migration of money between countries. In 1931, foreign money might not have been withdrawn from the United States if our banking situation had appeared safe from collapse. For instance, if the proposed fund had been in existence in 1931, there might have been no Gold Raid. It may well be anticipated that foreign runs on American banks will be prevented if a Loan Protection Fund of \$7 billions is established in 1948. This would minimize declines in national income and tax revenues, help to sustain the exports of South America and Europe, and tend to sustain the prices of foreign securities. Commodity prices would continue to rise and fall according to changes in supply and demand, and each business concern would have its financial problems, but the general loan structure would be protected from international repercussions, and American industry would be assured of a better prospect of stability than at present.

Although no foreign gold raid is probable while foreign loans are being freely made, the billions of foreign money in the United States are like a time-bomb—likely to explode when least expected.

Mr. Hickernell's Suggestion for an American Fund to Protect American Prosperity:

1. The Bretton Woods Fund did nothing to protect American industry and agriculture from a foreign exchange raid, such as the Gold Raid in 1931, which brought disaster to industry and depressed farm prices.
2. The Federal Reserve Act facilitates the transfer of money between Texas and Chicago and between New York and San Francisco. It contains no provision for transferring money from America to Europe without precipitating deflation of loans previously made to industry and agriculture.
3. The "missing link" is a law to set up a fund which would issue gold certificates to banks to replace foreign money withdrawn. This would prevent bank liquidation of customers. Such liquidation of commercial borrowers and farmers is inevitable under the Federal Reserve Act unless the "missing link" is provided. My suggestion is a foreign exchange fund of \$7 billion, or more, in view of the large amount of foreign money and investments in the United States.
4. Unless this foreign exchange fund is set up, banks should be cautious in lending on merchandise and commodities, as billions of loans made by using foreign money are already in effect. Individuals should hesitate to start a new business or expand an established business.

False Thinking About Exports

**By Leverett Lyon*

Chief Executive Officer of the Chicago Association of Commerce and Industry

IN this inflationary situation American exports are playing a very important part. Concerning exports, may I make these observations? I doubt if any single economic phenomenon is surrounded by more fallacious thinking than are exports. From the mercantilists we have inherited the idea that exports are good in themselves, and we still retain, in describing the excess over imports, the deceiving phrase "favorable balance of trade."

I believe sound thinking about exports begins in recognizing that they are something which in and of themselves are always undesirable. They should be regarded as a payment. Our thoughts on this subject would be clarified if we thought first in terms of imports—that is, "What are the things, if anything, abroad which we would like to buy?" and then, "Are these things worth paying for in terms of what they would cost us?"

Current thinking on exports is, I believe, further confused by a widespread view that extensive exports are needed as a means of maintaining American economy. I realize, of course, that there are important industries, among which the production of cotton is outstanding, that depend on exports. I have no doubt that if any reasonable production can be developed in Europe, South America, and the Orient that we will need to export substantially to buy what we need from abroad. But this is very different from saying that we should maintain these export shipments merely for the purpose of keeping busy the persons who produce the products.

The problem of exports is at present of course greatly complicated by the fact that they have become an important *political tool*. We must distinguish between using exports to buy imports and using them to buy foreign loyalty, or establish European governments, or to set up the industrial mechanisms of Europe or Asia. I doubt if one person in a thousand in the United States is aware of what we are doing with exports in this latter field. The facts of life in this matter are concealed under such gilded terms as "Fighting communism with dollars"; or, in referring to the difficulties of foreign countries, as a "shortage of dollars." The realities of this political mechanism would be far more clear to the American people if it were pointed out that

* From a statement before the Joint Congressional Committee on the Economic Report.

we are really fighting communism with the food from their tables, the clothes which might otherwise be on their backs, the building materials which might otherwise be used for their housing, and that what a foreign loan really means is a promise to tax us, directly or indirectly, for the money with which to buy such things away from us in our own domestic market.

Observation of these facts makes it clear, I believe, that we are approaching, if we have not already reached, an emergency, if not a wartime economy. We have reached a stage where Congress may well give consideration to rationing of certain products, of which food should be the first considered. Of course, prices themselves bring about a rationing of food—that is, food in quality and quantity goes to those who can best afford to buy it. If the situation gets increasingly serious, however, it may be well to recognize that price rationing of food in emergency conditions has at least three defects: (1) It does not distribute it in accordance with need; (2) it gives a justifiable basis for continuing demands for wage increases with their consequent higher prices and without giving any actual remedy to the situation—since the higher wages do not increase the supply of food; (3) it detracts attention from the real cause of high prices, namely, shortage, and gives rise to the feeling that the high prices result from some inept or malicious action of distributors, producers, or government.

The public will have a far sounder basis for judging the use of food as a tool in foreign policy to the extent that they are made conscious of the real meaning of exports in terms of their own living standards.

Look Away from Europe

**By General R. E. Wood, Chairman of Sears, Roebuck and Company*

I AM a midwesterner. Possibly I look on it with that view—a view opposed to that of people in New York, Boston, and Philadelphia who think if our export trade goes to pot we are ruined. We have to have exports and we will have exports, but I do not think we need maintain them at \$16 billion a year at the price of giving the money away to buy the exports. That is what we are doing. I do not think the country's economy would crumble if those exports were cut, say, \$3 billion or \$4 billion.

Another thing, I distinguish between, on one hand Western Europe and on the other hand Central and South America, which are in a position similar to that of our own country sixty or eighty

years ago. They have great natural resources but they are in transition from agriculture to some industry and they require capital to establish that industry and it will improve their position. They can pay back.

Western Europe was originally the workshop of the world. They brought in raw materials, processed them and sent them out at a profit. Now manufacture is moving. England cannot export cotton goods to Brazil, Japan, and China. The position of those Western European countries that are overpopulated is such that I do not care how many loans you pour down, you cannot restore their economy. It is just like pouring money down a rat hole. But you may have to feed them.

I believe that Western Europe, the larger portion of it, is finished. We have got about 45 people to the square mile. England has 700. Germany 600 or 700. Take England, a little island; it is impossible with its resources to support the people on a decent standard of living.

We can't forget Europe. We have got to do something, give some help, but I think we should do it more in the nature of charity. I think their only salvation is for about ten to fifteen million English and ten to fifteen million Germans and Belgians and possibly Dutch to emigrate.

Aid to Turkey

By a special correspondent of The New York Times

Istanbul, Turkey—During almost every day of their stay here the members of the United States Mission—and this is no fault of their own—were overentertained to the point where they physically could not produce the proper work. Furthermore, they were overburdened with official courtesy calls.

One of the members calculated that an average of five hours a day was spent in eating and half an hour in exchanging compliments with officials. He said that during the twenty-day trip through Anatolia there were forty-two banquets and cocktail parties.

Lending What They Haven't Got

We are again making credit available to finance foreign trade, including such diverse transactions as shipments from Brazil to Belgium, the processing of goods in Italy and Japan, the sales of Australian wool to France. But in engaging in the short-term export of capital, we are living on our wits, lending what we have not got. That has long been the prerogative of the banker in the domestic field and we need not be afraid of applying it internationally—provided we act prudently and charge for our banking services a fee commensurate with the risk involved. —*Banker's Magazine, London.*

* Statement before the Joint Congressional Committee on the Economic Report.

Profile of A Labor Government

By Garet Garrett

THE Labor Government of Great Britain was obliged to accept debate in the House of Commons on the productivity of labor.* A descriptive title would have been *Review of the Flight From Work*. A Marxian fantasy was on trial—the fantasy, namely, that if only the capitalistic profit motive can be cast out people may consume more and work less. The Prime Minister had just been vaunting the government's social achievements; it had removed the incentive of fear and was proceeding to remove the incentive of profit. By the incentive of fear he meant of course fear of unemployment, which in the capitalistic system is supposed to be a discipline, causing men to value their jobs. Yet at this moment there was an official poster all over England, reading:

"We Work Or Want."

That was all a government representing Socialist labor could do to express its misgivings about the five-day week movement; and it was less effective than a newspaper cartoon, in a capitalist paper, showing men in Saturday ease against the background of an idle factory and the wife of one of them calling from her doorway: "Come along, five-day week. Seven-day-week has cooked your dinner."

The questions that were developed during the debate and left unanswered at the end were such as these:

How long can the people of Great Britain expect to go on "enjoying the labor of a million Americans without paying for it," while at the same time they shorten their own work week?

Why should Great Britain, with plenty of coal of her own and a surplus to sell if she would only dig it, be importing American coal at \$30 a ton?

The American coal miners are the highest paid in the world. How can British coal miners afford to hire them to dig coal in their stead?

Why should Great Britain be buying cloth from other countries when, with her present equipment and her present labor force, she could increase the output of her textile industry at least one third?

Why now in manufacturing does it take a man and a half to produce as much for export as one man produced before the war?

Is there a man power shortage in England really? Or is it only that people are not willing to work as hard as they once did?

If there is a man power shortage, why has the government hired 300,000 more civil service workers since the end of the war—this *increase* in the number of people required to administer Socialist government being equal to more than one third of all the people engaged in mining coal?

The Case Is Stated

The ground of inquiry was laid by Sir David Maxwell Fyfe of Liverpool. For twenty years there had been no change in the basic hours of work in England. Now they were being shortened and the productivity of labor had fallen while the country was going into debt faster and faster every day because the people were producing less than the equivalent of what they were buying abroad. Meanwhile the American loan was running out and more American aid would not be forthcoming unless the Americans could be shown that England was doing everything she could do to help herself. Except for that exhortative poster—"We Work Or Want"—the government had done nothing to resist the five-day-week movement; it had not even calculated the effect of fewer hours of labor upon production. One would have thought that under a Socialist government, controlled by labor, the trade unions might relax their restrictive practices. But not so.

"On the docks," said Major Fyfe, "mechanical trucks have stood idle in the sheds for lengthy periods because it could not be agreed what diminution of the labor force was the right one to use with these mechanical trucks." Or one might take the attitude of the great trade unions against piece work or bonus payments "to stimulate production by incentives"; and then the typical illustration "that when a transport operator (truck owner) employing say twenty men has his men away on business and he himself unloads his own wagon when it comes to Covent Garden, he should be compelled to reload his wagon with his own hands so that the appropriate grade of labor will then be employed in unloading it again."

As to these evils and frustrations of production had the government any ideas or would it advance

* Parliamentary Debates (Hansard), House of Commons, July 3, 1947.

backward into the next crisis? Major Fyfe concluded:

"What we must face, to a greater or larger extent according to our efforts, is a lower availability of distributable goods, and that means, in ordinary terms, a decline in real wages and also unemployment due to shortage of raw materials. . . . When that position comes, are we to have a camouflaging of unemployment, that is, bodies of labor up to the old prewar numbers and producing infinitely less? Is that going to be the line taken? Are we going to allow the maldistribution of labor to be corrected by unemployment, or are we going to take steps to correct it by the rationing of raw materials and the like? Are we going to take any positive steps, or is it to be left to unemployment and reduced purchasing power to do this redistribution for us?"

You, too, Management

The first retort was the one that would be expected. A Socialist member rose to say that the employer too was guilty of restrictive practices. Therefore, why put all the blame on labor?

The productivity of the employer was not the subject of debate. However, no one denied that management was blamable. Indeed, it was an employer from the textile industry, Mr. Rhodes, who contributed the most damaging indictment of management. With only her present resources, regarding both equipment and labor, he said, England could if she would increase her production of textiles by one third to one half. And:

"This increase can be achieved by industry as a whole. When we read in the press that we are buying six million yards of cloth from the Russian zone in Germany, sixty-two million yards of cloth from Japan, and spending a lot of money in France in this way, people think there is something desperately wrong. More often than not, it is something wrong with themselves.

"Years ago I reduced my hours from forty-eight to forty, and increased my wages by 10s. a week. That created consternation in my district. There has been an increased production of 40 to 50%, and the average earnings of the mills have been increased by 25%. Incidentally, where that has taken place labor costs have been reduced by 20%. It sounds almost paradoxical, but it is true.

"In Bolton, where these changes have taken place, operatives of the first ring-spinning mill to be deployed advised their union representatives that they did not work so hard, that the work was more interesting, that they liked it better, and would not return to the old conditions if requested. In some cases where new methods are being employed, even with the present shortage of labor there is a waiting list of people wishing to be employed. That shows what can be done. Why is it that the industry cannot go forward with confidence to this increased production per man-hour? It is being

done slowly, but the process is far too slow, because it is being done in isolated pockets. . . .

"I am optimistic enough to believe that there is nothing in the way of production problems—assuming that this debate is not going to be wasted by everyone saying that it is no use anybody doing anything because we have no coal—which cannot be overcome when managements and unions work together as teams."

This was the one rationally optimistic contribution to the debate and it went down the well. If what he said was true, there could be no argument for importing foreign labor into England. And whether what he said was true or not, there could be no gain from hiring Poles to dig British coal and workers from the Continent of Europe to work in the British textile mills, except on the assumption that they would be willing to produce more for a day's pay than British workers. Nevertheless, the very next speaker thought the government ought to take steps to bring in foreign labor, and the idea of that solution kept recurring throughout the debate.

The Wounds of Labor

Nor were the Socialist members impressed by Mr. Rhodes' formula for increasing England's production out of present resources, by teamwork of management and labor. Their want of interest in it seemed to justify Major Fyfe's observation that nobody could be sure whether labor's first objective was the economic recovery of the country or the breaking down of capitalism in industries which were still under it. To the suggestion of a truce between labor and management for five years, or until England could recover, labor's reply was made by Mr. Awberry of Bristol:

"Now that the trade union movement has reached the position of power which it holds today, now that the battle has been won, opposition speakers say, 'Let us have a truce so that we can set about the thing properly.' What is the remedy? First, we have to remove from the minds of the workers the grave suspicions which they have felt for a considerable number of years. Many employers have a bad past to live down, and the workers in industry cannot forget it."

Every wound on the body of labor from a century of class struggle came open and had to be exhibited. Each wound had its history; not one could be forgotten. The Minister of Labor, Mr. Isaacs, remembered that when he was sixteen he had gone on strike because his boss cut the piece rates on a book binding job, and a time when the workers had to invent restrictive practices to protect themselves from "employers putting the clock on and pushing it back again so that they could get a few minutes more out of the workers."

For the ills of socialism, if any, the cure was more

socialism, not less. That is what all the Socialists said, in accord with Mr. Longden:

"This slogan of 'work or want' is an imposition on the country. It is strange that sometimes even for our own sake we can be concerned with squeezing more from the working man. It is a perpetual squeeze. It is an appalling infliction on the working class. Tories and Liberals—Tory landowners and Liberal millowners—always did drive the working class to the limit of their output, no matter what return came to them and no matter what conditions of life they experienced. Then when it no longer paid to employ the workers, they introduced machinery. Even now the economists are talking about finding out the most productive hours in a working man's day. It is as if the working people were not human beings, but just machines wanting a little more oil.

"It is not enough to rationalize private enterprise or public industry. That is as old as Greece and Rome and mediaeval Europe. It is not enough simply to educate our people about industrial efficiency, which is all we are promising to do. . . . Let us, as a Labor Government, give them a taste of the true Socialist expedients we have been promised in my life and a sight of the true aims of the Socialists. They have a right to the highest level of leisure and democracy."

Another Socialist said:

"Many workers will say, 'If we produce more than we are producing now, what guarantee is there that we will get our fair share or that the increased production will go into the common pool?' They are now reading the *Financial Times* and *The Times*, and day after day they read of profits which are indecent at the present time."

And another:

"The workers want to know what will happen if they produce hand over fist the commodities they are now asked to produce in the field as well as in the mill and in the pit. We have to convince the working classes that this sort of thing will never recur."

Meaning, by this sort of thing, unemployment again. Could even a Socialist government guarantee that this history would not repeat itself? Another said:

"The miner, at least, has come into his own. Anyone who looks back upon the history of the mining industry and considers the treatment meted out to the miners, will understand the position. . . . After the last war these men did not count. Two hundred and fifty thousand of the men who produced this vital commodity were walking the streets unemployed and starving. Their wives and children had pinched faces. The hours of the miner were increased and his wages reduced, causing chaos throughout the industry. The inference to be drawn from the right honorable and learned gentleman's speech is that if his party were in power today, they would revert to that policy and increase the number of working hours for the miner. If we can-

not produce the same quantity in five days as we could produce in six, then we must return to the six-day week. But if the miners produce in five days what previously they produced in six, the opposition immediately would say, 'There you are; the miners of this country have not been pulling their weight in this industry.'"

If England were so poor, why should anybody be rich? Why shouldn't everybody work? A Socialist member had just seen two able-bodied ex-service-men doing busboy work in a restaurant, and in *The Tattler* were pictures of the English rich enjoying life at the Riviera. To him:

"The problem is not the wastage of labor of the wealthy people who go to Ascot, but the wastage of the labor which they employ. . . . Reference has been made to a book written by the Minister of Food in which he advised the workers that the more they worked the more profit there would be for the 'bosses' and suggesting that they should not work so hard. I agree that it was so, and that what the Minister of Food said was right. In the past, the harder the worker worked the more profit went to the employer, and that is still so to a certain extent."

Miss Jenny Lee said:

"It is bitterly hard indeed in Great Britain today for working men and women, particularly some of those growing older with a lifetime of labor behind them, to be continually asked to work more and produce more and to do so in a society that lacks the essential comradeship and essential unity that could only be experienced if every able-bodied man and woman were also working, indeed were obliged to make some useful contribution."

A Cruel Wind from Oxford

There was a moment of cruel clarity when the Oxford University member, Sir Arthur Salter, rose to speak. What was defeating production in England? Was it want of man power, as everybody was saying? Was it want of new industrial equipment, as the industrialists kept saying? Was it want of a magic unguent to heal the morbid wounds of labor? Seriatim, he would say no. As to labor, the question to be answered was—

" . . . whether, as the causes of past grievances are removed, the psychology which resulted originally from those grievances will itself change. We have the best possible example in the case of the most basic industry of all, the mines. It is true that the miners had great and legitimate grievances in the past, that they were underpaid, that they were improperly treated by many employers.

"But what of the present? Miners now have double the earnings of the prewar period and, when every allowance is made for the difference in prices, that means both an increase absolutely in purchasing power

and a relative increase in relation to the other classes of workers. They have in the past suffered from long periods of unemployment; they are completely assured against any unemployment for as far as man can now foresee. They have had grievances against their employers; their employer is now the State. Miners are, in fact, completely exempt from practically all the hardships and sufferings that every other class of worker suffers as a result of coal shortages. They have no shortage of coal in their homes; they have increased wages and, as regards food, they have not only the heavy workers' allowance, but 17% more calories in their food than other heavy workers."

And what had been the miners' response to this great removal of grievances? The answer:

"I am limiting myself as far as I can to plain statistical facts. There are many things, such as the age distribution and other factors, to be considered. But the actual number of men in the coal industry is almost the same as in the period immediately before the war, while we find that the output has gone down a very great deal. . . . By and large, there are enough men in the coal industry to give us, if their output per man was as great as it was before the war, enough coal for our domestic and industrial needs at home."

As for equipment, it was true that much of it was obsolete, but —

"this has been supplemented and improved by the new machinery of which the Parliamentary Secretary to the Ministry of Fuel and Power recently told us. With this aid I should have thought that the output per man might be as great now as in the years immediately before the war. We should then have enough coal for our needs—not for export, but for our own industrial and domestic needs."

And as for a want of man power:

"A great deal of harm has been done in the past in ascribing what is really due to other causes to a shortage of man power. It is about time for someone to say, as I propose to say now definitely, that in the sense in which that term is commonly understood, there is no shortage of man power. If we had twice the man power we have in this country now, we should be worse off and not better."

Here members interrupted. Was their hearing good? Had the right honorable gentleman really said that if England had twice as much man power she would be worse off? He had said exactly that and he would say it again:

"I think certainly worse off. May I explain why I think that? It must be remembered that producers are also consumers, and that producers tend to have wives and dependents. The root fact is that the average producer, with his family and dependents, is at present consuming more on the average than he is producing. That is the root fact of our position, and it is measured

with great precision by the extent to which this year we are drawing upon our American and Canadian dollar credits. The phrase 'shortage of man power' is in fact used to cover three different troubles: the first trouble is maldistribution of man power, the second is poor output by those who are employed, and the third is the interruptions in output due either to a shortage or to an inappropriate allocation of raw materials. Those are the three troubles from which we are suffering."

But this was too much. Mr. Kirkwood spoke for labor:

"Is the right honorable member inferring that the miners are not working as hard as he would like them to work? . . . Workers outside are more intelligent than they used to be, and they resent that attitude. They are producing coal, and they resent men like the right honorable gentleman who have never worked in a mine lecturing them, when they have done nothing but work all their lives."

Sir Arthur Salter answered:

"There are many who have never done manual work, but who have done work which is as hard, and has lasted as long through life, and is sometimes as beneficial to the country as the production of manual labor."

Then he went on to suggest a remedy:

"In the first place, there is the question of incentives. Human nature being what it is, there is no class, although there are individuals in every class, who are likely to give of their utmost and continue to give of their utmost unless they have the incentives of both penalties and prizes. The general effect of present policy and the present situation is either to remove or to diminish both prizes and penalties. I do not say that for the purpose of elaborating a platitude, but in order to make a positive suggestion. . . .

"I wish next to express the opinion that the Minister's task of getting a proper distribution of man power will be increasingly impossible if the present inflationary movement continues. A great part of the world now suffers from a very serious inflation of a kind quite different from that which the world suffered after the first world war. At that time the impelling cause was usually a budget deficit met by printing paper money. That is not the form of inflation from which we are suffering, or from which the greater part of the world is suffering, today. By and large, we have a nearly balanced budget. But it does not correct the inflation which is resulting from an excess of expendable income over available commodities at existing prices. So long as that situation continues, I think the government will have an impossible task. Prices go up in one direction; they clamp on a control; the result is partly the creation of a black market, but still more the diversion of the excess purchasing power to another commodity, and so on indefinitely. The government is always chasing a hare which twists and turns, and is never caught. The final result is bound to be that the less essential

enterprise which is either uncontrolled or imperfectly controlled will be the most profitable and therefore the most attractive both to man power and materials. I think the task of allocating by deliberate order and license of materials will be increasingly costly and impossible unless the Minister, by cooperation with the unions, can prevent this kind of inflationary spiral continuing. . . .

"Thirdly, whatever is done by the government and by the workers in this direction, I do not think it is at all possible that we can balance our accounts before the existing loans run out. It is, I think, equally important that we should have some form of new loans or credits as the present loans run out, and that they should be used to a much greater extent than the present loans have been for productive as against consumption needs. . . .

"This is the new challenge, the new constructive task for the trade unions. Can they, will they, devote themselves first to increasing production in every possible way?—not abandoning forever, but postponing till production has caught up with existing purchasing power, the piecemeal increases of particular wage rates. If they do that they will be doing far more good for their union members than they can do in any other way, or that any other body of men, not excluding the government, can do."

The Glad Side

The Minister of Labor, Mr. Isaacs, said the last word. He did what he could to repair the damage that had been done to the Marxian fog by the wind from Oxford. His sovereign solution was: "To treat men as human beings." He could remember—

"... the time when I used to walk around the machine room, and when a foreman wanted me, he said: 'Oi! you, come here.' That type of foreman is dead—or very nearly. Today, most overseers and foremen like to know the Christian names of the men with whom they are working. It makes all the difference in the world if, when an overseer wants to speak to a man, instead of saying, 'Here, Isaacs,' he says, 'Here, George.' It makes all the difference in the world."

So that if that old capitalist had said, "Here, George," instead of "Here, Isaacs," or "Oi! you," to the man who was going to be sometime Minister of Labor in a Socialist government, the history of England might have been different. Then he addressed himself to the foreshortening of the hours of labor:

"Since V-J day, roughly 5,500,000 workers have had their hours reduced on an average by about three hours a week. The level to which they are coming down at present is about 44 hours a week. Some are 45, one or two 42½, some are 43, but the average level is 44.

"That is after six years of war, and it is only right to compare that with what happened after the previous war. In 1919–1920, 6,872,000 workers had their hours

reduced on an average by six hours a week. We came through that war and got that amount of reduction. Up to now we have not had the same amount of reduction for the same number of people as after the last war. . . . It must be borne in mind that this does not necessarily mean loss of production, because all the time between the two wars that we have been working on the 48-hour week, new processes, new machinery, and new methods of production have been coming along, and in most industries there has been a tremendous increase of production per man. This has been due mainly to the introduction of machinery. But machines bring a greater strain, and call for greater effort on the part of the individual. They make the work of the individual tending it physically lighter, but demand a constant attention, so that what he gains in physical relief, he loses in mental strain and concentration."

The Advantage of Not Working

By a reduction in the average number of hours worked it had been possible to arrive at the five-day week, and he defended the five-day week on the ground of what it saved. His reasoning was like something that happens to logic in dreams:

"On a five-day week, a firm saves, first of all, the time and cost taken in starting and stopping their factory. There is always a time-lag in starting and stopping machines. In the bad weather they save the cost of having to keep the factory heated on Saturdays. Another advantage is that factories requiring women workers have found that the finest attraction is to offer them a job in a factory which is working five days a week, because it gives them Saturday mornings in which to do their shopping. There is still another advantage in places like London or Birmingham, where men have to travel long distances to get to their work.

"Take the case of a man who works in a big printing works in the South of London, and lives at Tottenham or Tooting. He does not come up to work on Saturdays. . . . He saves his railway fare for one day, he saves himself two hours in the morning because he can get up at eight o'clock instead of six o'clock. He could, if he liked, lie in bed until eight o'clock, and perhaps his wife would bring him a cup of tea in bed. It saves him buying a lunch while in town, and gives him an opportunity of having a mid-day meal at home. I assert that, in the long run, the five-day week will be a boon and a blessing to everybody concerned. It may take a little time, after a firm changes over, to pick up its production, but there is plenty of evidence that, eventually, production improves, the men's physique gets better and there are advantages all round. Although it may be felt that there is probably an immediate reduction in production at the moment, eventually it will rise again."

By the same reasoning a four-day week would save twice as much as a five-day week and a workless week might enable England to save herself rich.

The debate closed on a note of optimism from the

Minister of Labor. They had heard of the woe that was coming and that it would lead to a lower standard of living for the workers, but—

“Why only the worker? If things go wrong, why should the worker only have a lower standard of living? If there is to be any real calamity, let us all enjoy it while we are about it. We must galvanize our country into action. I agree, but how? We are not going to do it if we are going to overdo this ‘Work Or Want.’ We want to get a more optimistic spirit about the country.”

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Later

THIS debate marked the high tide of the Labor Government's complacency. The Minister of Fuel announced that he absolutely declined to interfere with the five-day week or ask the miners to work longer hours. So said also the Minister of Labor.

Five weeks later they were going up and down England exhorting labor to work longer hours and to work harder for its own sake, for the sake of the Labor Government and for the sake of England. What had happened? Nothing unexpected, nothing that could have been foreseen, only that it was no longer possible to hide from the realities. The American loan which was to have lasted five years had been practically exhausted in one. Everybody in the world was in flight from the pound sterling, exchanging it for dollars as fast as possible. The opposition, led by Winston Churchill, was demanding heroic measures, and almost the entire British press was denouncing the government for procrastination. On August 6, the Prime Minister made his Crisis Speech, saying:

“We shall have to take some measure of control over the employment of labor. . . . We have decided, therefore that, as an emergency measure, we must ask for longer hours of work wherever longer hours of work contribute to increased production. What is needed, first of all, is the lengthening of the hours of work in those industries which have an adequate supply of raw materials and whose output provides exports or saving in imports or is essential to the expansion of other industries. As I have already said, I have put to the coal mining industry the proposal that an extra half hour a day should be worked for a specific period, and we are making similar proposals to other industries in this category. Once the desired increase has been obtained in these basic industries, the government will seek a similar contribution from other manufacturing industries which depend on them for materials and power.”

Parliament then voted the Transitional Powers

Act, investing the government with practically unlimited power, vaguely defined as the power “generally for ensuring that the whole resources of the community are available for use, and are used, in a manner best calculated to serve the interests of the community.”

The government did not say what it would do with this power, only that it would exercise it with no more severity than was necessary. Its first act was to announce an “austerity program,” cutting nonessential consumption to almost zero. The emphasis on self-denial was still stronger, however, than any idea of returning to prewar hours of labor.

The Trades Union Congress adopted a resolution accepting some “moderate direction of labor”; but it demanded to know what the government was going to do about the spivs and drones. Would everybody be made to work? The Minister of Labor replied to this:

“There are people in this country who are sometimes called spivs and drones. I liken them to eels and butterflies. Eels are slippery and butterflies are hard to catch and not much use when caught. Both of these classes are hard to catch. It is in such cases that the full powers of direction may be needed and will be used if necessary.”

What labor had in mind was an “industrial registration” in which everybody would be caught and made to go to work.

It was then up to the coal miners. Speaking for the National Union of Mineworkers, Arthur Horner, secretary, and himself an extreme radical, said that with 40 billion tons of coal at known depths in seams two feet thick there was no excuse for the nation to be short of coal. Blame for the shortage, however, should lie against the British people as a whole, not against the miners particularly:

“Not only the sons of miners and of the organized workers but the sons of all sections of the community should help. We cannot afford the luxury of conceding immunity to favored classes. We need help from those who never thought it necessary to do a job. That is why the National Union of Mineworkers urges increased attractions to people to undertake this dirty, difficult and dangerous work.”

The National Union of Mineworkers did tentatively agree to work longer hours, as a “loan” to the government. The question was whether they should work half-an-hour longer each day, as the government preferred, or on alternate Saturdays at overtime pay, as the miners preferred. On this point the National Coal Board opened negotiations with the National Union of Mineworkers, and in none too amicable a spirit, because the National Coal Board was accusing the miners at the same time of not having kept the bargain they made when they

got the five-day week and promised to increase production. While these negotiations were taking place two unexpected things happened.

One. The government announced an increase of four shillings a ton in the price of coal, beginning September 1, and a further increase to take place on October 1, "owing to higher costs." The National Coal Board defended the rise with figures to show that it had been losing 3.3 shillings on every ton of coal mined.

Two. Over a dispute about working a little wider face of coal in one of the best-equipped mines, a few hundred Yorkshire miners walked out. This started a series of sympathetic wildcat strikes which in a few days involved one tenth or more of all the miners in Great Britain. Such a stoppage might well mean another winter disaster. But the miners were deaf to frantic appeals from both the government and their own leaders to go back to work.

The labor correspondent of *The Times*, reporting on the "atmosphere in the coal fields," wrote:

"The question of inducements is one of great complexity. For many miners additional earnings have ceased to be a great attraction. It is not merely that there are not many useful things to be bought, but also that many of the older men are so accustomed to the austere life forced on them in the bad old days that they do not want anything better. On the other hand there are younger men who have not learned to value money because they have never been short of it. 'If I had a supply of wireless sets, pianos, motor-bicycles, and other things to sell the men on hire purchase, I could reduce absenteeism in this pit,' said one manager.

"There is the associated problem of pay-as-you-earn. Certainly men are sometimes disinclined to work because of the amount of their wages that goes in income tax. But it is necessary to approach this difficulty with caution. A man who sets himself to earn a certain sum each week would earn it with fewer days work if his tax was reduced, and the result might actually be an increase in absenteeism.

"There remains the moral appeal. The pits are now public property, but the will to work for the community rather than for private profit has little effect except on a politically conscious minority. The anxiety to cooperate of this minority, including as it does most of the local union leaders, is of great importance, but it is not enough. The majority of the miners do not go to union meetings, and they read their papers and listen to appeals with much cynicism. They are frankly unconvinced of the critical situation in which the country is placed. They prefer to trust their own experience rather than what they read. If they take a day off and go to a race meeting or some other big sporting event they see tens of thousands of people who to all appearances have no responsibilities and money to burn. Their own wages are high and so are the wages of others they meet. They see no evidence anywhere of a financial crisis. They do not see why they should have to

keep their noses to the grindstone while other people are free to enjoy themselves."

The government could not make the striking miners go back to work, but it could use its new power in another way. It found, for example, that many of them had gone to work on farms as a kind of vacation from the dirty business of digging coal. So one morning in the bath canteen at the pit head of a partially struck colliery appeared a notice signed both by the Minister of Labor and the Minister of Fuel saying that miners leaving their job to accept seasonal employment in agriculture would be liable to three months imprisonment or a fine of £100, or both. That did not send the strikers back to the mines; it probably somewhat reduced the seasonal labor force in agriculture.

One strange political fact was that the unions, in principle at least, were less hostile to the idea of some "direction" of labor than the Churchill conservatives, holding fast to the British tradition of individualism. In a Saturday night broadcast Winston Churchill said:

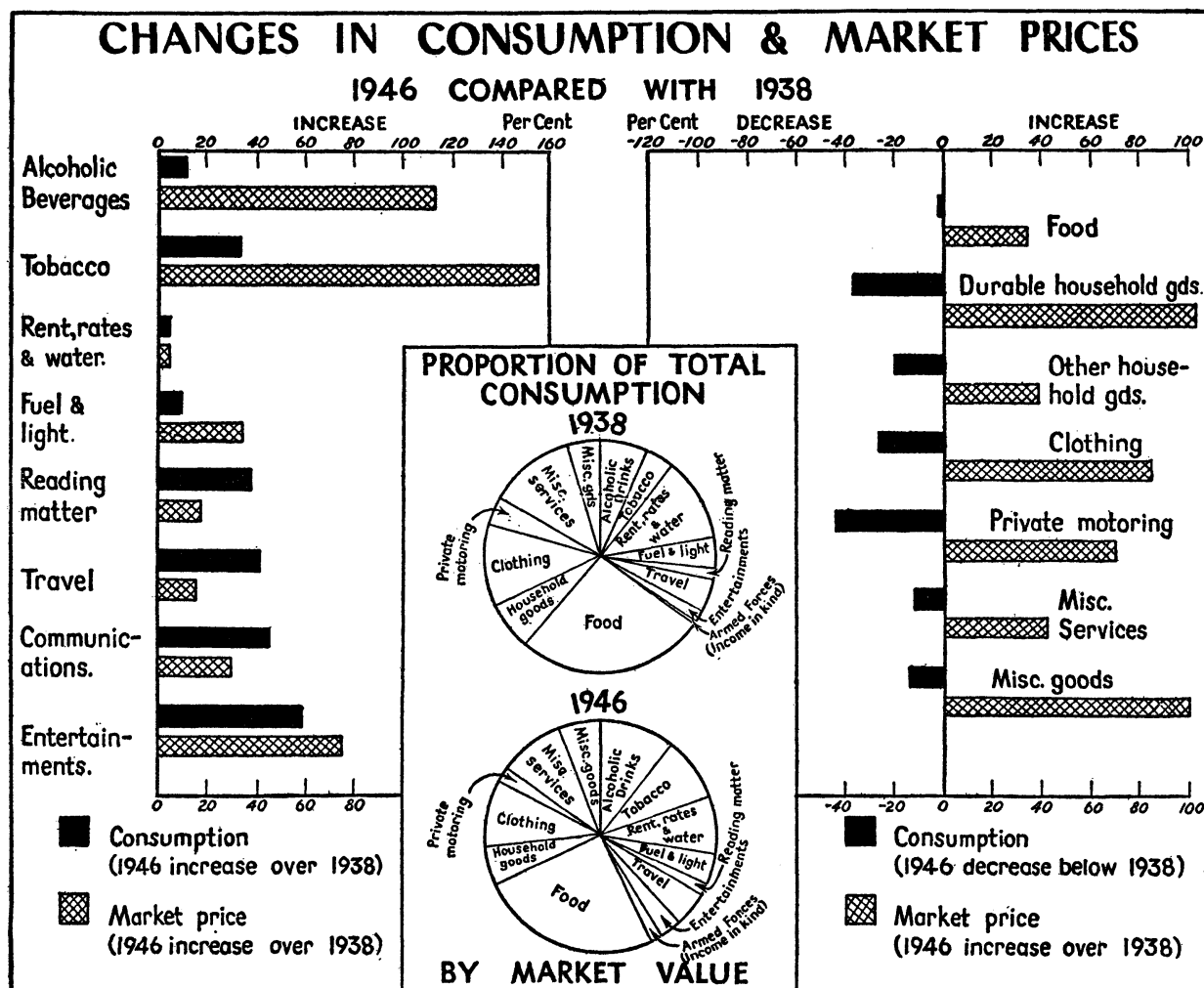
"The direction of labor, the restriction of the right of free engagement, the denial of the right during many centuries deemed fundamental in our free society, especially in a democracy except in time of mortal war, for every man to choose or change his employment as he thinks fit—all these rights are now assailed or threatened. Ordinary incentives having been destroyed, wartime compulsion has to be substituted.

"Does this not show the fallacy of the high-sounding Socialist pretensions? Everyone, according to Mr. Attlee, ought to give his services to the community. If not he will be made to. It may well be that large numbers of persons, before they move from one situation to another, will have to have their private affairs examined by the officials of the local labor exchange, who will decide upon their fate and send them where they please. We are not told what punishment they will suffer if they refuse to obey. . . .

"I do not believe that any of these methods will aid us in our economic crisis. The arrival of unwilling workers in industries to which they are strangers may well do more harm than good. Rarely, if ever in history, have the noble and altruistic qualities to which Mr. Attlee appealed been developed in the human race by compulsion."

"After two years of Socialist rule," Mr. Churchill said, "half a million of our people have applied to emigrate from this island to Canada, to South Africa, to Australia and New Zealand, and several hundred thousand more want to go to the United States or South America." To all of these he appealed to stay and fight it out. "If we work together," he said "with brains and courage as we did in days not long ago we can make this country fit for all our people. Do not desert this old land."

Statistical Picture of The British Consumer



Source: National Income and Expenditures of the United Kingdom, 1938 to 1946 [Cmd. 7099].

OWING to the redistribution of income that has taken place in Great Britain it is difficult to compare the standard of living now with what it was before the war. There has been a revolutionary shift in purchasing power from the upper to the lower income classes. The pattern of spending is thereby changed.

The figures above are supplied by the government. Changes in consumption are shown in contrast with changes in price—1938 compared with the year of austerity, 1946. The cost of alcoholic beverages has more than doubled and yet the consumption of them has increased. The use of tobacco, all of which is imported, has increased approximately one third, notwithstanding an increase of

more than 150% in the cost of it. The demand for entertainment increased 60%. This includes American films.

There is a very slight decrease in the total consumption of food. Notable deficits in total consumption have occurred principally in three items, namely, household goods, clothing, and motoring. These statistics do not reflect social gains, that is to say, expenditures by government for social welfare, which have increased steeply. What appears is that people in the low income brackets have had money to spend for many things that they could not afford to buy before the war.

Last June there was a debate in the House of Commons on the shortage of consumer goods. Sir

Stafford Cripps, President of the Board of Trade, said:

"There is much greater consumer power today in this country than there was before the war. If hon. members remember, there was a large volume of unemployment right up to the autumn of 1939, and the capacity to purchase and the standard of goods purchased were both much lower than they are today. . . . People are not only more careful about their children and more anxious to give them what is best for them; they are also able today to get much more for them than they could in the years before the war. . . . Take children's and infants' leather footwear, which is a matter about which we continually receive complaints of shortage. In 1935, which is the only prewar year for which we have figures but which is a normal year, the output was 29.3 million pairs a year, while the current position is an output at the rate of 39.4 million pairs a year. Despite that, there is a shortage—and I am not suggesting there is not—but the industry has responded to the extent of 40% increase over prewar output and still a shortage remains. . . . Prams and folders are another item about which I am constantly asked questions. In 1938, output for the home market was roughly 550,000 a year; in April, 1947, output for the home market was at the rate of 669,000 a year. Despite that, there is still a shortage. I could go through a great number of other kinds of goods like electrical goods of different kinds, safety razors, combs, tobacco, lighters, and sports goods, in all of which there is an increase over actual prewar supplies."

Generally, it is agreed that for a very large part of the population the standard of living during the first half of 1947 was higher than before the war, perhaps higher than ever before. That is not to say it was high. Before the war it may have been the highest in Europe but yet low by comparison with the American standard; and now it is the American standard of living with which the British contrast their own. *The Economist* says:

"There is really very little room for doubt that the aggregate output of the British community today is from 10% to 20% higher in volume than in 1938. But consider the burdens that the British community is laying upon its productive output. The following is not even a complete list of the programs and policies that have been set on foot.

"The further increase of a standard of consumption which in the aggregate and on the average was in 1946 already as high as in 1938.

"The maintenance of a standard of nutrition which . . . is definitely higher than prevailed before the war for fully half the people.

"Creation of a national health service and the extension of the national educational system.

"A considerable extension of social insurance.

"Repair of war damage and overtaking of wartime arrears of maintenance.

"An export program of 175% of prewar volume.

"Re-equipment of several major industries.

"Servicing of a vast war debt.

"A large colonial development and welfare program.
"Maintenance of peacetime armed forces at least twice as large as ever before.

"Acceptance of responsibility for a large slice of Germany.

"Is it any wonder that the national output, large though it is, is too small for the tasks that have been set it. . . . It is not the output of the British economy that is mainly wrong, but the requirements that are put upon it. . . . As a nation we are trying to consume much more than we produce. . . . To regain control of our economic destiny we must deal in facts and not in illusions."

Canada, Too, Has a Dollar Crisis

Toronto

THE British Foreign Minister's suggestion that perhaps Great Britain's best trade solution would be "a customs union for the British Commonwealth and Empire," which would be Imperial Preference with a kind of vengeance, was favorably received in England. Its effect on Canada was very different and somewhat startling. Canada is already in trouble with the business of selling in pounds and buying in dollars. Her account with the United States for that reason is in a dangerous state of imbalance, and this is so notwithstanding an arrangement whereby Great Britain until now has paid for her purchases in Canada partly with dollars out of the American loan. As a member of a British Commonwealth customs union, Canada's account with the United States might become wholly unmanageable, since she would be receiving only pounds for her exports overseas while paying dollars for her own purchases from the United States.

Writing in the *Financial Post*, Toronto, Kenneth R. Wilson says that if Great Britain decides for an Empire customs union—

"Then Canada is faced with a definite and immediate parting from her traditional trade pathway.

"Can she continue as a member of this new Empire customs union?

"If not, what alternative is there for Canada, short of gradual if not complete economic union with the United States?"

Discussing Canada's so-called dollar problem, which arises from the fact that in the American market she buys much more than she sells and cannot find the dollars to balance the account, the *Financial Post* says:

"What action Canada will or can take to avert financial crisis of the kind that overtook Britain is not yet clear, not even in top official quarters. The problem of

meeting our dollar crisis is threefold. There's the immediate problem of doing something drastic in the coming weeks or months at the extreme latest. There is the interim problem of getting on with longer-range measures. There is the basic problem of getting world trade back onto a sensible, healthy basis for everybody.

"For immediate action, once there is some clarification as to what Britain is going to do, we have only a few alternatives and none of them pleasant.

"We probably could get a U. S. loan. That has many things against it. It offers no longer-term solution.

"Some kind of peacetime Hyde Park has been frequently mentioned whereby the U. S. would 'put some dollars our way,' say by giving us dollars for some of the stuff we are shipping into nondollar areas.

"A third possible immediate step is, of course, reduction of our imports from the U. S. But this is very much more difficult than it may at first glance seem. There is the whole appalling business of working out a sensible formula for deciding what among our U. S. imports are 'essential,' what 'nonessential.' Furthermore, even if we do decide that cut flowers, fancy New York shoes and winter vacations are 'nonessential,' we find that the whole batch of such items put together doesn't add up to any significant total of dollars that might be saved. 'Just peanuts' is the way one investigator put it.

"In other words, import controls to be effective in meeting this situation would have to be of the kind that hurt, that affect our standard of living and our living habits, that affect the number of jobs available in Canada today and tomorrow. Gas and fuel rationing are just typical of the sort of things that might hit us at a score of tender spots.

"But our U. S. dollar shortage promises to be chronic. Canada must find ways of selling more goods to the United States to help balance our big purchases there, purchases that will always be big because of geography, because of our standard of living and our tastes, because Americans produce a lot of things we want and need, because for some essentials that is our natural, low-price market.

"For tomorrow, we've got to get some very fast and decisive action, to tide us over the immediate predicament and some blunt talk to Washington about her northern neighbor's—and best customer's—dire needs. Nothing less will prevent disaster of a painful and eruptive kind."

A Britisher Inlooking

AT a luncheon meeting of the first hemispheric stock exchange conference of the Inter-American Council of Commerce and Production, September 15, James S. Kemper, president, delivered an address entitled "The Western Hemisphere in the World Today." In that speech Mr. Kemper introduced the following letter from an English friend, written shortly after the Anglo-American Loan Agreement had been approved by Congress in 1946:

"Well, you made the loan and with it you settled our debt to you for 2½ cents on the dollar. Very gener-

ous I should say, and quite sporting. But what have you done to us? Time alone will give the final answer. But you have part of it already in the announcement of the closing of the Liverpool Cotton Exchange. That evidences that our Socialist Government waited until your Cotton States Senators had voted for the loan before they stopped the relationships of decades which our textile people had with your cotton producers. You'll find that's just a beginning; and you have underwritten it by making this loan. But more than that, and worse still, you have undermined British character.

"What sort of a position does it put us in to accept 97½% discount from you when we're not sure we can get even 33⅓% discount from our own empire countries? And what chance have we to save old England if you save our Socialist Government? Far better if you had let us stew in our own brewing at least until my people had awakened to the hopelessness of the nationalization of industry and returned to the only kind of government that ever has ensured freedom and plenty.

"Don't misunderstand me, please. You did what you did because of your long-time friendship for my country. And you did what those responsible for my government asked you to do.

"But *you now* are the strong nation. Our relation to you is that of a child to a parent. And as you and I, as fathers, know so well, we don't give our children everything they ask of us. We protect them from themselves.

"Here's hoping I'm wrong, because it will be a sorry world for all of us if we can't stand together and work together for the things we know are right. If we can recapture the old-time fundamentals, we'll come out on top and be ready to help you as we should. But please don't bribe us to be quitters by making any more loans."

Mr. Kemper added:

"That letter was written 14 months ago. A little less than two weeks ago Lord Beaverbrook expressed himself on the same general subject. After indicating that Britain blamed the Socialists for the 'mess Britain is in,' he said: 'But it is not the Socialists alone who are responsible for the present state of affairs. The basis of our being in the present condition instead of being well on the way to recovery is the *loan* and the conditions under which it was *accepted*. It provided *easy* money for Britain. It *destroyed* our prospect of reconstructing our economy on *sound lines*.'"

Our trouble is not that we have governed too much, but that in some ways we have not governed enough. We must therefore step up the output and efficiency of government just as we must step up the output and efficiency of other bottleneck services or industries, such as coal mining.—*Herbert Morrison, Lord President of the Council, speaking on Great Britain's future.*

Our Sugar Cartel

Washington Correspondence

Washington, D. C.

ONE of the last acts of the first session of the first Republican Congress in fourteen years was to confirm a vacuum-tight sugar cartel, privately owned, but controlled, subsidized and administered by government. This it did by reenacting, with reinforcements, the New Deal's *Sugar Act of 1937*, calling it the *Sugar Act of 1948*. Thus sugar is permanently added to the list of commodities that can no longer be left to find a free price in a free market. The production of it must be planned in order that the price may be stabilized and this, according to the preamble, is "to protect the welfare" of both consumers and producers. The moral, if any, was never mentioned. What the government has once supported by putting forth its hand, even in time of emergency, needs support continually thereafter and is never again willing to stand alone.

If the New Deal's *Sugar Act of 1937* had been permitted to expire at the end of this year there would have been serious trouble. The bottom might have fallen out of the sugar market. Sugar might have been too cheap. In Cuba there might have been political disorder, Cuba being our principal supplier, with a dangerous one-crop economy entirely dependent on the American market. American growers of sugar cane and sugar beets might have been hurt. And yet until thirteen years ago the sugar industry took all the weather of a free market and a free price and somehow lived and grew and sometimes flourished.

The American market for sugar is the most voracious in the world, with a per capita consumption of more than 100 pounds a year. Never did we produce anywhere near enough to satisfy our own wants. Nevertheless, against the cheap labor of Cuba and the Philippines we did create in sixteen states a sugar industry that produced nearly two million tons a year and in two states we produced one-half million tons of cane sugar. The American producers of both beet and cane sugar did need the advantage of tariff protection which, under the Smoot-Hawley Act, went as high as two cents.

In 1934, owing partly to the economic state of the world and partly to overproduction, sugar was a profitless commodity. Cuban sugar was delivered in New York at less than one cent a pound, and American producers of course were in distress. That year the New Deal passed the first sugar control act as an emergency measure. To limit the supply, in order that the price might rise, production quotas were established. American producers accepted their quotas in return for cash subsidy payments; Cuba

was compensated by reduction of the tariff. Almost at once sugar became again a profitable commodity for American producers and for Cuba, Hawaii, Puerto Rico and the Philippines. In three years Cuban exports to the United States increased threefold. Within the life of that first control act the emergency passed, but it knew its way back—it was, so to speak, just lying in wait for the opportunity of a free market—and so the New Deal perfected a second control law called the *Sugar Act of 1937*. That is the one that was to expire this year. If nothing had been done about it there might have been chaos in sugar. And so the *Sugar Act of 1948*, the one just passed by an anti-New Deal Congress in collaboration with a pro-New Deal Administration.

What takes place under this Act?

To begin with, the Secretary of Agriculture is charged with responsibility to see that sugar shall be a profitable commodity; and to enable him to accomplish that end he is invested with powers of government, to wit:

"The Secretary of Agriculture is authorized to make such orders and regulations which shall have the effect and force of law as may be necessary. . . ."

The Secretary of Agriculture does not fix the price of sugar. He only controls it. And he controls it by a cartel principle as follows: Each year he shall determine the total amount of sugar that, in his judgment, can be sold on the American market at a fair price—not the amount that could be sold or might be consumed at a free price, but the amount that the American consumer will buy at a fair price. His duty, as defined in law, is to provide "such supply of sugar as will be consumed at prices which will not be excessive to consumers and which will fairly and equitably maintain and protect the welfare of the domestic sugar industry." The meaning will be somewhat clearer if you turn it upside down. In the role of cartel manager the Secretary of Agriculture does not begin by asking: What is the total amount of sugar which . . .? etc. The first question is: What will be a fair price for sugar, all things considered? Having got the answer to that, his next question is: How much sugar will American consumers buy at that price? At this point the law says that in arriving at his answers the Secretary of Agriculture shall regard not only the statistics of past consumption, the increase in population, and other such "demand factors," but also the level and trend of consumer purchasing power and the relation of the price of sugar to the "general cost of living in the United States" in the year 1947. This is something new. It means that the price of sugar in the future shall bear the same relation to the general cost of living as it did in 1947. If the cost of

living falls, the price of sugar may fall proportionately; if the cost of living rises, so shall the price of sugar rise. Briefly, in relation to other things the price of sugar shall be constant.

Having determined by his own judgment (1) at what price sugar will be both profitable to the producers and not "excessive" to the consumers, and (2) how much the American consumer may be expected to consume at that price, the Secretary of Agriculture then proceeds to limit the supply accordingly. American producers shall produce only so much, apportioned by areas—the beet sugar grower so many tons, the cane sugar grower on the mainland so many tons, Hawaii so many and Puerto Rico so many. All of this is American territory. The Secretary of Agriculture cannot of course control production in foreign countries. But he can control imports. The principal foreign suppliers are Cuba and the Philippines. The share of the Philippines had already been fixed by the Trade Act of 1946. After all this has been counted up, what remains to be supplied shall be supplied almost entirely by Cuba—by Cuba 98.64% and by all other countries 1.36%.

Since the government now has guaranteed that sugar shall be profitable at a constant price you might suppose that subsidies could be discontinued. Nevertheless cash subsidy payments to American sugar growers are still provided, beginning at a base rate of .8 of a cent a pound. This feature of the new law was brought forward from the old one and not even debated. It tends, no doubt, to reconcile American sugar growers to the fact that they surrender nearly all the rights of free farmers, save only the right to plant their rows straight and the right not to plant them at all. The Secretary of Agriculture will tell them how much they can grow and where they can grow it; he will tell them what to pay for hired labor; he will control their contracts with the refiners.

Beyond anything the Act particularly says, the Secretary of Agriculture is invested with general powers. He may make such orders and regulations as he deems necessary, and any person knowingly violating any of his orders and regulations shall be punished by a fine of not more than \$100 for each violation. That goes for the American growers, over whom the Secretary of Agriculture has direct authority. Anyone, foreign or native, who tries to beat the quotas by marketing, shipping or importing more sugar than the Secretary of Agriculture permits will forfeit a sum three times the value of the

sugar in pounds. This is to reach the black marketers, for of course there will be a black market in sugar.

Finally, in order to enable the Secretary of Agriculture to administer the Act he is invested with police and espionage powers. He may demand to see anybody's books, or he may demand information, and it shall not be withheld. This part of the law reads:

"All persons engaged in the manufacturing, marketing or transportation for industrial use of sugar or liquid sugar, and having information which the Secretary deems necessary to enable him to administer the provisions of this Act, shall by the request of the Secretary furnish him with such information. Any person willfully failing or refusing to furnish such information or furnishing willfully any false information shall, upon conviction, be subject to a penalty of not more than \$1,000 for each such violation."

In the *Sugar Act of 1948* all interests were reconciled—those of the sugar beet growers, the cane sugar growers, the refiners, the Department of the Interior with its responsibility for Puerto Rico and Hawaii, the State Department and the Department of Agriculture. Senator Millikin said: "The accords which were reached came somewhat as a surprise to many of us. There was not a single interest that received everything it wanted. Every interest had to sacrifice part of its ambition."

The only interest apparently not considered was that of the politically nonexistent consumer.

The Secretary of Agriculture said: "We have refrained from making advance statements as to how we propose to administer specific provisions of the proposed legislation because most of those provisions must necessarily be administered in the light of conditions existing at the time these specific provisions are applied. . . . In making determinations of fair and reasonable wages, it will be our policy to make the necessary studies, hold the necessary public hearings and issue the formal determinations in such manner that the determinations can be announced prior to the time the labor is performed."

The *Sugar Act of 1948* was finally passed in the Senate by a voice vote. There were voices saying aye that had been heard in rhetorical defense of free competition as the only sound principle of regulation in a free economy. Yet it may be noted as an historical fact that no one proposed solving the sugar problem by letting it alone.

Lewis H. Brown's Report on Europe

AT the request of General Lucius D. Clay, Commander in Chief of the European Command, Lewis H. Brown made a study of Germany, the problem being how to get it off the back of the American taxpayer without leaving Europe in the lurch. Mr. Brown, chairman of the Johns-Manville Corporation, is an industrialist with a very keen perception of economic and political realities. He came to some startling conclusions. One is that Great Britain's failure to mine and export coal as she did before the war has had a paralyzing effect upon European recovery. His study turned out to be a document of 250 pages, which will be published this autumn by Farrar, Straus & Co., New York, under the title, "A Report on Germany." By permission of the author and the publishers a few of Mr. Brown's penetrating observations are herewith reproduced.—Editor.

I. THE FATAL LINE

GERMANY is now deeply split between East and West by the line that Russia drew. That is the root-cause of the vast malaise that poisons Europe and paralyzes world recovery. East of the line is considerably over half of all the arable land of prewar Germany. This area was her breadbasket.

Prewar Germany, because of its Eastern breadbasket, was 80% self-sufficient in food. Western Germany—that is, the American, British, and French Zones west of the line the Russian armies have drawn—is only 50% self-sufficient at prewar output, and today farm production is 30% below prewar. At best, her farmers can only produce enough food for a working diet for one half of its 40,000,000 nonfarm population. The other half must be fed from abroad—through payment for exports or plain relief.

The victors did not merely cut Germany into two halves between which men, material, money have ceased to flow except in trickles. They also sliced her up into Zones. We have gone a little way to rectify the error by creating a bi-zonal "unity" between the British and American Zones. Yet this unity is only skin deep because different economic concepts are held by the two occupying powers—Britain operating a planned economy at home, we still depending on free enterprise and the economics of the market.

In the Russian Zone, factory after factory has been stripped, the machinery loaded on flat cars and left on sidings without protection from the weather, to rust and disintegrate. Sugar processing machinery, that might have converted the sugar beets of Germany to help supply a product of which

all Europe is short, goes to ruin while sugar is brought in from Cuba at the American taxpayer's expense. The Russians have carried the process to the point where the German East is developing into an economic vacuum. The dismantled machinery is not even, in most cases, of use to them. They lack the transport to move it where needed in Russia, the technicians to set it up and use it if it ever gets there.

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II. BECAUSE

BECAUSE it reduces the world's capacity to produce, the economic waste involved in the dismantling process is a crime against world recovery. It is part and parcel of the "plowing under" of the productive capacity of Europe's workshop and one of the world's great converter nations. "Plowing under" is the synonym for economic waste for which a bill is invariably presented—generally in the long run to the American taxpayer.

The brains of Germany are today, by and large, no longer in places where they can be of any use to German recovery, which is, today, world recovery. The majority, if allowed to work at all, are doing work that requires a strong back and no brains. A highly trained mining engineer passes bricks one by one from the rubble of the ruins to be loaded on a wheelbarrow to a chemist who knows how to make dyes that will not run, and the vehicle is trundled off by a man who used to design electrical generators. On a park bench close by sits a dejected former executive who once coordinated the work of 5,000 men into a perfect working machine. These men of

brains, skill, and competence who made Germany great before the war are among the world's greatest human assets for recovery. We are plowing them under and the economic waste will ultimately be footed as usual by the patient American taxpayer.

Because the breadbasket is lost and German exports are as yet a bare trickle, the food shortage in Western Germany initiates a deadly vicious cycle that penetrates and permeates every sector of the German economy.

Because the Ruhr coal miners, after sharing supplementary rations with their families, get about half as much to eat as formerly, they produce about half as much coal per man as formerly.

Because Ruhr coal is lacking, steel is lacking to produce the machinery, materials, and parts required to restore and modernize the mining plant and rebuild the engines and cars to haul the coal where it can be used.

Because steel is short, the equipment and parts required to restore the devastated and decrepit transport system cannot be produced.

Because the coal-steel shortage prevents the production of parts for transport restoration, freight cars are going bad faster than they are being repaired.

Because coal and therefore steel are short, agricultural machinery, implements, and parts cannot be produced and the output of the farms of Western Germany threatens to slump further.

Because of the steel shortage, "Thomas-Slag," by-product of the blast furnaces and chief source of phosphorus for German fertilizers, is barely available to German farmers and the yield per acre continues to decline. Therefore, less food for the coal miners and the vicious cycle takes on more deadly momentum.

Because coal and therefore steel are lacking, the German industrial plant—estimated to be about 70% restorable if materials and properly fed labor were available—cannot be put into working shape to turn out the export goods to pay for the food imports that 50% food-deficient urban Western Germany so desperately needs. Hence half-fed workers continue to produce at half prewar output and the American taxpayer must dig deeper in his pocket to dole out relief.

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III. PSYCHOSIS

THERE are only two ways to make any economic system function. One is through the iron fist of the police state which orders work done on penalty of concentration camp and the brick wall. The other way is to have iron money, that is,

strong money which induces people to work because it will buy what they want.

In the Russian Zone of Germany and in the East they have the iron fist, and production in many economic sectors is at a level not far from prewar, aided of course by the fact that Eastern Germany is not food deficient as is the West. But in Western Germany we have neither the iron fist nor iron money.

Thus Western Germany has neither of the two incentives that make people work. That is fatal. Unless we change that, she will sink into further deterioration and ultimately collapse.

The incentives to work, to enterprise and to export are further weakened by the entire tremendous and incredibly complex apparatus of "Schachtism," holdover from Nazi planned economy days, and vastly extended by our multiplication of governments—zonal and *Laender*—each one itching to control something. The simplest commercial transaction often becomes impossible because of paper work. The automatic operations of the market are replaced by the uninformed decisions of overstuffed bureaucracies. Prices and wages are no longer what the seller and buyer agree on (as a result of which a commercial transaction at once takes place), but some fictitious figure dreamed up in a swivel chair, at which the seller will not part with his product. Hence, universal black marketeering in Germany, evasion of quotas, hoarding by farmers. Thus a farmer who once produced for the market retires into the local self-sufficiency of the Middle Ages and the city dweller goes into the American breadline.

Germany has been like a mule which in hauling a heavy cart has fallen down in the mud. Both the American and British have come along, unstrapped the shafts of the cart from the harness and pulled it back, leaving the mule still lying in the mud. Both the Americans and the British have then themselves gotten into the shafts of the cart and attempted to pull the load.

There is an intimate relationship between the declining will to work in Britain and all of Western Europe and the greatly diminished freedom of enterprise. Formerly the European entrepreneur was free to produce what he liked, and he naturally produced what was most profitable—which is to say, the goods and services that most people wanted as indicated by prices in the free market. Hence, there was an abundance of production of popular goods and services and these were exactly the things for which people were willing to work hard. Because desirable goods were plentiful, money had real value and people worked hard to get it.

Today, things are very different in Europe. In the East, in the countries ruled by Communism, people can still be made to work hard through the dread compulsion of the concentration camp and the

firing squad. But in almost all Western Europe, the area of socialism, there is neither the compulsion of the iron fist nor the incentive of good money nor the labor discipline of the old days of free enterprise.

It is the ration card on which the economic system of the socialist states of Western Europe is fundamentally based. The ration card is tied to the job but not to output, and therein lies its fatal weakness. You get a ration card by reporting to the labor office and you must take a job if it is available. This ration card assures you a minimum of food. If you do just enough work to get by, you get the minimum of food as well as coupons entitling you to buy clothing, shoes, tobacco, candy and whatever other consumer goods the state decides the people should have. If you work hard on the job, you get the same guaranteed minimum of food and the same number of coupons as the loafer. True, *you get more money* than the loafer, but you soon discover that it is not really good, strong, capitalistic money. It is money that does not buy goods without coupons—except on the black market and at prices so high that the average European workingman is quite unable to earn sufficient money to seriously satisfy his wants over and beyond what the ration card assures him.

There is therefore no particular advantage in working hard. Once you possess a ration card, you have got about as far as you will ever get under Socialism. Nor is there any particular danger of losing your job. The trade unions see to that. It is not like the old system of Capitalism under which the harder you worked the more you ate and the more consumer goods you enjoyed; and the more you loafed the more certain you were to find yourself in a position where you neither ate nor enjoyed consumer goods.

Can America afford to underwrite these socialist states that have neither the inducements nor the disciplines of the well-trying capitalist system nor the iron disciplines of the police state? If we do, "what may happen" may well be that we will be pouring our money into a sink that has no bottom.

Should we not insist that American economic support of European states be based on the establishment of an economic system that rests on hard work resulting from genuine incentives tied to output and backed up by a discipline that ties the very possession of a ration card to output?

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IV. COAL

WHEN I went into Germany to study the problem of German recovery, I expected that the answer would be found in Germany. But as my studies developed, it became amazingly clear that the crux of the recovery problem of Germany

and Western Europe lay in the digging and exporting of coal by Great Britain.

Before the war, coal was supplied by boat from Great Britain to the large ports of Europe. Around these ports had grown up the industrial areas of these various countries. Coal that was not used in the immediate areas was sent by short rail hauls to other industrial centers or was transported by coal barges through rivers and canals.

Not only was Great Britain in prewar days the largest supplier of coal in Western Europe, but coal was the basis of her diplomatic power.

The fact that Great Britain is no longer exporting coal to Western Europe is one of the biggest contributing factors to the dollar shortage with which she is now struggling—attempting to overcome this problem by resorting to austerity, nationalism and socialism.

In the meantime, no progress has been made in Western Germany in the past year in the restoration of industrial production. Municipal power plants that supply thousands of small plants have been operating at a small percentage of capacity due to a shortage of coal.

If a moratorium could be declared for one year to 15 months on the shipment of these 10,000,000 tons of coal out of Germany, a revolutionary dynamic would be inserted into the whole picture of Western Germany and Western Europe. If these 10,000,000 tons of coal now exported from Germany could be used for a year or 15 months within Germany, the restoration of not only Germany but of Western Europe could be assured.

The only way, however, that this moratorium on the export of coal from Germany can take place is for the countries of Western Europe to be again supplied by coal from Great Britain.

Great Britain has the coal. She has the barges with which to haul it. She has the miners with which to dig the coal. The miners themselves, I am assured, would dig the coal if they were given incentives. They can be given such incentives. The only real obstacle is the ideological theory of the present Labor Government that places dependence upon socialization and nationalization, rather than the incentives that have always induced men to work.

According to the latest reports Germany at the present is exporting at the rate of 10,000,000 tons per year. This is largely going to the countries in Western Europe which were in prewar days supplied by coal from Great Britain.

If the miners of Great Britain, led by their government in a second great battle to save Britain, would work *every* Saturday they could in the course of a year produce 15,000,000 additional tons of coal. If England could export coal to the countries of Western Europe, the tide of world affairs might well be turned. If 10,000,000 tons of this 15,000,000

tons could be used to supply those countries now getting coal from Germany, then this amount of coal in Germany would provide the means of breaking the vicious cycle on which the fate of production in Germany now hangs. The other 5,000,000 tons exported from England, or used in part in the Empire, would go a long way to provide some of the commodities that are necessary to save England.

The first reaction of many people in England to this recommendation is that it can't be done. . . . But the need is so imperative and the time so short that I would recommend that, as part of the Marshall Plan, the suggestion be made that the Labor Government in England at the earliest possible date institute a plan whereby a special ration coupon would be issued for each ton of coal produced on Saturdays, and a coupon of another color be issued for each extra ton of coal produced on week days. These special coupons would be usable only in stores in the mining towns to purchase from special stocks of food and consumer goods placed there for the express purpose by the British Government. If necessary, I would recommend that special supplies of such goods be sent from America to stock these stores in mine communities.

I have discussed this suggestion with one of the long-time labor leaders of Great Britain, a man close to the government. It was his opinion, and it is mine, that the wives and children of miners demanding a supply of these goods that have been so long unavailable, together with the inherent patriotism of the miners to do their part to win the second battle of Britain, will supply the incentive necessary to produce the coal.

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V. WHAT MAY HAPPEN

WE must be prepared for what has already become obvious, namely, that Russia does not want to see Western Europe recover under the Western system of freedoms. We must therefore be ready to go ahead without her.

We cannot afford to be blind to what may happen if we fail to act. What is required is a sense of stern realism and the resolution to face facts, not as they should be, but as they are in grim old Europe. We should have no illusions that obstacles can be easily overcome or that a sick Europe will readily swallow the castor oil we have recommended.

What may actually happen is therefore the following: The soft-socialist states of Europe will undergo an evolution. They cannot remain as they are. They will either go through crisis after crisis, each requiring new controls and new compulsions, to the full length of the police state, finally replacing the

enormously weakened money incentive almost entirely with physical compulsions, thereby reverting wholly to serfdom and slavery; or—goaded by American pressure, if we are wise—they will, step by step as fast as realities permit, drastically alter and deflate the enormous and complicated system of rationing, allocations, controls, etc., and revert to capitalistic incentives even though the terminology remains socialistic.

What may happen in Britain is quite possibly the following: Failure to make the export goals as increased austerity still further weakens the will to work. A steady decline in living standards. A tremendous desire to emigrate, which will finally burst through all barriers and ultimately result in a sharp reduction of population to a level where it can be fed (through the inevitably increased accent on agriculture) about two thirds from its own soil and about one third from abroad through bilateral agreements. The passing of multilateral trade as a major factor as far as Britain is concerned. Far-heavier-than-now-contemplated reductions in British military commitments, including the practical transfer of Britain's German Zone to the United States. A shift of British imperial activities from Europe and Asia to Africa, and—unless British enterprise is again set free and still youthful enough to vigorously develop that immensely rich continent—the steady decline of Britain to the rank of a minor power.

What may happen in Western Germany is quite possibly the following: Economic stagnation and increasing human deterioration because of the loss of the Eastern breadbasket—which is *by far* the most fundamental fact about present-day Germany. Increasing but spasmodic and insufficient American economic support, essentially on a relief basis, and developing after each crisis involving large-scale deaths from malnutrition diseases and starvation. Reduction of population by excess of deaths over births, inability to marry, and later by permitted emigration. Germany an ulcer in the heart of Europe and the ideological battlefield between East and West. Growing recognition by the Western world that a viable Western Europe is almost impossible until the Iron Curtain, now 100 miles from the Rhine, is pushed back to about the Curzon line.

What may happen in France is quite possibly the following: Her economy remains well balanced between country and city, agriculture and industry. Hence her economic problems are not insoluble. Some modernization of industry but quite insufficient to enable France to play the industrial role of prewar Germany. Probably, a gradual settling down of France to its former status of an operating but not highly productive economy. French people will

remain convinced Germany must be kept down and French governments will not dare to effectively override public opinion. France will continue to obstruct but will be increasingly overruled by the United States, knowing that France no longer has the military power to seriously impose her will on any part of Europe. Political cleavage between Right and Left too deep for solution by France's multiparty parliamentarism which lacks Britain's genius for compromise. Ultimately, dictatorship of Right or Left. The United States will find itself compelled to take a hand as it cannot afford French dictatorship of the Left as long as it stays in Western Germany.

What may happen in the United States is quite possibly the following: Indifference on the part of the masses of the people to problems abroad. Indifference when faced with the facts, as in this report. Unwillingness to be taxed sufficiently and pay high enough prices to provide the money, food, and goods to set Europe substantially on her feet. Spasmodic relief rather than continuous economic support until the job is done. As a result, continued deterioration and misery in Western Europe while the hard-socialist countries of Eastern Europe, driven by the Russian whip, work hard and get on their feet—immensely aided by the fact that Eastern Europe is inherently and potentially food-surplus while Western Europe is food-deficit. The East will win the ideological battle in Germany when the Germans in the Russian Zone eat better than in the West. German people become won over to uniting with the hard-socialist economy of Soviet-controlled Europe. American troops must be increased to hold down a hostile Germany. Communism surges forward, permeating France and Italy as well as Germany. We must retire from Europe or base our stay there on an increasing standard of living or increasingly on bayonets. American public opinion, awake at the eleventh hour and therefore emotionally excited, will not permit retirement. The outcome, almost inevitably, WAR.

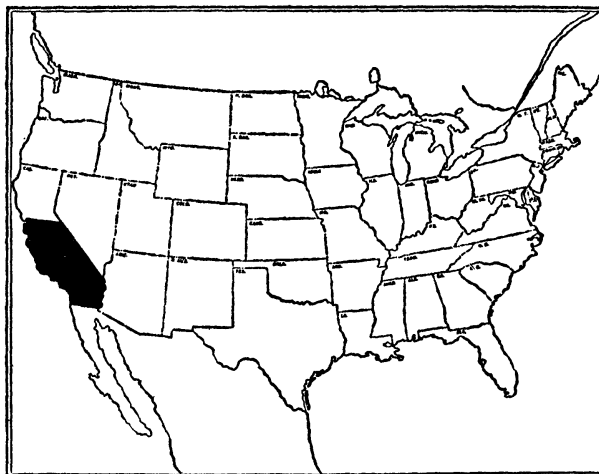
British Labor Note

From *The Ministry of Labor Gazette*, August, 1947

THE changes in rates of wages reported to have come into operation in July resulted in an aggregate increase of £190,000 in the weekly full-time wages of about 537,000 workpeople. In addition, a number of workpeople had their hourly rates increased so as to give approximately the same weekly wages as before for a shorter working week. . . . The number of workpeople whose hours were reduced in July was about 670,000, the average reduction being about $3\frac{3}{4}$ hours a week.

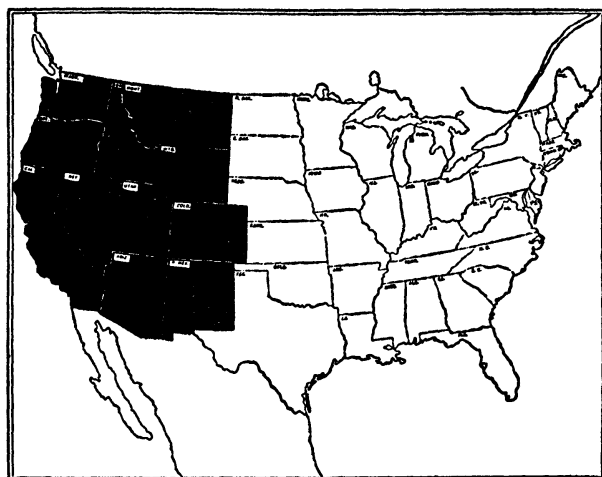
The Devouring Shadow

From the *New England Letter*: First National Bank of Boston



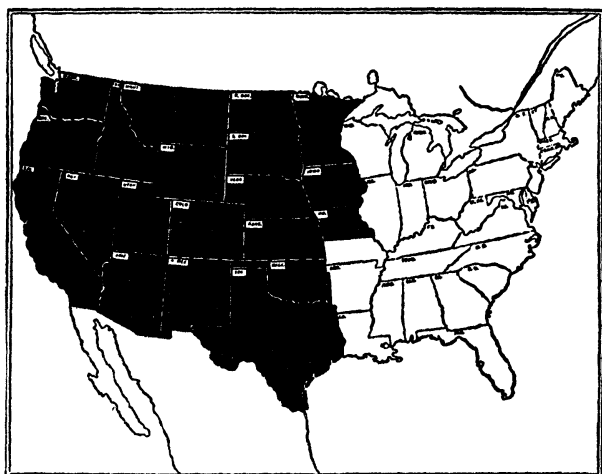
1929

Federal expenditures were less than two thirds of the total income payments to individuals in California.



1938

Federal expenditures were equal to the total income payments to all individuals in the blackened states.



1946

Federal expenditures were equal to the total income payments to all individuals in the shaded areas.

Moscow's American Forecast

By W. A. Jansen

MOSCOW now is putting forth a flood of economic literature. It is printed in many tongues and circulated all over the world. A weekly magazine, *New Times*, well written in English, published by the newspaper *Trud* in Moscow, is on sale in New York and London. In all Russian language periodicals the space devoted to economics has been increased. The principal theme of all this writing is the impending crisis in the United States, an event which is forecast by analysis of the changing structure of American finance, industry and agriculture in the wake of World War II.

The Russian economist, of course, is obliged to conform to Marxian ideology when writing for the Russians, and to Soviet foreign policy when writing for publication abroad. The straitjacket of the Communist Party line does not allow him any intellectual leeway. If his statistics and numbers run counter to the basic premises he must twist and interpret them, and if this cannot be done he must keep them in the background or suppress them. As to semantics, one must bear in mind that many words have acquired in Russia specific meanings entirely opposite to our understanding of them. Thus *democracy* means totalitarian dictatorship. *Monopoly* is stripped of its old meaning, from the Greek *monopolion* (single or exclusive sale), and is used by Soviet writers to mean big business. Words like *capitalist*, *free enterprise*, *private property*, and *profit* evoke in the communist mind thoughts of social injustice and exploitation.

Thus, although the Russian economist is skilful, imaginative and penetrating in his handling of the material, his work has no scientific value. Yet there are two reasons why we should give it attention. One is that it reveals the Russian mind; we know at least what it wishes to believe, and to make others believe. Secondly, more than 120 million Europeans, many of whom, like the Czechs, the Poles and the Finns, were active in prewar international business life, now find themselves in the Communist orbit. What the Russians write and publish is not only law for the puppet governments forced upon these peoples, but considering their isolation from the West, which deepens with the passage of time, it is also bound to influence their way of thinking and their future actions. Moreover impoverished, undeveloped or backward and colonial peoples generally accept it at face value.

Certainly it is important to know how the United

States is being presented by this literature to the Russians and to the world at large.

The foremost Soviet economic publication is *Mirovoye Khoziaistvo i Mirovaya Politika* (World Economics and Politics), a monthly review published in Russian by the Research Institute of World Economics and Politics of the Academy of Sciences of the U.S.S.R. in Moscow. Its editor, E. Varga, director of the Institute and a member of the Academy, is the author of many studies, all of them toeing the line of Soviet economic dogmas.*

In five consecutive issues of *World Economics and Politics* there are about a score of articles, surveys and book reviews devoted to the presentation of various aspects of the economic life of the United States. The tendency of these articles is clearly shown in the titles of permanent sections of this magazine. Thus: "New Data on the Concentration of Capital in the United States," by V. Tchepakov, is published in the January issue in the section of the magazine entitled, "Materials Concerning Imperialism at the Present Stage"; in February, under the somewhat changed heading, "Materials Relating to Modern Imperialism," appears "The Strengthening of the Metallurgical Monopolies in the United States during the War," by L. Roytburd; in May an article by Sh. Lif, "Financial Capital and Financial Oligarchy in the United States."

Other subjects treated at considerable length cover almost every branch of American economy. For example: "Agricultural Situation during the War and in the Post War Time in the United States," by M. Pevsner, and "Strike Movement in the U.S.A." by S. Drabkina (January); "United States in the Near and Middle East," by B. Dantzig, and "Trade Policy of the United States," by N. Mnogolet (February); "Foreign Policy of the U.S. and the Labor Movement," by P. Pollack (March); "American Foreign Policy at the Present Time," by J. Lemin; "Monopolies in the Economic Expansion of the American Imperialism," by S. Vigodsky, and "Technical Press in the Service of Monopolies," by A. Shpirt (April); "Post War Reconversion in the U.S.," by N. Mnogolet, and a special 40-page sup-

* Varga's book, "Two systems: Socialist Economy and Capitalist Economy," was published in 1939, in English by the notorious New York distributor of communist literature in the United States, "International Publishers." The July, 1947, issue of *Foreign Affairs* carried his article, "Anglo-American Rivalry and Partnership."

plement," Post War Contradictions in Capitalist Economy," by L. Mendelson (May).

Also deserving attention are the following articles in other Soviet periodicals published this year: In *Vneshniaya Torgovlia* (Foreign Trade), a monthly official organ of the Commissariat of Foreign Trade of the U.S.S.R., "Principle of Equality in the American-Chinese Trade Relations," signed I. I. (January); "Movement of Prices in the United States in the Post War Period," by A. Manukian; and "Credit and Trade Policy of the U.S. towards Latin American Countries," by M. Lazarev (April). In *Planovoye Khoziaistvo* (Planned Economy), a monthly organ of the State Planning Office in Moscow, "Automobile Industry in the U.S.A. after the War" (May-June issues). The already mentioned weekly magazine *New Times* carries articles on America in every issue.

The purpose of all this writing is to prove the decay of "imperialist American monopoly capitalism," which faces an economic crisis in the near future, perhaps already in the autumn of this year.

What follows is a composite picture of the American economy as the Russian economists draw it, translated literally from their writings in various periodicals and paraphrased with the sense intact.

The American Crisis

(By Russian Economists)

"WORLD WAR II broke up the economic depression which had begun to tighten its grip on all capitalist countries at the end of 1937, revived industrial production, liquidated chronic mass unemployment, rescued agriculture from the long lasting crisis, started an unprecedented upward trend in all branches of American economy. While countries directly involved in hostilities suffered irreparable loss and damage to their producing and distributing apparatus, the United States reached the pinnacle of productivity and wealth, the latter however only to the advantage of capitalists.

"All this is being used by the bourgeois literature as an apology of capitalism and of war. The war is being presented as a means of increasing productivity and of securing full employment. It is asserted, *e.g.*, that the war revealed the great organizing abilities of capitalism, which can also be utilized in the solution of post-war problems such as the preventing of crises and of mass unemployment.

"It is even asserted by the apologists of capitalism that the United States of America experience neither the decay nor the contradictions typical of the present stage of the general crisis of capitalism, and that the war has proved the capacity of American capitalism to survive in its present form. Wide circulation is being given the fairy tale about the decisive role played by American technical and industrial skill, particularly by American aviation, in the outcome of the war, although it is a matter of universal knowledge that the

decisive role in the rout of the German war machine was played by Soviet troops, armed and equipped by the Soviet war industry.

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"In fact, the expansion of industry in the United States during the war shows not the progressiveness but on the contrary the deep decay of the capitalist system.

"One of the most striking elements in the decay of capitalism is the enormous disproportion between the full productive capacity of the industrial apparatus and its actual output. Another is the simultaneous existence of mass unemployment. Together they prove the incapacity of the bourgeoisie to make full use of available productivity.

"Huge reserves of chronically idle productive potentialities, of labor, of unrealized technical achievements, and the existence of enormous stocks of food and raw materials piled up as a result of overproduction—all these factors made it possible for American industry to double its output during the war years.

"Does it not, however, sound like a severe indictment of capitalism to state that it could make full use of its productive capacity only in time of war, to manufacture tools of destruction?

"In the end, the war, although it did temporarily lead both capitalist industry and capitalist agriculture out of the depths of the economic crisis—has only increased the disproportions, has disorganized the whole economic life of the capitalist world to a degree unknown even at the time of the deepest crises of overproduction. Despite the rise in production levels in the United States, Canada and a few other countries, the over-all result of the war is world impoverishment. This fact makes the contradiction inside the capitalist world sharper than ever.

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"The process of reconversion in the United States has brought to light one feature of American economy which is of the utmost importance. All wartime government controls and regulations of production and distribution were made in the interest of monopolies solely. Consequently, these controls did not eliminate the anarchy and chaos which are the basic characteristics of capitalist economy, and by no means have they transformed this economy into a planned or organized one.

"The era of wartime cooperation of the state with monopoly capitalism favored the process of merging the financial oligarchy with the state. Controls and regulations, dictated by the military necessities, became a powerful lever further to centralize capital and expand the monopolies. They also contributed greatly to the redistribution of national wealth to the advantage of the monopolies.

"The reconversion methods, particularly the practice of giving away or selling of government-built plants to big private corporations at prices far below actual cost prove that American monopolists have made the Federal Government dependent on them to a very considerable degree. They also gained influence

in all matters of utmost importance, *e.g.*, in the fight for spheres of influence, foreign markets and for sources of raw materials, and last but not least, in their struggle against the toiling masses.

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"Striking manifestations of this tendency is the recent increase in the Federal Government's support of exports, both of commodities and of capital. Furthermore, all the acts of the American Congress and of the American administration, directed against strikes, point out clearly the growing influence of monopolists.

"It is most significant that in contrast with the pre-war era the export of capital from the United States is at present represented almost exclusively by government loans or grants and not by private investment. This is being done to boost the profits of big American industrial and trading corporations.

"The capitalist world during the two years following the conclusion of hostilities has not managed to get rid of any of the critical contradictions, inherent in the capitalist system and aggravated by the war. At present that world faces a new danger. In the United States there are appearing in increasing numbers symptoms of the next economic depression which cannot but profoundly influence other capitalist countries.

"The present economic situation of the United States is being characterized by the bourgeois economic press as 'prosperity.' In fact it is nothing but a short-lived 'boom,' caused by the delayed demand for consumer goods not manufactured during the war and being purchased now from savings, accumulated at the time of full employment and high wages. The high demand for all possible commodities and food in Europe and elsewhere also artificially boosted purchases of products of American industry and agriculture. Such a delayed demand, however, cannot clearly constitute any basis for long-term prosperity and the gap between the supply and the demand resulting from the war is steadily narrowing.

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"The process of reconversion of American industry carried out during 1946 can now be considered terminated in all the basic branches of production. The reconversion temporarily increased the demand for machine tools and other means of industrial production, and the manufacturers of producers' goods can no longer expect to have a steady outlet. There is not a single branch of American industry, or generally speaking of American economy, which could assure a big volume of orders for the machine industry and play a role similar to that of railroad construction in the second half of the nineteenth century or of electrification, expansion of automotive transportation and mechanization of the agriculture in the second and third decades of the present century.

"The consumers' goods picture is better, but in no case is it reassuring in the long run. And this is why. American monopolies tried to shift to the working class the expenses incurred for the peacetime recon-

version of their plants by the twofold method of lowering wages and advancing the prices of commodities and food stuffs. This met with bitter opposition from the working class, which found its expression in the great strike movement of 1946. In some instances the workers have won wage increases but these were soon nullified by the rise in the cost of living. At present real wages are actually lower than they were during the war.

"The demand for consumer goods, although still high, is bound under these circumstances to fall, all the more so as according to authoritative estimates and contrary to common belief, a substantial portion of the population of the United States has no savings at all. An important section of American workers is paid wages below the subsistence minimum. Such savings as the workers had were consumed during the strikes and especially in the course of the postwar unemployment. That the savings are gone is evidenced by the augmenting purchases of consumers' goods on credit.

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"Paradoxically enough, although just as in every case before, the future American depression will be caused by overproduction, the insufficient output of other capitalist countries, particularly European countries, will in a way precipitate its coming. American monopolists are exploiting the insufficient production of other countries to boost prices for their commodities, which in turn can only speed up the outbreak of the crisis in the United States.

"The coming American depression will increase the intensity of the struggle for foreign markets and will deal a telling blow to the industrial production of other countries engaged in export. This will especially affect British and Canadian interests.

"In the face of impending depression the captains of the American economy are not at all inclined passively to await its coming. They have already begun to employ various tactics to shift the blame for the coming crisis. This is being done in a threefold way.

"Firstly, the American bourgeoisie tries to solve economic capitalist contradictions at the expense of the working class. Representatives of monopolistic circles in the United States repeatedly resort to the same argument: the crisis will become unavoidable if the workers continue to strike for wage increases, which the capitalists contend will lead to a rise in the price level, in turn precipitating depression. In fact, the level of wages does not influence the prices of commodities but only the costs of their production and so capitalist profits.

"In the past the bourgeoisie always used the lowering of wages as a means of breaking a depression. What is new in the present day practice of American monopolists is that the same device is being applied to avert the crisis. And whereas previously wages had been scaled downward simultaneously with the fall of prices, now the attack on the American worker's standard of living is being launched during the upward trend of prices. This causes a further drop in real wages and increases the already exorbitant profits.

"The second method by which the American

bourgeoisie seeks a way out of its growing economic difficulties is the appeal to the government's purse, above all to the military budget. The drift towards militarism in the political and economic life of the United States becomes more and more conspicuous and is plainly reflected in American foreign policy. One must reckon with its expansion as the danger of depression grows imminent.

"Thirdly—and this is by far the most important development—the American bourgeoisie in the face of the threatening depression is intensifying its economic expansion. Long before the war was over plans for this expansion were worked out. Their gist was formulated in the so-called 'foreign economic policy' of the United States—a term becoming increasingly fashionable in postwar America, and which was substituted for the outdated 'foreign trade policy.' Even high American officials do not hesitate to state in public that the utilization of American resources abroad does not constitute a philanthropy, but an opening of new markets for industry and agriculture of the United States.

"This economic expansion of the American bourgeoisie is being realized by drawing heavily on government funds (all foreign loans being contracted on the Treasury account) and by methods of foreign political and economic pressure, going so far as using military forces to bolster in several countries reactionary regimes, which are called upon to strengthen the position of American monopolies abroad. The Truman Doctrine, and the aid to Greece and Turkey resulting from it, is but one more link in the chain of this policy of expansion. The Marshall Plan of help for Western Europe is also one of the results of American endeavors to widen its trade with European countries in view of the acuteness of the necessity to find new foreign outlets for American production on the eve of the impending depression.

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"The obvious incompatibility of interests between the national economies of the United States and Great Britain, almost everywhere in the world, does not make the realization of these foreign plans of American monopolists any easier. However in the end, political considerations might prevail and the British Labor Government might eventually capitulate before the American expansionist plans, satisfying itself with the role of a minor partner in the international arena.

"The over-all picture of world economy is complicated and muddled. One fact, however, stands out clearly. The contrast between the United States and the rest of the world, particularly war-devastated Europe, is shockingly deep. In well-fed America and in hungry Europe or Asia unbridgeable economic contradictions are appearing as the aftermath of war. On this background of confusion and controversies the elements of the next American depression caused by overproduction are rapidly ripening. And, although in the majority of countries of the world there is as yet no cause for a crisis of overproduction, since their current output falls far short of demand, the depression

in the United States cannot remain an isolated phenomenon."

Behind the iron curtain and for the whole Communist world this representation of the United States is as authentic as the Stalin portrait. The Russian economist is not unintelligent. He has a job to do and he does it extremely well, producing his wicked distortions less by falsehood and fiction than by omission. Untruth will sometimes betray itself by contradiction and those who know enough to be wary may detect it; but who can imagine things that are simply left out? The Russian economist is trained in that technique. He writes by a formula. His formula was naively given by I. Dvorkin, in a book review published in Moscow, as follows:

"Works on capitalist economy must arm the Soviet people, must help them to understand events, processes and contradictions of capitalist societies. Economic theory must be deeply partisan. Therefore objective approach, unemotional collecting of economic facts is clearly inadmissible."

Grain Deficit a Capitalist Myth

From *New Times*, a weekly published by *Trud* in Moscow

THERE is no world grain deficit in reality. It has been invented to serve the grasping economic and political ends of the monopoly groups of American capital. Even in prewar years, when the exporting countries managed to sell far from all their grain surpluses in foreign markets—and with the greatest difficulty at that—misinformation on the subject of harvest prospects was a customary thing. But in those days it was confined to the sphere of private enterprise and to particular months and even weeks.

But now, the manufacture of false information on this subject has expanded enormously. It is practiced not only by individual firms, but by official bodies, too, and on a national and even international scale. From a seasonal practice, misinformation has become a permanent one. It is dollars it brings in now, not cents. And, most important of all, besides cash value, grain has acquired political importance; it has become a weapon of the American imperialists' policy.

The profiteering character of the American grain export policy is obvious. It is a case of capitalizing the dire need of food suffered by tens of millions of people, a need that is one of the results of the war. The myth of the world grain deficit has been created and is being maintained in order to keep up this profiteering as long as possible, in the interests of American imperialism.

The Inoperable Cancer of the United Nations

By Felix Morley

In *Human Events*, 1323 N Street, Washington, D. C.

JAPAN capitulated and World War II ended on August 14, 1945. Two years later the outstanding fact in the international picture is the almost complete stalemate in the United Nations, the organization of which was a primary objective of our policy in entering the war.

The Soviet Government, of course, joined UN for the single purpose of insuring that it would be futile. This regime has its own international organization already firmly established from Hungary in the West to Outer Mongolia in the East. But the growth of the Communist International would have been seriously impeded by a revived League of Nations strengthened by American membership and competent to check the insidious aggression by which Russia is constantly expanding its own league. Therefore the able rulers in the Kremlin seized their opportunity to join us in destroying the Geneva organization, supplanting it with one which they could control at will. In every detail the personal diplomacy of President Roosevelt played into Russian hands.

The key to Russian strategy was the veto power, enabling Moscow to commit aggression directly or through her satellites while using her privileged position on the Security Council to prevent aggression from being defined as such. This, from Stalin's viewpoint, was the great advance over the old League. That organization, while it lacked power to restrain an aggressor, was at least able to bring an effective indictment. It did so successively in the case of Japan, Italy, Germany and Russia. After the expulsion of the latter, in December, 1939, it was therefore necessary to communist planning to dissolve the more democratic League and set up one which Russia could control. Into this trap Mr. Roosevelt fell headlong. . . .

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Suggestions that the United Nations should be reconstituted without Russia are frequent—in other words that this great “peace-loving” power, as we ourselves solemnly defined her, should again be expelled. This idle talk unfortunately reveals how little the American people actually understand the bog in which Roosevelt's slapdash diplomacy has landed them; how little they appreciate the contrasting subtlety of Russian policy, and how ill-informed they are on the actual provisions of the Charter of the United Nations, adopted by us without a single “obstructionist” reservation.

The policy of blocking from within the Security Council is working beautifully, from Moscow's viewpoint. Why should it be abandoned? As for expulsion, the skilful wording of the relevant article in the Charter speaks for itself. Article 6 says:

“A Member of the United Nations which has persistently violated the Principles contained in the present Charter may be expelled from the Organization by the General Assembly upon the recommendation of the Security Council.”

The Security Council cannot make this recommendation for expulsion to the Assembly if Russia, as a permanent member of the Council, opposes it. And if anybody thinks that Mr. Gromyko is going to hesitate to veto a motion to expel his own government, he is, to put it mildly, naive.

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It seems time for belated reflection on various other aspects of the mess into which we have blithely blundered. One of these is our successful insistence on establishing the seat of the United Nations in this country. Ardent committees of deluded citizens dashed hither and yon, upholding the rival claims of various American communities for this high honor. Now we have the Secretariat, well-salted with Communist employees who are all potential if not actual spies, firmly established with diplomatic immunities in our midst. But it was “isolationist” to observe the care with which Stalin did not invite the United Nations to place its headquarters behind the Iron Curtain.

Before long, as the tide is running, the question of dissolving the United Nations will come increasingly to the fore. That will happen because in no other way can Russia be removed from the organization which she now so skilfully dominates. The cancer is inoperable, so in time the patient will die.

In advance of dissolution, however, the most serious consideration should be given to reconstituting the old League of Nations, at its seat in Switzerland, a democracy which has had the wisdom never to apply for membership in UN, and has no intention of so doing.

This course, which could have been so easily followed three years ago, will be infinitely more difficult to accomplish now. But the difficulties will have to be faced eventually. Already the “Truman Doctrine” and the “Marshall Plan” are in effect operating to dissolve the United Nations and to create a new grouping, frankly opposed to the flourishing Soviet league. It is only a matter of time until it is realized that this implies reestablishment of an international organization which was at least competent to define aggression.

Fate of the Bata Shoe Enterprise

Thomas Bata was a shoemaker's son born in the tiny village of Zlin, Czechoslovakia, in 1876. When he was eighteen he went into business for himself, with a capital of 800 florins, making shoes by hand. In 1904 he built a factory and installed machines. To learn more about machines he came to the United States and worked for wages. He returned to Zlin with the idea of making shoes for all the feet in the world. In a little while he had the largest shoe factory in Europe. After World War I, facing ruinous currency inflation, he announced a 50% cut in the price of shoes, a 40% cut in wages and a 50% cut in the cost of the necessities of life, which he undertook himself to supply to his employees. Then he introduced what came to be known as the Bata System, under which each unit of the works became self-governing and all employees shared in the profits, the theory being to substitute group effort for individual effort. Bata said: "Our reason is not to distribute charity to mankind. We want to raise the level of production. Manufacture can be cheapened and higher wages paid." Ten years later with 12,000 workers, a capacity of 75,000 pairs of shoes a day and a world-wide market, the Bata Enterprise, still in the village of Zlin, was famous and the International Labor Office at Geneva made a long study of its social meaning. Last year the Socialist Government of Czechoslovakia seized and nationalized it. What follows is a letter from Jan A. Bata, descendant of the founder Thomas, to the Minister of Finance on what nationalization means. The translation is by Mr. Bata himself.

*Dr. Vavro Srobar
Minister of Finance
Prague, Czechoslovakia*

Honorable Sir:

This letter has to inform you as to the nationalized Bata Works. Fifty-two years it took my predecessors, me and many, to develop them. Enterprise, that has faithfully and honestly served the Czech population, paid highest taxes of all and been the pride of Masaryk's Republic.

Bata Works belonged among the strongest as to the capital and leadership and have been largest in the industry of the world. From moral point of view, they have been example and proof of the doubted Czechoslovak national industrial and business capacity. From patriotic point, the most bountiful supporter of state actions.

Every state is composed, as to its economy of

units, each of which has its special functions. It is analogical to human body. Where the majority of the life-giving cells has been overtaken by cancer, death is not far away. Zlin has been overwhelmed by the cancer of national administration.

Go to Zlin, to see for yourself, what has become of the glorious Czechoslovak enterprise in ten months of the national management. You will see the truth in the balance sheets, as follows:

1. The national administration has wasted all of the reserves gathered for the purpose of reconstruction of bombarded factories by legal directors-shareholders. How much? One billion Kcs of ready cash.

2. The national administration has borrowed 300 millions.

3. They kicked out the shareholders-directors, put many of them in jail, till their health gave way, and all of the 2,000 know-hows, leading men, who have grown up into their positions.

4. The national administration has raised the prices, that they become unreachable for the population. Farmers complain, that whereas they were able to buy four pairs of shoes for a 100 kg sack of wheat before, they can now buy only one pair of the cheapest sort.

5. They even spoiled the work morale of the workers. According to the factory paper they need up to four times more workers to achieve the same production.

Being an economist, you know, that capital is much more than mammon, cursed by the communist. Capital can be compared to cars—wagons that are used for bringing *employment* and *well-being* to workers.

But being wealth itself, they seem very sweet to people, who not understanding its purpose, have only in mind their own sweet-toothy attitude. What we gathered in 52 years, the national administration has wasted in ten months.

It is evident, that without capital, the economic life does not work. Your government is asking now for a loan in the U.S.A. to be able to meet the nationalization losses. The Zlin Works alone wasted one and a half billion in less than a year. And Zlin represents only about 1% of total industry in Czechoslovakia.

By this letter of mine, I am not pursuing any critic, just for critic. I do feel almost a physical pain, seeing the wasting there.

Never did we let the workers down. . . . Never did they have to stay unemployed or go begging for relief . . . many envied us for it.

I understand there is some idealism on the face of the nationalization. But what sense have dogmas, doctrines, if they don't mean at the same time the best of service for Man?

Zlin Works are on the precipice of bankruptcy.

Even if the national administration tries to show profits artificially to "soap-wash the eyes" of the disquieted public, there is bankruptcy ahead.

We built up Zlin to chase misery and hunger from Zlin and country. We brought well-being to an extent people elsewhere did not dream of.

Now I see misery and hunger getting back to

Zlin and its people. Nobody can expect me to be indifferent to it. I am still a son of the people. I mail with this letter some few hundred copies to my friends and adversaries inside and outside of Czechoslovakia, begging your pardon for it.

Yours sincerely, JAN A. BATA.

The Course of Government

Statements by the President

From the Monticello speech, July 4, 1947, on world oneness:

THE fourth requisite of peace is that nations shall devise their economic and financial policies to support a world economy rather than separate nationalistic economies.

From the speech on human rights, before the National Association for the Advancement of the Colored People, June 29, 1947:

THE civil right laws written in the early years of our Republic . . . were written to protect the citizens against any possible tyrannical act by the new government in this country. But we cannot be content with a civil liberties program which emphasizes only the need of protection against the possibility of tyranny by the government. . . . The extension of civil rights today means not protection of the people against the government, but protection of the people by the government. This is a difficult and complex undertaking. Federal laws and administrative machineries must be improved and expanded. We must provide the government with better tools to do the job.

From a message to Congress, May 28, 1947, requesting the extension of war powers to control foreign trade:

THE Congress has already recognized the importance of supporting our foreign policy with financial assistance. Financial assistance alone, without occasional priority backing, may be useless in instances where speedy aid in concrete form is essential. The use of the priority powers that I am recommending would be limited to cases certified by the Secretary of State to be of high public importance and essential to the successful carrying out of the foreign policy of the United States.

On signing the bill that extends to March 1, 1948, the executive power to regulate exports and imports and "to direct the delivery abroad of goods required for carrying out our foreign policy," so far as necessary:

I WISH it had not been necessary to request a continuation of these controls. But world shortages have by no means been dispelled and the threat of inflation has not been dissipated. The haphazard distribution of our produce throughout the world could only lead to higher prices at home and suffering for the neediest of our friends abroad. Our objective continues to be the removal of interferences with world trade. We shall, accordingly, use these controls sparingly and dispense with them as soon as conditions permit. I should be less than candid, however, were I not to say that I believe the need for some supervision of our foreign trade will continue beyond next February.

Labor Relations

The Taft-Hartley Act

By Murray T. Quigg

THE declared purpose of the Taft-Hartley Act is to protect commerce from arbitrary actions, tending to disrupt its flow, by employers and by employees in their relations with one another and the public. But what of its principles?

The principles of individual freedom of action within the orbit of organized social interest have long been known and practiced; but the Taft-Hartley Act, like the prior legislation that it modifies, disregards them. The history and practice of these principles are common knowledge, yet they go ignored in the presence of novel manifestations of organization and of power.

The ancients argued over who was fit to rule; but whoever did rule exercised absolute power, restrained only by the inertia of custom and the fear of reprisal. Even the splendid sense of individual dignity and personal right which distinguished the Roman Republic never rose above the authority of the Roman Senate.

When William the Conqueror set up the feudal order in England the peoples of England enjoyed privileges and burdens according to their rank, but the king alone had right on his side in any issue between him and them.

When the barons would no longer tolerate the impositions of John, the customary course would have been to cut off his head and to establish some other person in his stead, in the hope that matters would be improved. On this occasion, however, the barons took a novel course. They said in effect: "This old rascal will do as well as any other, but we will make him agree that what have heretofore been matters of shifting privileges and burdens shall hereafter be matters of specific rights and duties not to be altered without notice, debate and consensus."

In succeeding parliaments, called upon an increasingly democratic basis, the representatives of the people determined what functions they wished the government to perform. They sustained in the hands of the king and his ministers the powers which they found necessary for the performance of those functions and they forbade the exercise of other powers as arbitrary interferences with the freedom of the individual.

The compelling virtue of the American Constitution is that it set up a government powerful enough

for the performance of those political functions which the people approved at the federal level, while at the same time the use of power was so controlled that so long as the Constitution was obeyed those who exercised the political power, whether legislators, executives or judges, could not interfere with the political freedom of the individual. Thus they achieved individual political freedom within the orbit of a competent political organization.

When the framers of the Constitution sought to establish religious liberty as a matter of right they did not establish a commission with power to hold elections and determine the most popular church in Boston or in Baltimore and then give to that church special privileges upon the ground of democratic approval. They did not require financial reports or regulate the holding of services or even the length of sermons. They merely withdrew from any priesthood the arbitrary power to compel any person to worship at the altars of its choosing, and otherwise left the priesthood of every church free to perform its function. Thus within the orbit of organized worship every man is free to worship at the altar of his own choosing, to follow the ritual which best suits his own need, or to refrain from either.

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As these great accomplishments of personal freedom within the orbit of organized social interest were being achieved, James Watt made a steam engine, and from the steam engine came the organization of work upon a large scale, and the manifestations of power in those who managed the organization were arbitrary as to the workers. The problem, therefore, was to distinguish those powers necessary to the approved functions of industry and to leave them untrammelled in the hands of the administrators of industry while protecting the individual against the exercise of any other power by those who administer the various phases of the industrial order—finance, production and manufacture, merchandising, and labor organization.

Labor legislation should be in accordance with these principles. It should free the individual worker or investor from every power over him not necessary to the performance of a function, and should not impose any restriction which cannot be justified as necessary in fact to the well-being of industry. Every enactment must in the long run be judged in accordance with its support or denial of these principles.

Compromises with the forces of employer domination or labor union dominion over the freedom of the worker and the investor, to come or go, accept or reject the opportunities open to him, merely delay the arrival of industrial peace and freedom of enterprise at every economic level.

The Taft-Hartley Act covers some twenty-nine long printed pages and many thousands of pages of

administrative and judicial decisions are yet to be written in the effort to explain what it means in respect to the countless situations which may be affected by it. It will most certainly invite more problems than it solves. But in its specific denials of the personal right and freedom of the individual and its support of arbitrary power, it takes its course in contradiction of the established principles of social organization. Its conspicuous errors in this respect are four in number.

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1. The act provides, Section 8 (a) (3), that an employer may make an agreement with a labor union (if the labor union is not guilty of any unfair labor practice as defined in the act) requiring membership in the union as a condition of employment on or after the thirtieth day following the beginning of such employment, if the National Labor Relations Board shall have certified that at least a majority of the employees eligible to vote for their choice of a union have authorized the union to make the agreement. The employer, however, shall not justify discrimination against his employees for nonmembership "if he has reasonable grounds" for believing that such membership was not available to the employee on the same terms and conditions generally applicable to other members, or if he has reasonable grounds for believing that membership was denied or terminated for reasons other than the failure of the employee to tender the periodic dues and the initiation fees uniformly required. Another provision of the statute, Sec. 302 (c) (4) forbids the checkoff of union dues except upon the written authority of the employee.

But why should any man be compelled to be a member of any organization as a condition of his right to earn his livelihood? Whose rights are impaired by denying him freedom of choice? Why should a wage earner be compelled to identify himself with any organization in whose principles or management he does not believe? What principle of justice or rule of necessity requires him to identify himself with a private organization which he may prefer to oppose? Whether a wage earner is a member of any particular union or not should be as much his own business as the choice of an agent in any other walk of life. This is the more true since the act requires the employer to bargain with the union which is the choice of the majority. To what purpose should any worker, whether of the majority or minority, be tied to that union because the majority at a certain time gave it authority to act as an agent for all of them?

Of course, as long as men may associate together in the corporate form or otherwise to purchase labor, men must have equal freedom to organize to sell labor. But this is a right and not a duty. Cer-

tainly the benefits of the right are in jeopardy if the choice of the individual is taken away from him and he finds that in order to earn his living by the only means which he has of earning it he must subject himself to rules laid down for him by people whose methods may be offensive to him and whose objectives may invite his moral scorn.

On the other hand, a trade union, like any other agent, is worthy of its hire. Anybody who accepts work under the terms and conditions of a contract negotiated by a trade union should pay his share of the reasonable cost of its negotiation, and if, in order to secure the payment it is necessary to check it off the payroll, the compulsory checkoff is fair and reasonable. But the Taft-Hartley Act first abandons the freedom of the worker to the dominion of the union, and then abandons the just claim of the union to the uncertain fairness of the worker who accepts its benefits.

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2. It is declared to be an unfair labor practice to engage in a strike for the purpose of forcing or requiring any employer to assign particular work to employees in a particular labor organization or in a particular trade, craft or class, *unless* such employer is failing to conform to an order or certification of the National Labor Relations Board determining the bargaining representative for employees performing such work. Section 8 (b) (4) (D). Thus the act authorizes the board to determine jurisdictional issues.

Yet how shall we maintain freedom of enterprise unless the purchaser may purchase such labor and skill as he wants? If a man entered a hardware store to buy an axe for the purpose of cutting down a tree and there encountered a bruiser who told him that if he wanted to cut down a tree he must employ the services of the saw maker and so buy a saw and not an axe, the matter would probably be reported to the police and the bruiser would be promptly removed.

Yet, heretofore, an employer having a contract to hang hollow metal doors who wished to employ carpenters to do so has found that the entire building enterprise with which the doors are connected might be tied up by a strike of the sheet metal workers if he employed carpenters. Or if he wished to employ the services of the sheet metal workers the entire enterprise was threatened by a strike of the carpenters. Yet why has not the employer the right to be undisturbed in the employment of skill he chooses for the task he has at hand? A jurisdictional strike is an arbitrary interference with someone's freedom of choice, the exercise of which is necessary to a free industrial order. Why should the arbitrary power to decide what skill the employer should employ be wrested from a labor union only to be given to a political appointee? That is merely shift-

ing arbitrary power from one type of arbitrary ruler to another. That carries the art of social control back to pre-Magna Charta times.

Equally so, when men voluntarily organized in a particular local union and affiliated with a particular national union, are transferred by the nabobs of the trade union movement to some other local or national union. Now this power of transfer apparently is to be lodged with the National Labor Relations Board. But why should wage earners be denied the right to decide for themselves what union they wish to be members of? Is it really necessary to the function of a labor union that wage earners be told that they must be members of it and may not be members of another union? What is there about being a wage earner which strips him of the ordinary rights of a free citizen to choose his agents or change them at his pleasure?

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3. Section 305 of the act declares it unlawful for any individual employed by the United States or any agency thereof including wholly owned government corporations, to participate in any strike.

Of course there are occupations and duties which are of such peculiar character, particularly those of the Army and Navy and of police, that any cessation of work endangers the public safety, and is intolerable. But does the mere fact that the government has decided to intrude itself into some calling require those engaged in the calling to submit to any condition the government may impose? If a strike is of such a nature as to threaten public safety, certainly it is an arbitrary imposition upon the people and may be forbidden. This may be true of a private employment and not true of a public employment. While there is inconvenience, there is no danger to the public welfare in a strike of public school teachers. There may, however, be grave danger in a strike of telephone operators, or railway employees. Does the right of a gang of road builders to strike depend upon the fact that the government let a contract for the work instead of doing the work itself by a wholly owned corporation? A just denial of the right to strike can only rest upon the danger which the strike may entail. It depends, therefore, upon the nature of the employment and not the nature of the employer.

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4. The provisions of the act (Sec. 206-210) for dealing with a strike affecting the public interest are complicated. The public interest in strikes is due in most cases to the fact that government has, for the past fifteen years, cultivated labor monopolies and the monopolistic character of the striking union has made its activities of serious consequence to the public interest. The error is in the cultivation of the monopoly, and the correction of the situation

lies in the freedom of the wage earners and the public from the monopoly. However, if a strike may occur which is not in violation of contract or is not for an illegal purpose why should there be any limitation upon the method of its exercise? Why should a strike be postponed for thirty or sixty days while the employer has the opportunity to prepare for it? Why should it be enjoined because it is on a large scale?

Of course a nationwide strike of coal miners, telephone operators or railway engineers is wholly artificial in its origin. It is not the unanimous expression of sentiment among people similarly situated in respect of their work and the rewards they derive from it, because the conditions under which people render service and the real earnings derived by them are not uniform throughout the country and cannot be made so until God Almighty makes the snows of Maine indistinguishable from the dews of California. Every argument against a monopoly of investors in a given industry applies against a monopoly of labor, but with the added fact that while the investor may withdraw his money by the sale of his security the wage earner can only realize upon his labor by his own day-to-day or week-to-week sale of it. That he should be subject day in and day out to the dictates of monopoly in what he has to sell and what he has to buy (since about 90¢ of every dollar he spends that does not go into taxes goes ultimately for the payment of somebody else's wages or salary) is intolerable.

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The Taft-Hartley Act temporizes with these labor monopolies. It sets up an elaborate system of investigation, reports, injunctions and frustrations in lieu of protection to any man in the exercise of his right to work at any job which another man has refused to perform and which he is capable of performing. It says in effect to the trade union movement: "The more you can threaten the public safety the more time and money the government will spend upon you." But is it necessary for wage earners in order to receive their fair share of industrial justice to threaten the public safety? Why should anybody be allowed to continue in a position in which he can legally threaten the public safety? Why tolerate it at all?

The principles of industrial freedom at every economic level and the means for securing their operation in a highly organized industrial order are not mysterious. But if we want the proven advantage of their use we must look for them, not among the conflicting claims to righteousness of employers and trade unions, but to our own history and the wisdom of our fathers in bringing political freedom and religious freedom out of the struggles of five thousand years against the pretensions of arbitrary rule.

The Liquidation of War

By Arch W. Shaw

Mr. Shaw holds that since the Napoleonic Wars, which means since the beginning of comparable statistics, there has been a definite postwar pattern, and that it has five phases, namely, Hesitation, Expansion, Primary Depression, Boom, Deep Depression. He admits that in the present there are such new factors as:

(1) A general awareness of the pattern of the earlier stages of a postwar period; (2) increased production for government use, owing to the maintenance of greatly enlarged and far-flung civil and military organizations and very large appropriations for relief, support, and rehabilitation of Europe and Asia; and (3) a floor under farm prices. These new factors may lessen, postpone or, in the longer term, intensify the "liquidation of war"; nevertheless he inclines to believe that the classic pattern may repeat itself, not that it must but because human nature has not changed.—Editor.

THE statistical picture of postwar periods is largely a record of what men in the aggregate have done. But what a man does is a result of what he feels and thinks. He may change his customs, his manners, and his tools, but his nature does not change. The skirted merchant of ancient Venice and the trousered merchant of modern Main Street are brothers under the economic skin.

Is it not probable, therefore, that the recurring similarity in the statistical pattern of postwar periods reflects a recurring similarity in the emotional responses to events growing out of the circumstances and situations of war? If we accept this postulate, then as an approach to a fuller understanding of the probable fluctuations of future economic activity we also must accept a realization of a pattern tendency in the emotions which precede and amplify these fluctuations.

Isocrates, a wise Athenian who lived from 436 to 338 B. C., not only recognized such a recurring pattern but prescribed a sound philosophy for modifying it, when he advised the people in his remote day, "Remember that there is nothing stable in human affairs; therefore avoid elation in prosperity and undue depression in adversity."

If even a minority of the people of influence in business life and in government had persistently held to this perspective, in the period following World War I neither the speculative boom culminating in October of 1929 nor the fright at the

bottom of the depression in the early summer of 1932 would have gone to such extremes.

It is true that the nation emerges from World War II possessed of new tools of economic control. Thus, potentially vast inflows of tax revenues and public expenditures provide the means, within limits, of making adjustments designed to smooth the nation's economic course. But can we be certain that these tools will be used wisely and skilfully, unhampered by political pressures, and if so used, that they are powerful enough to offset reactions fundamental to human nature?

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We now have a substantial assemblage of data on the nature and course of the economic pattern of postwar eras, accumulated by skilled observers who have lived through these periods and recorded their observations. Indeed, part of our problem is that we are now almost smothered with data. As a layman I am somewhat dismayed by the bulky volumes of statistical tables on our economic bookshelf. Sometimes I wonder if, as an intricate network of branches and twigs obstructs a vista, the apostles of the quantitative method have not obscured the pattern of the economic woods by a vast screen of statistics.

This accumulation of data reveals that there have been two commonly recognized types of economic fluctuations. The first the economists call a minor business cycle, the second a major one. Because its undulations are too prolonged to have a practical bearing upon the behavior of most individuals, I pass over a third type of cycle, a long wave of fifty or sixty years, subscribed to by many economists.

In the minor cycles, which had an average duration of approximately forty months, there were usually no very serious maladjustments. The fluctuations remained within bounds; the business system seemed to contain its own automatic corrective factors. The required adjustment was comparatively small and therefore the period of contraction not particularly severe.

But within these minor cycles were concealed the emotional seeds of the major cycles, for it has come to be recognized that while business succeeded in passing through the minor cycles without serious economic derangement, the forces that gave rise to these fluctuations never were completely liquidated; there was always a residue which accumulated against a future day of reckoning. Each time business emerged from the relatively shallow depths of

one of these minor cycles, men built up an increasing optimism.

It was this gradual accumulation of men's overconfidence in themselves and in the future which generated a boom. The automatic corrective factors which operated in minor cycles were not strong enough readily to restore balance, and ultimately a depression resulted. The peaks of these major cyclical movements usually came at intervals of from eight to eleven years.

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Within each postwar period the ordinary cyclical movements persisted, modified and amplified by the distortions resulting from the war preceding. These were the periods in economic history when in the aftermath of war price was confused with value and volume with profits; when victorious nations, even though they had poured out their resources, thought they were richer, and their people acted accordingly.

The order of events in a postwar period began with a natural letdown in production, employment, and income, all of which had been held high by the artificial stimulus of war spending. This period of hesitation was usually brief.

The need of replacements and repairs, together with a reasserting of human needs and desires held in check by the war, soon generated a period of expanding activity. This expansion was interrupted first by a primary postwar recession of consequence, and later, from time to time, by the impact on the economy of delayed solutions to problems growing out of the maladjustments of war.

Eventually a boom developed, and further obscured the need for adjustment from the unbalanced economy built up during and after the war. The delay in meeting the problems inherent in this unbalanced economy added to their complexity and to the eventual severity of their impact, and the depression which followed the boom was deep and of long duration.

The purpose here is not to describe in detail all of the complex factors and economic relationships that initiate and reinforce cyclical upswings and downswings. Attention is focused on the sequence of human *thought-processes* through a postwar period, and the way in which they have tended to amplify the gyrations of the economic curve. . . .

Eventually the stubborn failure to face realities ends in a financial crisis, which again is based on emotions as well as economics. The general public begins to realize the precariousness of the debt structure. Some people rush to liquidate, that is, to get out of debt; others merely rebel and search for an easier way to escape debt's consequences.

The result is a wave of bankruptcies and of failures of financial institutions, followed by a collapse of production, employment, and investments.

Social and political ferments and follies stir the country, and all sorts of wild schemes are brought forth. Discontent is rife, and for the time being great segments of the public lose faith in their leaders and institutions.

Whole groups rush to tear down rather than to repair or rebuild. Some, finding their most ardent converts among persons with little knowledge of the mechanics of economics, want to scale down debt by inflation of the currency, the modern form of coin clipping, or by some other economic legerdemain.

These groups unite in opposition to the counsels of the profounder minds which realize that for all such folly there is a day of reckoning. Restless demagogues emerge who reflect back to the masses the ideas the people themselves *want* to believe in. Follows a period of contention and unsound legislative proposals which lead to great confusion and further retard the ultimate recovery. This happened in England after the Napoleonic Wars. It happened in America after its Civil War. It happened again after World War I.

But all through this period, while the emotional pattern is running its course, the natural forces of recovery—wear and obsolescence, improved processes, the accumulation of new ideas, and the human urge to venture, which never dies out as long as men are free—are exerting their influence. In spite of the confusion, in spite of ill-advised legislation, in spite of everything, business begins to gain momentum.

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Men move in herds. For a time the herd has been stampeded with fear. But presently here and there men of understanding begin to sense a change in the underlying trend, take courage, and move forward with growing confidence. Gradually the fears of the more timid begin to evaporate. Ultimately the group becomes large enough to attract the attention of the panicky citizenry.

Human emotions are never static. Under the leadership of the more daring souls, the spirit of enterprise revives. Pessimism gives way to a slow-starting optimism. The natural forces of recovery are released. Momentum develops. Another depression becomes economic history.

Genuine recovery—national prosperity—is not the result of artful contrivances of government. It is a natural and organic process. It is a composite of the thoughts and actions, ambitions and confidence of millions of individuals, each operating in his own familiar field where he is most useful because most competent. A technician in his own line, his individual affairs fit into the country's over-all enterprise pattern.

In each postwar period there has been, under the impact of human nature, a fundamental tendency

for the course of economic activity to follow virtually the same pattern. That pattern, even now, is sufficiently discernible to be taken seriously in shaping the policies of business and government, and of the individual as well.

The pattern is not precise in its detail. No infallible formula or exact time table is revealed. Cause cannot invariably be linked with effect. Yet there has been something more than mere coincidence in the regular recurrence of the sequence of events growing out of the circumstances of past major wars and in the similarity of mass emotional response to these events.

This is not to say that history repeats itself with utter disregard of revolutionary discoveries in science, technological progress and changing social standards. Nor does it imply that there are exact precedents in what men have done in the past for the automatic solution of all of the problems of today. It is not that simple.

But it does mean that there is a general pattern in the affairs of men, and that the future is not so unpredictable as we may have supposed it to be. And it holds out definite hope that we need not always take for granted the impossibility of moderating the emotional excesses which contribute to the wastes and dislocations of recurring booms, and the appalling losses and human miseries of depressions which follow them.

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What the economic pattern of *this* nation might be under a wholly state-controlled economy we do not know. Perhaps there would be no marked recessions and recoveries to distort the even course of economic activity; but almost certainly, except in

periods of active military combat, the result would be a dead level of accomplishment far below the potentialities of the resources and the resourcefulness of a free and venturesome people. There is nothing in the economic experience of collectivist states, ancient or modern, to prove otherwise.

Through our individual daily actions, all of us together are the national economy, just as through our elected representatives all of us are the government. Thus, as individuals, of whatever calling or economic status, we help to create the emotional pattern which accentuates the peaks and valleys of the economic pattern.

By thoughtlessly joining the herd, spending overfreely, speculating, expanding recklessly in our business and personal affairs when such is the fashion; and going to the other extreme when, with the chart lines starting down, overcaution and curtailment become the mode, we contribute to the excesses of a postwar speculative boom and to the severity of the depression to which it so inevitably leads.

Contrariwise, by keeping ourselves consciously alert to the changing emotional phases of the pattern, and steeling ourselves with the wisdom of Isocrates against excesses growing out of cupidity or of fear, we shall not only save ourselves from personal regrets and self-recrimination, but also, through the modifying influence of memory, have a steadying effect on the national economy in proportion to the influence of our strategic positions. As we enter upon another postwar period, we of this war generation have the unique advantage of having lived through a similar period in our own adult lives. We should, this time, be able to read the signs!

Conservatism

CONSERVATISM is no thing of fashion, shifting with every wind of doctrine and blown away by every gust of fancy. It rests for men, who really master its meaning, on the eternal, unchanging facts in human conditions—on the Fall of Man and a human nature thereby so gravely wounded that nothing can heal the mortal injury, save only some divine grace or, as Plato would have said, some diviner word than a pagan world possessed. The conservation of Christianity enters thus into the architecture of a humane society in a way the Liberals of today, who tend to regard all religious beliefs as mere matters of private opinion, and the Socialists, who are commonly puffed up by an altogether immoderate estimate of their own capacity, wholly fail to perceive. Other foundation in fact can no man lay than that which is laid; and those who seek to “build Jerusalem” with ill-assorted bricks or to substitute in Moscow or elsewhere a tomb, corpse-filled by Lenin’s body, in place of the “Empty Tomb” of Christianity, will inevitably erect only cities of confusion, where Jacobin to Girondin succeeds, and Pantheons where Cæsars are deified.—*Algernon Cecil, in the New English Review.*

What Technology Has Done to Us

Some Perilous Consequences of Our Scientific Progress

Roland P. Soule

Head of Research and Engineering and Vice President of the American Machine and Foundry Company

VIEWED only in the light of past performance, of course, specialization must be conceded to be one of the principal means of our material progress. Thus, it is obvious that we could never have witnessed such scientific miracles as radar, penicillin, and the atomic bomb, without specialists, not simply in physics, biology, and chemistry, but also in some very narrow subdivisions of each of those particular sciences. But I submit that today we are suffering from too much specialization. We can see it in certain long-term trends of a purely technological nature, which seem to suggest that if we're going to continue our past progress, we may have to do it by specializing less, rather than more. And we can see it even more clearly in certain trends of a social and economic nature. Here it seems only too obvious that much of the mess in which humanity finds itself today is the result of too much specialization, not only in engineering, but in other fields as well.

First, let's discuss some of the technological trends that began as long ago as the Civil War years. It is necessary to go back that far, because that was the time when our country began its long transition from a predominantly agricultural nation to the predominantly industrial type of economy which it has today. During those eighty-odd years, our engineering technologies went through a very interesting evolution in which each principal type, one after the other, had its own individual ascendancy and decline. In viewing these trends it is helpful to divide the eighty years into four periods, each twenty years in length. It is then possible to see that each of those periods was characterized by one particular type of engineering:

1860-1880 was the era of the civil engineer. It was the period of the nation's greatest geographical growth, when the West was being opened up and the country was being physically built. It was the period of construction of both canals and railroads, the former already in their declining years

and the latter just rising toward the peak of their importance.

1880-1900 was the era of the electrical engineer. Of Bell and the telephone. Of Edison and the electric light. And of the rise of electrometallurgy. Hall and aluminum, Willson and calcium carbide, Acheson and graphite.

1900-1920 was the era of the mechanical engineer. Of Olds, Selden, Ford, Winton, and the automobile. Of the Wright brothers and the airplane. Of the development of prime movers of all sorts and the greatest application of power to industry. It was the period of refinement of machine tools and labor saving machinery. Of the development of the principle of interchangeability in manufacturing and the resulting rise of mass production of articles of all sorts.

1920-1940 was the era of the chemical engineer and the metallurgist. Of the manufacture in this country of many chemicals previously imported before the first World War. Of the rise of the process industries: Petroleum refining, glass, paper, rubber, and nonferrous metallurgy.

All types of engineering have continued to grow, but their rates of growth have been much different at different times. And we can read the record of the ascendancy of each successive group in the changing proportion of membership in the different technical societies, in the number and types of patents issued, and in the relative volume of technical literature.

We can read that record also in the history of the stock market, although the industrial effects of technological innovations often do not reach their maximum until some later generation. We see the activities of the civil engineer, for example, reflected in the rise of the rails, which in 1890 accounted for most of the stocks and bonds listed on the New York Stock Exchange. We see the electrical engineer in the emergence around the turn of the century of stocks such as Western Union, General Electric, and

that pioneer electric utility holding company which is now known as the North American Company. Then, in the period following 1900, we see the mechanical engineer in the great increase of the unit size of the average manufacturing corporation—a trend that did not run its course until industrial stocks far outranked both the rails and utilities in their total market value. And finally, after the first World War, we see the chemical engineer in the sharp and sudden rise of the chemical stocks to first place in dollar value among the industrials.

BUT what about the next twenty years? Are we still in the era of the chemical engineer? An examination of the principal trends of the recent past indicates "no" as the best answer to this question. It is a qualified "no," however, because industrial chemistry obviously still has before it the period of its greatest growth. Nevertheless, it seems safe to forecast that the years from 1940 to 1960 will not be characterized by the ascendancy of any one of the old conventional types of technology or of some narrower and more specialized subdivision, such as "electronic engineering." Instead, it seems more likely that the coming trend will be in the reverse direction toward certain principles and practices of a wider scope. Thus, if we are to continue the technical progress of the past, we shall witness a further breaking down of such barriers and boundaries as may still exist between our present types of technology. And, more than that, if we are to survive as a strong and free nation, we must also witness a great broadening of our concept of engineering to include some very important responsibilities we have not previously recognized.

Let us now examine the requirements of our continued technical progress. Let's see what is meant by the further breaking down of barriers and the elimination of walled frontiers between our present types of technology. Chemistry and physics were once considered separate sciences, but we never would have had cheap ammonia, methyl alcohol or other products of high-pressure synthesis, if chemistry hadn't learned from physics the principle of the phase rule and other laws of thermodynamics. And this rewedding of the sciences has only just begun. Architecture, which was once a part of civil engineering, will take on a new vigor only when it turns first to the chemical engineer for new materials of construction, and then to the civil and mechanical engineer for the new principles of construction which new materials always require. If we are ever to have better and cheaper houses, it will be when the architects cease their specializing and do more collaborating with representatives of other arts.

Another aspect of the same problem is the need of a changed position, technologically speaking, of the consumer relative to the producer. If we are to re-

sume our past progress toward a higher standard of living, research in the future must work more for the consumer and less for the producer. We must specialize less in specific raw materials and give more emphasis to the completed product. Bear in mind that research in the past has been largely in the hands of the big companies and that the big companies have been mostly the primary producers and refiners of all sorts of materials. The objective of such research has been to force a maximum of aluminum, of copper, of nickel, of gypsum, of asbestos, of plastics, etc., into as many different markets as possible. It is a technology of adaptation, and its success has been measured by the tonnage of materials sold by the companies financing that research. . . .

IT may be predicted that in the future a smaller proportion of the country's total research effort will be upon adaptation—the forcing of a given material into a given market whether it has an inherent right to be there or not. There is reason to believe, on the other hand, that more attention will be paid to a new type of technology. Such technology takes the customer's point of view, and can best be described as functional engineering.

Functional engineering is almost always characterized by an increased emphasis upon the principle of composite construction. When it is practiced more widely, we shall see far fewer products made largely of metal, wood, paper, textiles, plastics, or of any single material alone. We shall see, in their place, many more articles representing combinations of such materials, in which each material serves best its own particular function in a way that lowers the net cost of the final product at no sacrifice of quality. And we shall also see a new generation of research directors and chief engineers, who can no longer be narrow specialists but who must be skilled in many arts.

But suppose we were to succeed in reversing the trend toward overspecialization in our technical efforts. Suppose we were to merge the engineering arts and thus contrive to produce still higher standards of quality and still more efficient methods of manufacture. . . . Nearly everyone will agree at once that the great rise in our standard of living since the beginning of the Industrial Revolution has been due largely to the efforts of the engineer. . . . But are we happy and content today as a result of all this material progress?

It is true that we have built taller buildings, longer bridges, and greater dams than ever before. It is true that we can travel, whether under the water or in the air, farther and faster than ever before. But it is also true that we have bigger depressions and more terrible wars than ever before, and that the sum total of human happiness seems to

have receded from the peak which it reached in our parents' generation. There is a feeling in the air, moreover, that our destiny is no longer under our control, and that we have been caught up in a current of events that is carrying us, willy-nilly, to some strange and frightening destination.

LET us face the facts. Technology has been responsible in no small measure for this state of affairs. While working to raise our standard of living, it has yielded three by-products, each with the most serious of implications.

First, technology has committed us to an economy of ever-expanding production and constant growth. Recall, if you will, that our material progress has been won through increasing efficiency in the utilization of men and materials. We have spent more and more money each year to find new and better ways of getting along with fewer and fewer workers. That is all right because it is the only way we can all have more and still work less. But the corollary should be equally clear. If we are always to have full employment while deliberately reducing the labor required to make each unit of output, then we must always increase the number of units we are producing. Whether or not our population grows, whether or not our exports rise, we must always have expansion in our total output. Normal business in any technological economy is not a flat level but a line pitched sharply upward. The alternative to expansion is not stability. It is unemployment, depression, and social upheaval. We cannot let loose the force of technology and at the same time abandon further growth. It would be like trying to halt an airplane in its forward motion without expecting it to fall crashing to the ground.

The second by-product of technology is equally apparent. One of the most important methods by which we have achieved our higher industrial efficiency has been the increasing application of a time-worn principle—the principle described by economists as the “division of labor.” Division of labor means greater specialization, and greater specialization means greater economy of production. It is because of this principle that few men any longer grow their own food, build their own houses, and make their own clothes—and now have better food, better houses, and better clothes than they ever had before.

But it is also because of this principle that self-supporting little communities have ceased to exist in this country, and that—year after year—every worker has become a smaller and smaller cog in a bigger and bigger machine. It is the reason why business, in its periodic cycles, tends always to swing wider in both directions—why our booms have become greater and our depressions deeper.

And in a modern depression it is why, as was never true in the simpler days of the past, a man can be jobless and hungry when he is both able and willing to work. Technology makes the unit of any economy increasingly dependent upon the whole, and it makes the whole increasingly great in size.

The third by-product of technology is not so obvious, but it is nonetheless significant. It is the impact of today's type of work upon today's worker. Consider, first, that the day of the artisan has long since passed, and few men now turn out, by their own efforts alone, a complete clock, a complete shoe, or a complete suit of clothes. Consider that the craftsmen in metal were replaced a generation ago by machinists, and that machinists are now being replaced by machine hands, in a continuous process of evolution where, as the intelligence of the machine itself rises, that required of the machine operator falls in inverse ratio. But consider also that these machine operators, while receiving less and less challenge from their work, are getting more and more education in school and other places. They listen to the radio, they go to the movies, they learn new tastes, and they view life with a far broader knowledge of all the good things which it has to offer. Who cannot sympathize, therefore, with the modern worker? Who cannot understand why his work has come to mean just one thing—a pay check that seems never quite enough? Technology has given him more wants and more leisure, but it has also given him the dull monotony of repetitive work in place of that pride of craftsmanship which once was so large a part of every worker's pay.

THE technologist, therefore, has done more than increase our standard of living. He also has increased our hazard of living. By gearing our economic machine to ever-faster speeds, he has made us more liable to economic accidents, and more vulnerable to harm when such accidents occur.

Surely it has been made amply clear to us, first in Italy and Germany, then in England and more recently in this country as well, that whenever a national economy begins to falter, it is the signal for an upsurge of new ideologies to replace the old. Hence, however conservative the technologist may be in his own political thinking, his deeds in laboratory and shop have made him actually the most radical member of society. He has brought about more social change than any demagogue or statesman. And the end is not in sight. He is still brewing the strong and potent medicine of change, and he is still injecting it into our economic body in doses which grow larger every year. . . .

The men who led our forces in the Revolution and guided our infant nation through its early years

were not specialists. To be sure, they were professional men of sorts. Washington was an engineer. Franklin was a scientist. Jefferson was an architect. And Hamilton was a banker. But they all had other interests and they all concerned themselves with affairs of state. Is it any wonder, then, that our nation was built on so sound and lasting a foundation when the builders were themselves the outstanding product of their time?

We have today a country far greater in size. We have a population far larger, and we have men with far more education. We may even have some more gifted. But who dares say that the intelligence now working for the common good is any significant fraction of the total knowledge of all our citizens? The bigger our country grows, the farther short our mass intelligence seems to fall below the sum of all its parts.

The reason, of course, is quite apparent. It is overspecialization and we technologists are among the worst offenders. Like the people referred to in the ancient jest, we are growing to know more and more about less and less. We are letting ourselves become too deeply engrossed in the fascinating details of our own daily work, and we are leaving public affairs too carelessly to others.

We should not be surprised, therefore, if those in public affairs are themselves becoming less competent and for much the same reason. The trend toward overspecialization is also taking place in politics. Our congressmen also care more and more about less and less. Thus, we have special advocates of agriculture and of labor—of cotton and of silver—of high protective tariffs and of the public ownership of utilities. We have a small army of political mechanics swarming over our economic machine, each with a fixed idea how to tinker with some one part so that it will better suit his fancy. The marvel is not that the machine runs no better, but that it runs at all.

THESE, therefore, are some of the economic consequences of our engineering truths:

First, we have made it increasingly important that our nation be capably run. We have made the fortunes of the individual more and more dependent upon the continued growth of the whole economy in which he lives. And we have made social upheaval the price of failure to obtain such growth.

Secondly, we have made it increasingly difficult to run the nation right. We have built an economic machine that is getting more and more complicated and harder and harder to understand. We have confused the men who run it, and reduced their incentive to run it properly.

And finally, we have increasingly specialized the nation's talent. We have divided it into smaller and smaller parts and made it less and less available for our common problems. We have diverted our genius into the side channels of our national life and we have let mediocrity steer us in the main stream. . . .

We are all passengers on our ship of state. And our ship is no longer the fragile little craft our fathers launched these many years ago. It has become a great liner, so big and powerful that we have lost all awareness of the seas that still surround us. We are no longer members of the crew and we rarely go on deck to watch the progress of our voyage. Our quarters here below are so like a little city—so warm, comfortable, and well lighted—that we've come to think ourselves on land.

But there is no solid ground beneath us, nor is our great liner safe in port. It is speeding on its way to some unknown destination. It is manned by a crew that has become less competent and less careful, and it is heading into seas that steadily grow more stormy. Surely we must sense something different in its motion—a feeling that all is no longer well. Don't we pause to wonder where we're bound? Have we no fear of dangerous reefs ahead? How much longer shall we leave everything blindly to the crew and think only of our own petty specialties?

WHEN I was a young man, I read a great many novels . . . in which the badness of a bad man is represented, not as his fault, but as the fault of society. Now, as society consists of the bad men plus the good men, and as the object of this declaration was to show that the badness of the bad men was not the fault of the bad men, it remains that the badness of the bad men must be the fault of the good men. No doubt, it is far more consoling to the bad men than even to their friends to reach the point of this demonstration.—
William Graham Sumner.

Books

Pearl Harbor

FROM the faithful apostolate naturally and from all the leftward intellectuals who do book reviews, George Morgenstern's "Pearl Harbor" has received the kind of treatment technically known as the brush-off. The odds were against it in any case. You do not put victory on the defensive, not while the colors of glory are still vivid; historically and long afterward you may, but it is not yet long afterward and Mr. Morgenstern is not a historian. He is a journalist. Nevertheless his book, regarded as a narrative document, must either stand or be disproved, and every citizen should feel obliged to read it. True, he has a thesis to support, begins with it, in fact; but he rests it entirely upon the facts of record and so far there is no other thesis that makes sense of them. The Japanese attack at Pearl Harbor, he says, was not the cause of our going into the war. It was the overt act that was necessary to unite the country for war, and the Roosevelt administration planned it that way. It was, for the War Cabinet, the perfect solution, except that the cost was much higher than was expected.

The Secretary of War, Mr. Stimson, wrote in his diary: "When the news first came that the Japanese had attacked us my first feeling was one of relief that the indecision was over and that a crisis had come in a way which would unite all people." He for one did not complain of the cost, for he added: "This continued to be my dominant feeling in spite of the news of catastrophe which followed." What Mr. Morgenstern undertakes to show is that the "crisis" was engineered, and that the purpose of engineering was to overcome American public opinion, which, for all the Administration had been able to do to persuade it, was still against going to war by 81% when the last Gallup poll was taken.

The drama that enacted itself in Washington on December 6 (Saturday) and December 7 (Pearl Harbor Sunday) had the quality of nightmare in which an awful thing is about to happen, there is still time to do something about it, everybody knows what it is, and yet for some reason unknown the power to act is frozen. The situation at Pearl Harbor was that the commanders had been alerted for sabotage but *not for war*. On December 6 the intelligence people were able to intercept and decode all but the fourteenth part of the final Japanese message, embracing the alternative of war. At 9:30 P.M. it was delivered to the President who read

it at his desk and handed it to Harry Hopkins saying, "This means war." He took up the telephone and asked for Admiral Stark, Chief of Naval Operations. Admiral Stark was at the theater and the President decided not to page him there for fear of alarming the audience. Admiral Stark's flag lieutenant testified that when the Admiral got home he found that the White House had been calling. He went then to the telephone and returned saying that conditions in the Pacific were serious; but he did nothing about it.

General Marshall, the Army Chief of Staff, was not informed of the Japanese message that night. The Army Board of Inquiry afterward said: "Whatever was the reason for not conveying this message to General Marshall on the night of December 6, it was unfortunate." General Marshall's recollection was that he spent all of that evening at home. By 9:00 A.M. on December 7 the intelligence people had the fourteenth and last part of the Japanese message and there could no longer be the slightest doubt that the Japanese accepted war. When this was delivered to Admiral Stark, he exclaimed: "I must get word to Kimmel at once"—Kimmel at Pearl Harbor. But instead of getting word to Kimmel at once he spent two and one-half hours trying to locate General Marshall who was having his Sunday morning horseback ride. At 10:00 A.M. the final part of the Japanese message was delivered to the President. The record indicates that he did nothing about it; he spent the morning shut up in the White House study with his stamp collection and his intimate adviser, Harry Hopkins. Meanwhile, the intelligence people had intercepted a message from Tokyo instructing the Japanese Ambassador to deliver the ultimatum at 1:00 P.M. This was interpreted to mean that 1:00 P.M. Washington time was their dead line—and that would be sunrise at Pearl Harbor. General Marshall arrived at his office at 11:25. There was still time to do something—approximately two hours, owing to the difference of time between Washington and Pearl Harbor—if only it were done quickly. General Marshall finally wrote the message alerting the Pearl Harbor commanders for war and then instead of sending it by Navy radio, by FBI radio, by telephone, or by all three ways at once, which would be the imperative Army practice, he sent it the slowest way of all, that is, by RCA Commercial Radio with no "priority" classification and not even so much as an "urgent" mark. When the Japanese assault began at Pearl Harbor a bicycle messenger boy was carrying General Marshall's message through the streets of Honolulu. It was actually delivered 7 hours and 5 minutes after the Japanese attack began, whereas, even after all the delay there was in getting it started, if General Marshall had used the telephone it might have reached the Pearl Harbor com-

manders an hour before the attack. On General Marshall's desk was a "scrambler" telephone by which he might have reached Pearl Harbor in six or seven minutes. The reason he gave for not using it was that there was a "possibility of a leak which would embarrass the State Department." Mr. Morgenthau suggests it was not the State Department that would have been embarrassed by a leak. For success at Pearl Harbor the Japanese were gambling heavily on the factor of surprise. If they had "heard" a message from Washington putting the American commanders on the alert they might have turned back. In that case the overt act that was so necessary to unite the American people might have been postponed, or it might have taken another less compelling form, whereas, Mr. Morgenthau says, the need for such an act was very urgent because the Roosevelt Administration was facing a "constitutional crisis." The fiction that the United States was not actually at war could not have been sustained much longer. The country *was* at war but without any declaration of war by Congress. The American people did not then know that there was a secret American-British-Dutch Pacific War Plan which everybody, even the Japanese, understood to mean that the United States would enter the war shooting if the Japanese attacked either the British or the Dutch in the Pacific. The difficulty was that the American people might not have recognized an attack upon British or Dutch possessions in Asia as an overt act against the United States. At least an overt act of that character could hardly have given Secretary Stimson the relief he felt at the sudden news from Pearl Harbor. General Marshall testified: "Of course no one anticipated that the overt act would be a crippling of the American Fleet."

Mr. Morgenthau's book is not based on revelation, secret documents or new evidence. As few others have done, he has very carefully read the record. There have been, he says, "some dozen investigations and studies of Pearl Harbor," some public and some secret—one by Frank Knox, Secretary of the Navy, who went at once to the scene; one by a Presidential Commission under Associate Justice Owen J. Roberts; one by an Army Board of Inquiry, one by a Naval Court, one by a Joint Congressional Committee, a secret one by Army Intelligence for Mr. Roosevelt personally, and others of which there is no public record by Army and Naval officers acting under special instructions.

From the public record alone, acting upon it as if it were a jigsaw puzzle, Mr. Morgenthau has selected the pieces that can be fitted together to make a certain picture. It is not a complete picture. There are open spaces in it, representing missing documents, recantations, contradictions and strange lapses of memory. But all the pieces are authentic and can neither be changed nor left out. It seems

hardly possible that they could be so arranged as to produce a different picture; certainly no one has attempted to do it, and until it is done this is the one that will stand. After reading the book one can say positively that if the Roosevelt Administration, moved by its own idea of American destiny, had resolved and secretly planned to take the country into war against its will everything might have happened exactly as it did.

We had been in the war two and one-half years when Captain Oliver Lyttelton, Minister of Production in the Churchill Cabinet, made the following statement before the American Chamber of Commerce in London: "America provoked Japan to such an extent that the Japanese were forced to attack Pearl Harbor. It is a travesty on history ever to say that America was forced into war."

His words made a scandal and he publicly withdrew them. Nevertheless there is a mass of evidence to show that the most difficult single task of the Roosevelt Administration was to overcome public opinion and that what was required at last to overcome it was an overt act by the Japanese. The minority report of the Joint Congressional Committee on the investigation of the Pearl Harbor attack went into that, and said:

"In the diplomatic documents, exhibits, and testimony before the committee there is a wealth of evidence which underwrites the statement that the tactics of maneuvering the Japanese into 'the position of firing the first shot' were followed by high authorities in Washington after November 25, 1941. . . .

"According to Secretary Hull, the tactics of waiting for the Japanese to fire the first shot were, in a measure, forced upon the administration by the attachment of a large part of the American people to neutrality. . . . This view Secretary Hull expressed in his statement to the committee and it is set forth more fully by other documents before the committee, particularly the State Department's publication: *Peace and War: United States Foreign Policy 1931-1941*, especially Chapter 1.

"In this chapter the State Department explains that the President and Secretary Hull were hampered in the pursuit of the foreign policy they had 'clearly' decided upon—at a date not fixed by the Secretary—on account of the opposition by 'much of public opinion' in the United States."

If the significance of the Morgenthau book ended here one might say, "Since it has all happened and cannot unhappen, let us write it off." But there is a moral you cannot write off. What is proved above Pearl Harbor and beyond doubt is that if a President wants to take the country into war he can do it. The pattern is here. He can do it notwithstanding the naive Constitutional provision that only Congress may declare war. The Constitution says also that the President shall make treaties with foreign coun-

tries only "by and with the advice and consent of the Senate." But for all this, the conduct of foreign policy is in the hands of the President. In the field of foreign relations he may act without the advice and consent of the Senate and without telling it beforehand what he is going to do; and there is a kind of act that almost cannot be repudiated by either the Senate or the people because it involves the honor, the good faith, or the "face" of the nation. The announcement of the Truman Doctrine was such an act. Congress did not know beforehand that the President was going to declare cold war on Russia everywhere in the world. Yet when it was asked to appropriate \$400 million to implement the doctrine in Greece and Turkey the feeling that carried it was that in the present state of the world the country could not afford to repudiate its President. The American people, who will pay for it and if need be fight for it, had nothing whatever to say about it. —G. G.

Keynesian Error

IN the May, 1947, number of *The Quarterly Journal of Economics* Jacques Rueff makes a destructive analysis of the Keynesian doctrine and gives his reason for doing it in the following words:

"The Keynesian philosophy is unquestionably the basis of a world policy today; and if the specter of 'underemployment' appears again in the world tomorrow, as is probable, it will be the universal recourse of peoples and governments. If it is true, it will be the salvation of the world; if it is false, it may lead to catastrophe by turning the world to ineffective remedies which may make the evil much worse."

M. Rueff is a formidable enemy of economic fallacy in the old French tradition. Besides his eminence as economic thinker and teacher, he has had a distinguished career in public finance, as Directeur du Mouvement Général des Fonds and Deputy Governor of the Bank of France; and he was one of the few European economists effectively to challenge the politically disastrous thesis in which John Maynard Keynes underestimated the ability of the Germans to pay reparations after World War I. M. Rueff begins by setting up the Keynesian theory from the text, quoting:

"The outline of our theory can be expressed as follows. When employment increases, aggregate real income is increased. The psychology of the community is such that when aggregate real income is increased aggregate consumption is increased, but not by so much as income. . . . Thus, to justify any given amount of employment there must be an amount of current investment sufficient to absorb the excess of

total output over what the community chooses to consume when employment is at the given level."

And again, quoting Keynes in one of his moments of profound lucidity:

"An act of individual saving means—so to speak—a decision not to have dinner today. But it does not necessitate a decision to have dinner or to buy a pair of boots a week hence or a year hence or to consume any specified thing at any specified date. Thus it depresses the business of preparing today's dinner without stimulating the business of making ready for some future act of consumption. It is not a substitution of future consumption-demand for present consumption-demand—it is a net diminution of such demand."

In the paragraph last quoted one may observe the Keynesian mind in an act of characteristic behavior. Somebody decides not to have dinner, preferring to save the money, and there is for that reason a depression in the business of preparing dinner. The cause is the saving of money that might have been spent for dinner; the effect is depression. And there it ends. The depression, according to Keynes, is not the cause of anything, whereas, in fact, the depression affects prices and a fall in prices will be the cause of other effects, including a rise in buying power of money. This effect in turn becomes cause, producing other effects, so on and on through a series of actions and reactions toward equilibrium—provided only that the economy is free and the sensitive mechanism of what M. Rueff calls monetary correction is permitted to work. What M. Rueff does is to go on from where Keynes stops. Suppose, as Keynes says, that when from an increase of employment there is an increase of income, the people whose income has been increased save money instead of spending all of it. That means, according to Keynes, that from an increase of income there will result a deficit of purchasing power which must be made good by forced capital investments and government spending, or else from increased employment you will get unemployment again. But to M. Rueff it means only that the employed whose income has risen, instead of demanding from the market the entire equivalent in goods, demand part of it in cash. What then results? Everything else remaining as it was, these having more cash, others will have less. And what will the others do about it? To restore their cash holdings to the level desired, says M. Rueff, the others will have no recourse but to offer goods without demanding goods. That is to say, they must sell something for cash and "this will tend to bring about a fall in the whole system of prices." The argument follows:

"One price, however, remains stable amidst all these falling prices: the price of gold, automatically maintained at the legal parity by the purchases of the coin-

age authority. Hence the fall in the system of prices tends to bring about the transfer of productive resources from the products whose prices have fallen to the product whose price has not changed, a diminution in the production of the former and an increase in the production of gold. But the Bank of Issue buys all of the yellow metal offered and not demanded, and consequently supplies, by monetizing the increased production of metal, the additional cash holdings desired."

The analysis so far assumes a theoretical condition, namely, that of a society using only metallic money and having access to gold mines to which labor may be diverted to increase the money supply. But M. Rueff carries it on. Suppose there are no gold mines to work and suppose instead of metallic money you have paper money. The natural regulatory principle in that case is modified only in the way it works, for:

"The fall of prices brought about by the state of underemployment, if not checked by the absorption of the underemployed into the industries producing the yellow metal, tends to divert them to the production of goods capable of being marketed abroad. In this way it tends to bring about a favorable balance of payments for the country under consideration. It gives rise, as in the preceding case, to additional offers of metal on the market and consequently to additional monetizations. These latter furnish the additional cash holdings desired by the newly employed workers who do not apply their increments of income to consumption goods or investment goods."

The refinements of M. Rueff's argument may be left to the professional economist. His conclusion is that the theory which Keynes calls "general" is valid only in the special case, that is to say, for an economy entirely insensitive to movements of prices and interest rates—a planned and rigid economy in which there is no such thing as a free price. That is the type of economy Keynes visualized for England. In a free economy, says M. Rueff:

"Income is never insufficient to absorb existing production; for, apart from special circumstances which I cannot consider in detail here, it is engendered by this production and its amount at every period is identically equal to the value of the said production."

The Keynesian remedy for unemployment is simply given. The state shall sustain private demand by providing people with purchasing power in an amount necessary to overcome the consequences of their absurd propensity to save. This the

state does by enormous "investment expenditures." M. Rueff says:

"The level of investment expenditures, whether public or private, does not define the level of employment, since with every level of employment there is associated an income capable of absorbing the corresponding production, under the one condition that the latter be adapted, in its nature, to the effective demand of the owners of incomes. Even if we admit 'as a permanent characteristic of human nature' the existence of a consumption function analogous to that assumed in the Keynesian analysis, it does not lead to the conclusion that investment expenditures are necessary in order to insure full employment; for every demand which is not exercised upon the market for consumers' goods will reappear in the form of demand for investment goods or for hoarding."

The moral objection to "investment expenditures" by the state, M. Rueff says is that:

"The inauguration of a vast program of public works, if it is carried out over a prolonged period, will revive in the world an economic regime invented by Hitler, from which victory was supposed to free us. We shall see the restraints progressively tightening and expanding, and the steady unfolding of the familiar process of inflation will again bring about the suppression of all human liberties. In this way it will be demonstrated once more that the governments of human societies have a choice between only two solutions: to allow the apparatus of production to adapt itself to the structure which, by the movements of prices, the will of the consumers tends to impose upon it, or to adapt the desires of consumers by authoritative regulation to the structure of the productive apparatus which we do not propose to change."

Nevertheless, M. Rueff believes:

"In spite of these prospects, it is probable that the next period of depression will see a general application in the world of the policy suggested by Lord Keynes. I am confident that this policy will not reduce unemployment, except to a very limited extent, but that it will have profound consequences upon the evolution of the countries in which it is applied. Through the economic disorders to which it will give rise, it will re-establish in the world a regime of general planning analogous to the regime of wartime and based upon the suppression of all individual liberty. Thus, the next economic crisis seems likely to be the occasion for profound political changes, welcome to some people, dreaded by others. In any event, being based on a false theory, the remedies which will be adopted will give rise to repercussions very different from those they were designed to produce. Their ineffectiveness will be, for a great part of public opinion, one more reason for urging the suppression of a regime which, by denying itself, will have destroyed itself."

Communism as a Religion

*The following *reflections on communism as a social force and as a religion are by Arnold J. Toynbee, the most provocative and exciting of contemporary historians.*

THE only semblance of an effective external challenge to our society since the "Osmanlis" second failure to take Vienna has been the challenge of Bolshevism which has confronted the Western World since Lenin and his associates made themselves masters of the Russian Empire in A.D. 1917.

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There is a profound ambiguity in the nature of Bolshevism which is manifested in Lenin's career. Did he come to fulfill or to destroy the work of Peter the Great? In retransferring the capital of Russia from Peter's eccentric stronghold to a central position in the interior, Lenin seems to be proclaiming himself the successor of the Arch-Priest Avvakum and the Old Believers and the Slavophiles. Here, we might feel, is a prophet of Holy Russia, embodying the reaction of the Russian soul against the Western civilization. Yet, when Lenin casts about for a creed, he borrows from a westernized German Jew, Karl Marx. It is true that the Marxian creed comes nearer to a total repudiation of the Western order of society than any other creed of Western origin which a twentieth-century Russian prophet could have adopted. It was the negative and not the positive elements in the Marxian creed that made it congenial to a Russian revolutionary mind; and this explains why, in 1917, the still exotic apparatus of Western capitalism in Russia was overthrown by an equally exotic Western anticapitalist doctrine. This explanation is borne out by the metamorphosis which this Marxian philosophy appears to be undergoing in the Russian atmosphere, where we see Marxism being converted into an emotional and intellectual substitute for Orthodox Christianity, with Marx for its Moses and Lenin for its Messiah and their collected works for the scriptures of this new atheistic church militant. But the phenomena take on a different aspect when we turn our attention from faith to works and examine what Lenin and his successors have actually been doing to the Russian people.

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When we ask ourselves what is the significance of Stalin's Five Year Plans, we can only answer that

* Excerpts from "A Study of History," by Arnold J. Toynbee. Abridgement of volumes I-VI by D. C. Somervell. Oxford University Press.

it is an effort to mechanize agriculture as well as industry and transport, to change a nation of peasants into a nation of mechanics, to transform the old Russia into a new America. In other words, it was a latter-day attempt at Westernization so ambitious and radical and ruthless that it puts Peter the Great's work into the shade. The present rulers of Russia are working with demonic energy to ensure the triumph in Russia of the very civilization that they are denouncing in the world at large. No doubt they dream of creating a new society which will be American in equipment but Russian in soul—though this is a strange dream to be dreamed by statesmen for whom a materialist interpretation of history is an article of faith! On Marxian principles we must expect that, if a Russian peasant is taught to live the life of an American mechanic, he will learn to think as the mechanic thinks, to feel as he feels and to desire what he desires. In this tug of war which we are witnessing in Russia between the ideals of Lenin and the methods of Ford we may look forward to seeing the ascendancy of the Western over the Russian civilization paradoxically confirmed.

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Marx (1818-1883) has painted, in colors borrowed from the apocalyptic visions of a repudiated religious tradition, a tremendous picture of the secession of a proletariat and the ensuing class war. The immense impression which the Marxian materialist apocalypse has made upon so many millions of minds is in part due to the political militancy of the Marxian diagram; for, while this "blueprint" is the kernel of a general philosophy of history, it is also a revolutionary call to arms. Whether the invention and vogue of this Marxian formula of the class war are to be taken as signs that our Western society has its feet already set upon the path of disintegration is a question which will occupy us in a later part of this study, when we come to look into the prospects of this Western civilization of ours. In this place we have cited Marx for other reasons: first, because he is the classic exponent of class war for our world in our age; and, second, because his formula conforms to the traditional Zoroastrian and Jewish and Christian apocalyptic pattern in unveiling, beyond a violent climax, the vision of a gentle finale.

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According to the Communist prophet's intuition of the operations of his familiar spirit, *Historical Materialism* or *Determinism*, the class war is bound to issue in a victorious proletarian revolution; but this bloody culmination of the struggle will also be the end of it; for the victory of the proletariat will

be decisive and definitive and the "Dictatorship of the Proletariat," by which the fruits of the victory are to be harvested during the postrevolutionary period, is not to be a permanent institution. A time is to come when a new society which has been classless from birth will be old enough and strong enough to dispense with the dictatorship. Indeed, in its final and permanent acme of well-being the New Society of the Marxian Millennium will be able to cast away not only the Dictatorship of the Proletariat but also every other institutional crutch, including the state itself.

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If Karl Marx had been challenged by some Victorian *censor morum* to give his spiritual name and address, he would have described himself as a disciple of the philosopher Hegel, applying the Hegelian dialectic to the economic and political phenomena of his day. But the elements that have made communism an explosive force are not of Hegel's creation; they bear on their face their certificate of origin from the ancestral religious faith of the West—a Christianity which, three hundred years after the philosophic challenge from Descartes, was still being drunk in by every Western child with its mother's milk and inhaled by every Western man and woman with the air they breathed. And such elements as cannot be traced to Christianity can be traced to Judaism, the "fossilized" parent of Christianity which had been preserved by a Jewish Diaspora and volatilized through the opening of the ghettos and the emancipation of Western Jewry in the generation of Marx's grandparents. Marx has taken the goddess "Historical Necessity" in place of Yahweh for his deity, and the internal proletariat of the Western World in place of Jewry for his chosen people, and his Messianic Kingdom is conceived of as a Dictatorship of the Proletariat; but the salient features of the Jewish Apocalypse protrude through this threadbare disguise.

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However, it looks as if the religious phase in the evolution of communism may prove ephemeral. The conservative national communism of Stalin seems to have decisively defeated the revolutionary ecumenical communism of Trotsky in the Russian field. The Soviet Union is no longer an outlaw society, out of communion with all the rest of the world. She has reverted to being what the Russian Empire was under a Peter or a Nicholas: a Great Power choosing her allies and her enemies on na-

tional grounds and irrespective of ideological considerations. And if Russia has moved to "the right" her neighbors have moved to "the left." Not only the flash-in-the-pan of German National Socialism and Italian Fascism but the apparently irresistible encroachment of planning on the once unregimented economies of the democratic countries suggests that the social structure of all countries in the near future is likely to be both national and socialist. Not only do the capitalist and communist regimes seem likely to continue side by side; it may well be that capitalism and communism—like intervention and nonintervention according to the sardonic dictum of Talleyrand—are becoming different names for very much the same thing. If this be so, we must decide that communism has forfeited its prospects as a revolutionary proletarian religion, by being degraded from being a revolutionary panacea for all mankind into being a mere local variety of nationalism.

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The parallel between the communists and the Calvinists has been drawn by the brilliant pen of an English historian: "It is not wholly fanciful to say that, on a narrower stage but with not less formidable weapons, Calvin did for the bourgeoisie of the sixteenth century what Marx did for the proletariat of the nineteenth, or that the doctrine of Predestination satisfied the same hunger for an assurance that the forces of the Universe are on the side of the Elect as was to be assuaged in a different age by the theory of Historical Materialism. He . . . taught them to feel that they were a Chosen People, made them conscious of their great destiny in the Providential plan and resolute to realize it."

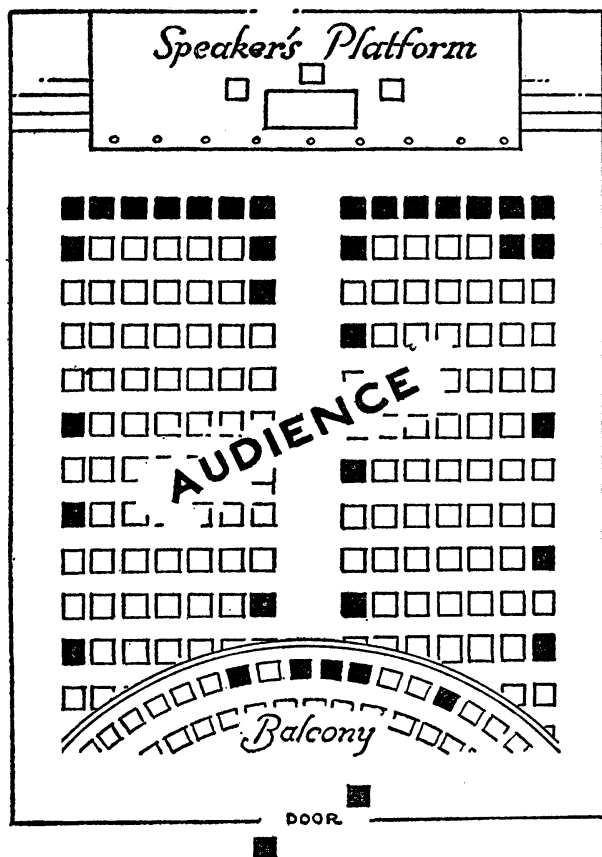
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The Calvinist's Jehovah is a God who vindicates His Elect; the Marxian's Historical Necessity is an impersonal force that brings about the Dictatorship of the Proletariat. Such an assumption gives a confidence in victory which, as the history of war teaches, is one of the springs of morale and is therefore apt to justify itself by achieving the result which it has taken for granted in advance. "*Possunt quia posse videntur*" (they can because they believe they can) was the secret of the success of the ultimately victorious crew in the Virgilian boat race. In short, Necessity can operate as a potent ally when she is assumed to be one; but the assumption is one which invites its eventual confutation by the inexorable logic of events.

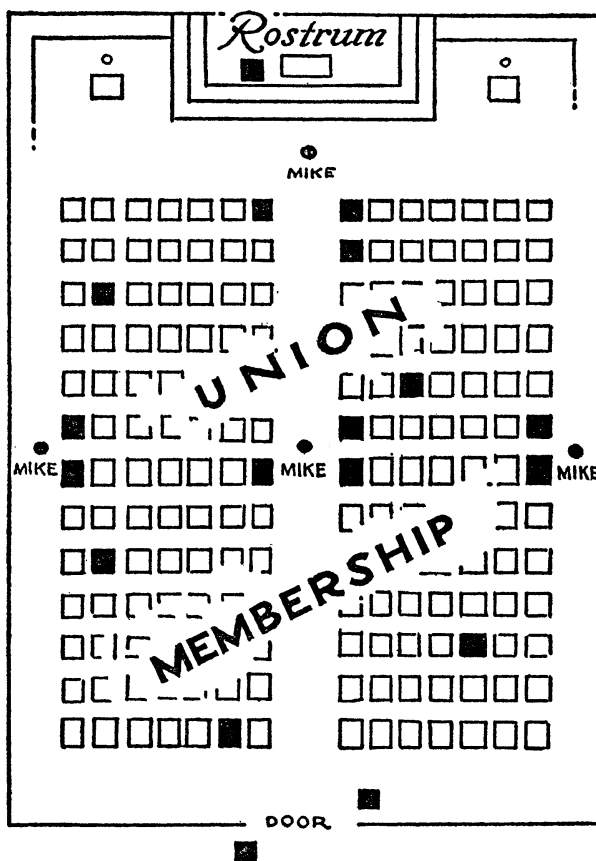
How the Red Minority Does It

From Ralph Chaplin's* book: "American Labor's Case Against Communism"

STOOGES READY TO MOVE IN ON A PUBLIC MEETING



STOOGES READY TO TAKE POSSESSION OF A UNION MEETING



This is how the commie-czars take possession of a public meeting. A well-organized minority of stoooges (represented by the black squares) are located at points of strategic importance about the lecture hall. At designated signals, the speaker's voice is drowned out by booing, hooting and cat-calls. A stoooge shouts loudly for a communist speaker who in turn is cheered loudly. The speaker was selected in advance from among the stoooges.

The technique of capturing public meetings includes the use of communist goon squads whose business is to do whatever "rough stuff" the occasion calls for. The stoooges located near the entrance are used to circulate literature and also as "listening posts."

This strategy was used not so long ago to break up a public meeting held at Plymouth Congregational Church in Seattle. It is identical with communist procedure in every part of the world.

This is how a union is captured by a setup of CIO-communist disrupters. The stoooges, represented by black squares, are planted cleverly throughout the union hall. In the face of this well organized and perfectly coordinated minority the actual membership nearly always finds itself helpless. It will be noticed that stoooges are always located near the "mikes" so that none but stoooges following the party "line" can have the opportunity to express an opinion.

As a result of this neat arrangement many a victory has been scored by "democracy" and "rank-and-file rule," the membership being stampeded into the ranks of the communist-controlled organization. This was the strategy used by Harry Bridges to destroy the Maritime Federation of the Pacific Coast, an organization that refused to submit to party domination.

Note stoooges planted conveniently near to the door to distribute CIO-communist literature and to "influence" members of the legitimate union.

* Educator Publishing Co., Seattle 1, Washington.

The Pallid Ghost of Adam Smith

By John G. Schneider, in *Printers Ink*

ACT I

Scene: a retail liquor store in the state of New York in the year 1945. Gus, the proprietor, is behind the counter. On the shelves behind Gus are many bottles. Enter, a Customer.

GUS: Aha, my fine friend and good customer, how do you do and I've got something very special for you today, namely Old Bustgut; a take-it-away-you're-robbing-me-blind bargain at \$6.10 per the bottle.

CUSTOMER: Uh, maybe you could find me just one little bottle of something I have heard about, eh, Gus, ol' pal, ol' pal? Old Granddad? Four Roses? Mount Vernon? Seagram's? Walker's?

GUS: Ha! It is making me laugh. Ha, ha, ha! You know I got none of the name brands. Old Bustgut I got. Likewise Six Blossoms, Corn Pone Liqueur, Rye Surprise and Bottled Yesterday. But not the old brands, that you know. And why haven't I got the old brands?

CUSTOMER: Why, Gus? Why not the old brands?

GUS: OPA, that's why! The dirty, stinkin' socialistic OPA. Because some bureaucrackpot in Washington sets the prices, that's why. Because this lousy OPA has not got the faith in our free enterprising system to let demand and supply say what the prices should be. OPA, bah!

CUSTOMER: Well, uh, I guess a bottle of that Old Potato will do, Gus. I sure wish they'd kill off this OPA and let us buyers set the prices.

ACT II

Scene: the same retail liquor store in September, 1947. The same Gus is behind the same counter as the same Customer enters.

GUS: Aha, my fine friend and old customer who sticks by the shop through thick and thin, today maybe it will be a few bottles of Old Granddad? Four

Roses? Anything you say, old customer, old stout fellow. Name it and we got it.

CUSTOMER: Golly, Gus, just looking 'em over here I see you've gone and raised prices since last week. This brand's up four bits a bottle, that one 70 cents. . . . How come, Gus?

GUS: All price-fixed brands, my fine client. On September the One, back came the good old Feld-Crawford act. Wonderful thing. Fair trade, you know. Eliminates cut-throat competition, you know. Why, I couldn't cut a penny off the price even for you. Not unless I wanta go to jail. So you pay a few pennies more? So you're helping to run the chisellers and price-cutters out of business.

CUSTOMER: Well, uh, I don't know. Seems like under free enterprise—

GUS: You can't mean—that you'd throw this industry back to the wolves. I am weeping on my pinch bottles. Why, you wouldn't want to see me driven out of business by that legalized bootlegger down the street, would you? You wouldn't want to see me lose money just because that Sam cuts his prices like a Second Avenue junk dealer, would you? You believe in a fair price and a fair profit, don't you?

CUSTOMER: I—I guess so, only supply and demand—

GUS: Ha! That's the ticket. I got the supply, you just gotta demand it. Ha, ha, ha. Great little business, this. No bargain sales, no price-cutting, no dirty competition. Wonderful thing, this fair trade!

ACT III

Scene: same liquor store, a few minutes later. Enter a wild-eyed radical waving a red flag—obviously the worst kind of demagogue. He sidles up to the customer.

RADICAL: What did I tell you about this "free enterprise," chum? WHAT DID I TELL YOU!

End



Who Makes the Honey?

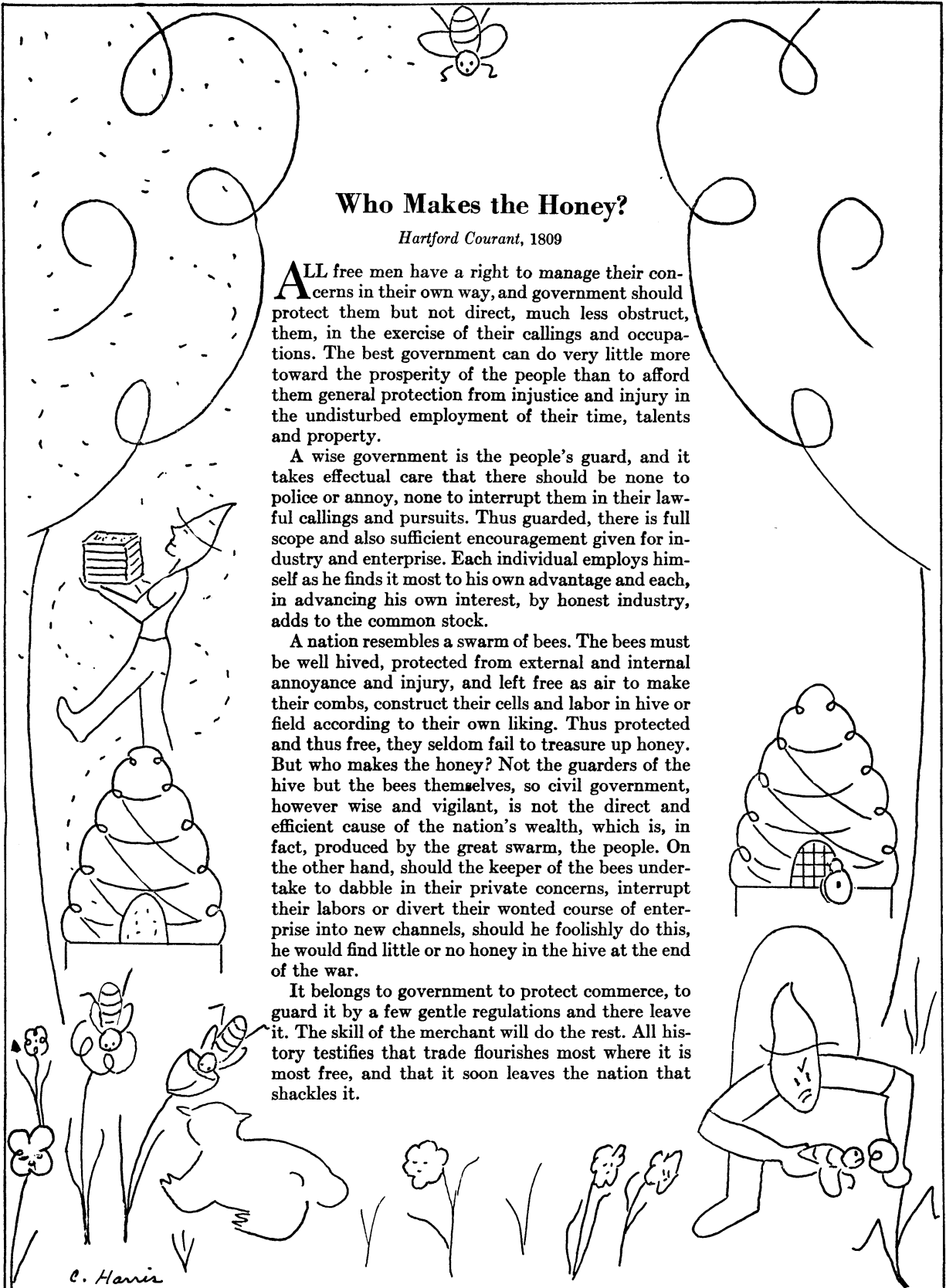
Hartford Courant, 1809

ALL free men have a right to manage their concerns in their own way, and government should protect them but not direct, much less obstruct, them, in the exercise of their callings and occupations. The best government can do very little more toward the prosperity of the people than to afford them general protection from injustice and injury in the undisturbed employment of their time, talents and property.

A wise government is the people's guard, and it takes effectual care that there should be none to police or annoy, none to interrupt them in their lawful callings and pursuits. Thus guarded, there is full scope and also sufficient encouragement given for industry and enterprise. Each individual employs himself as he finds it most to his own advantage and each, in advancing his own interest, by honest industry, adds to the common stock.

A nation resembles a swarm of bees. The bees must be well hived, protected from external and internal annoyance and injury, and left free as air to make their combs, construct their cells and labor in hive or field according to their own liking. Thus protected and thus free, they seldom fail to treasure up honey. But who makes the honey? Not the guarders of the hive but the bees themselves, so civil government, however wise and vigilant, is not the direct and efficient cause of the nation's wealth, which is, in fact, produced by the great swarm, the people. On the other hand, should the keeper of the bees undertake to dabble in their private concerns, interrupt their labors or divert their wonted course of enterprise into new channels, should he foolishly do this, he would find little or no honey in the hive at the end of the war.

It belongs to government to protect commerce, to guard it by a few gentle regulations and there leave it. The skill of the merchant will do the rest. All history testifies that trade flourishes most where it is most free, and that it soon leaves the nation that shackles it.



The Socialization of French Industry

The Belgian Senate appointed a committee of five (two of the Catholic Party, two of the Socialist Party and one Communist) to study the socialization of industry in France and make a report. The result is now published. Four of the committee agreed, but the Communist refused to sign the report because it was critical of the French policy and warned Belgium not to imitate it. The following summary of the report is from Neue Zürcher Zeitung.—Editor.

IMPORTANT key industries were nationalized in France hastily and without adequate preparations. Now the results become slowly apparent. Strikes involving nationalized public utilities, such as electricity, gas and railways in the first place, have demonstrated the difficulties of government in the dual role of employer and arbitrator, and how much its authority may suffer when a labor conflict arises. The workman insists that he is free to strike; on the other hand, the state may say that a strike on the part of its employees is revolt. The question is whether those who work for the government shall be deprived of liberties which those who work for private industry still enjoy.

When industry is nationalized the old conflict between *capital* and *labor* is superseded by the conflict between *labor* and *state*, which may carry far more dangerous complications. It happens that the labor unions, being under present circumstances partly responsible for the policies of the government, may lose all their influence on their members. Hence so many "wildcat strikes," not only in France but also in England. Nationalization has certainly not helped social peace. The political note that has entered into the matter makes a peaceful settlement harder than it used to be.

In France the unions are dependent on the political parties. Consequently, nationalization has opened the doors to the interference of the political parties with business policies. It is obvious that a party can use a union for political purposes and that those purposes may not at all serve the interests of the workers. If a certain party gains power it will attempt to use the working class for the purpose of keeping power. Should the government change, the new government will be inclined to give favors to a different set of people. The first result is that the managers are no longer appointed on the basis of professional competence but rather according to their party affiliation. . . . Eventually management is no longer interested in profitable-

ness. It loses its responsibility and finally its authority.

The nationalization of the coal mines, for example, causes them to become a public trust. But, to begin with, this entailed partial expropriation of the stockholders, who were only modestly indemnified by bonds. It is estimated that the stockholders of the mines of Northern France alone have lost 12 billion francs.

During the current year the government must subsidize the coal mines with 17 billion francs. To increase production more men have had to be enrolled and this could only be achieved by the promise of special privileges. The French minister in charge fails to mention that there is another very important reason for the financial difficulties of the French coal mines: sales prices are kept artificially low, for political reasons.

It is extremely difficult to form a correct judgment about the real financial situation of the nationalized establishments. The publication of their financial status has repeatedly been postponed, partly for the reason that the financial arrangements with the former owners have hardly yet gotten under way. But there are other reasons too. Nationalization has meant, for instance, that several hundred formerly independent companies in the field of electricity and gas have been merged into huge public trusts. The latter are so big that the administration in Paris finds it difficult to gain a comprehensive picture of all that has been nationalized. It is not without a certain irony that the supporters of nationalization who have always been grim foes of trusts have given birth to mammoth enterprises which are bigger and slower than anything as yet created by private monopoly capitalism in France.

Skyscrapers by Stalin

From *Information Bulletin*, U.S.S.R. Embassy

ON the initiative of Joseph Stalin, the Council of Ministers of the U.S.S.R. has decided to erect eight skyscrapers in Moscow during the next few years. The architecture of these buildings will be original; they will not be copies of similar buildings abroad. They will, furthermore, be in harmony with the historically developed architecture of Moscow.

The tallest of them—32 stories high—will be an apartment house, the tallest apartment house in Europe. The 32-story house will be built in the Lenin Hills district of the capital. A 26-story building, a combination hotel and apartment building, is to be erected near the Dynamo Stadium on the Leningrad Chaussée. Another building, the same size, is to be erected at the site of the reconstructed Zaradye district, and is intended for administrative offices.

The Rise of a Singing Cowboy

**An Autobiographical Speech*

By Senator Glen Taylor of Idaho

NOT so very long ago I was one of those who might be classed as belonging to the lower strata of our society. I was raised on a side-hill farm, and all my life I have spent in the show business. I had my own company playing through the West, and the depression and the talkies came at the same time. We could not secure bookings because the theaters were full of talkies, and if we did get a booking no one came to see us anyway, so it made no difference. I saw what people went through in those days.

We had to go into the small communities, to crossroad halls and schoolhouses which the talkies had not reached. Many times we have taken farm produce, chickens—sometimes live chickens—and vegetables, in exchange for tickets to our show.

I know how the common people feel when they cannot get jobs.

To be perfectly frank, Senators, the experiences I went through started me thinking. If I had not gone hungry I would not now be a United States Senator.

Discovery of Books

But when the going got tough I started to study, and I did study diligently for a number of years. I have seen the sun come up while I was still reading. It got to be a matter of religion with me. I read books of all kinds. I want to be fair about this matter, and I will say that I read "Capitalism the Creator," and I read books by Stuart Chase, and many others. I read a book by King C. Gillette, the man who invented the safety razor.

I was greatly influenced by that book. God help the man; he died broke, as I understand. He loved his fellowmen so much that he neglected his business.

But I want to make it plain that I was not a communist and I was not a socialist. I have never belonged to either of those organizations. I have talked to socialists and I have talked to communists, and they were just the same as Senators are here. I believe they were just as smart and just as amiable. They were splendid men who earnestly believed in what they fought for, as I give Senators here credit for believing in what they are fighting for. But I never joined any of their organizations.

Frankly, my economic ideas were quite radical back in those days. I was ready to junk the profit system and plan for plenty.

Well, I take it if one is going to do anything about a proposition the only way to do it is to start, so I ceased my travels about the country and took up residence in Idaho with the purpose in mind of running for office. After I had been there six months I announced my candidacy for Congress.

Then a Cowboy Band

I had to make use of the tools at hand. By that time I had gone out of what I am pleased to call the show business, because there was no longer any place to put on shows. I had organized a cowboy band. So I took the cowboy band and campaigned with them. I was fourth in a field of nine in the primaries in that race for Congress. It encouraged me. I defeated five old party wheelhorses.

The next year it so happened that the late great Senator Borah had in the meantime gone to his reward. So I decided that if I were going to do anything along political lines, there was no use running for dog catcher or even for Representative in Congress. I might as well run for the Senate. So I ran for the United States Senate.

I did not know anything about politics. When I first ran I did not know a single precinct committeeman. When I ran for the Senate in 1940, while the politicians were arguing over which one of them was going to be nominated, I went out and frankly laid it on the line to the people of Idaho, a state which has been Republican, and which is considered pretty conservative. That was in 1938, a year of comparative prosperity. I told the people that the private enterprise system had not worked, and I quoted from King C. Gillette's book.

It is very easy to argue for a planned economy. It is much easier than to try to convince the people that there is any logic in our present economic system. I told them that we could plan for plenty, and they nominated me for the United States Senate. I had one precinct committeeman working for me.

As soon as I got the nomination the politicians got together. I had not asked their consent to run. They got together and ganged up on me. While Roosevelt was carrying the state by 25,000, I lost by 15,000, and that was a pretty bad beating.

The politicians figured that that was the end of me. The war started shortly after that. They said I was too old to fight, and that the next best thing I could do would be to get a job in a defense plant, which I did.

First I went to a war plant in my state of Idaho, and told the man to whom I applied that I wanted a job on defense work. He told me to write my name, which I did. I shoved the paper across the counter.

* Delivered on the floor of the United States Senate.

The man looked at it and said, "Glen Taylor. Are you the man who ran for the Senate?" I said, "Yes." He said, "Well, Mr. Taylor, we have nothing suitable for you." I explained to him that I did not want to manage the plant. I simply wanted a job. I told him that I was a pretty good homemade carpenter, better than some of those who carried cards. I could drive a truck. I could use a sledge hammer expertly—which was true. I used to have a tent show, and had to drive stakes. But the man insisted that he had nothing suitable for me, so I saw what the score was.

Travels

So I left Idaho and went to California and got a job in a war industry there. I worked shoulder to shoulder with the common man. I know what he thinks, and just about how his mind works. I worked right along with him. My co-workers did not know that I had run for the Senate. I kept it very dark. I wanted to be one of them.

Then 1942 came along. I went back to Idaho and ran again. The politicians were very much surprised to see me back. They thought that they had done for me, because I had been beaten twice.

The same thing happened again. I got the nomination while the other boys were arguing over the matter, and this time I was defeated by only 4,000 votes. That was very encouraging. I saw that I was making headway. So I went back to work in a defense plant, and the politicians were sure that they were rid of me.

I am recounting this simply to encourage anyone who may be listening who believes that things are not being run properly. He should not give up. If he wants to be a United States Senator, let him start running and keep at it.

I returned to Idaho and ran again. Again, I got the nomination.

The Big Business Boys

While I was in the war plant I saw a great deal of inefficiency. It was not a government plant. It was a cost-plus plant. This can be no reflection on the government. The newspapers of my state picked up the statement which I made in the Senate some time ago and tried to make it appear that the New Deal was at fault because there was inefficiency in the war plant where I worked. That was not the case. The New Deal had to pay the big business boys.

We all remember that big business was the first to go on strike when the war started. They said that they would not produce anything unless they got cost-plus. They did not intend to take any chances whatever. So the system of cost-plus contracts was inaugurated. It was very wasteful and extravagant.

I saw many things that could have been done better but no one wanted any suggestions from a poor, lowly sheet-metal mechanic.

My experience there changed my outlook somewhat. I believe it was the most trying time of my life. I made good wages but could not save very much, and I could not exercise my initiative. I saw things that needed to be done, but no one was interested; so we continued to waste time, taking a week to do a job which could have been done in two days if we had been allowed to figure out a better way.

If the Kettle Blows

I decided then that perhaps the idea we have of every man being his own boss if he cares to be was not so bad, after all. Frankly, my present attitude is that I should like to see the private enterprise system continue. I admit that I am not so closely wedded to that idea as are some others. Frankly, if the stopper is kept in the kettle and we refuse to allow any changes to take care of changing circumstances, and the thing blows up, and the socialists take over, I will try to help the socialists make socialism work, just as I am honestly and sincerely trying to help the private enterprise boys make that system work now.

In 1944 I went back to Idaho and ran again. I got the nomination, and this time I was elected, and here I am. The calluses have scarcely worn off my hands; but I thank God that calluses have not yet started to form on my heart. I am here because I am sincerely interested in the welfare of the common people.

I have been with the people. I know how they feel. I know how easy it was to persuade them to throw the whole thing overboard; and it can be done much more easily if the system breaks down again. They have seen what we can provide in war in the way of jobs and a high standard of living for all the people. If we break down again, we are bound to lose our private-enterprise system.

FOOTNOTE:

Senator Taylor now is moving a resolution for "a world republic based upon democratic principles and universal suffrage regardless of race, color or creed." It was the first resolution he introduced in the Senate. The Committee on Foreign Relations has it in a pigeonhole, but the Senator is not discouraged by that. In one of his campaigns he wrote 3,000 letters longhand. Now he has a secretary and the franking privilege. He keeps sending his resolution forth by mail, together with a letter which says that if he could get himself elected to the United States Senate almost anything can happen.

The Price of Freedom

By H. W. Prentis, Jr.

YOU will find my text in Paragraph XV of the Bill of Rights proclaimed by the Virginia Assembly in June, 1776, about three weeks before the momentous Declaration from Independence Hall on the 4th of July of that same year. That paragraph reads:

"No free government or the blessing of liberty can be preserved to any people but by a firm adherence to justice, moderation, temperance, frugality and virtue and by a frequent recurrence to fundamental principles."

I have selected it because it states in succinct and lucid fashion what our American forefathers considered the price that any nation must pay for liberty.

The pragmatic philosophy that has pervaded so much of America's thinking in the past forty years denies that there are any eternal verities; refuses to concede that there are any principles of truth and morality and social conduct that are permanent and lasting. Everything is relative; nothing is absolute. Our so-called progressive education directly reflects that type of reasoning and now it has invaded the realm of law and justice, where sociological jurisprudence is ascribing new and strange meanings to the plainly written provisions of our Federal Constitution.

However, there are still some old-fashioned people in the world like myself, who believe that certain things will be as true a thousand years from now as they are today. While the mechanics of government may and will change, the principles on which men may associate themselves permanently to enjoy the blessings of liberty are firm and immutable. The price of freedom is fixed. And liberty must be bought and rebought at the same price by every generation for itself.

Obviously, in addition to practicing justice, moderation, temperance, frugality and virtue, we must also know what those fundamental principles are if we are to recur to them frequently—as the Virginia Bill of Rights says we must. Yet how many Americans have even a casual acquaintance with those principles? How many members of this assemblage—far above the level of the average American audience in education and intelligence—could appear before a group of their fellow citizens and make even a sketchy explanation and defense of the foundations on which the American Republic rests? . . .

OUR forefathers came to the shores of the American continent impregnated with the principles of personal moral responsibility, the right of private judgment and the right of free assembly which, together, filled them with a fervent passion and unshakeable belief in the inward spirituality of the individual soul. With this principle as the foundation, they erected the tripod on which our individual freedom in America rests today.

First, they maintained that if man did possess a sacred personality, he had the right to choose who should rule over him. On that thesis they reared the first supporting tower of our edifice of liberty—*constitutional representative democracy*.

Again, they argued that since man possessed a sacred personality, he had the right to think, speak, assemble and worship as he saw fit. On that concept they erected the second tower of the structure of American liberty—*civil and religious freedom*.

And, finally, they reasoned that any man endowed with a sacred personality had the right to possess for himself such portion of the God-given resources of the earth as he could win by honest toil and effort. Thus they asserted every individual's right to private property and economic activity of his own choice, and on that basic tenet they built the third supporting tower of their temple of liberty—*private competitive business*.

These three towers stand or fall together. Destroy any one of them, and the whole structure of freedom soon collapses. . . .

AS the first step, they adopted a written Constitution with its Bill of Rights, as a permanent bulwark to safeguard individual and minority rights from hasty and ill-considered attacks by temporary majorities. Hence, they purposely made the process of amending the Constitution long and difficult. That is the reason sociological jurisprudence—stretching the Constitution to meet current demands for legislation—instead of honest forthright amendment of that document after full discussion, is so very dangerous to our freedom. As Thomas Jefferson said: "Our peculiar security is the possession of a written constitution. Let us not make it a blank paper by construction."

In the second place, our forefathers incorporated in their system of government the principle of representative rather than direct action, with different terms of office and different modes of electing sena-

tors and representatives, to cushion the action of any current majority, and to enable government to function over a large geographical area.

Third, they provided a system of checks and balances by painstaking separation and coordination of the powers of the legislative, executive and judicial branches. For example, the Constitution of Massachusetts, which was adopted in 1780, spells out explicitly the fact that in the government of that Commonwealth no one of the three departments may ever exercise any of the powers of either of the others "to the end that it (the government of Massachusetts) may be a government of laws and not of men." As the Federalist Papers pointed out: "The accumulation of all powers—legislative, executive and judicial—in the same hands . . . may justly be pronounced the very definition of tyranny." Hence the present blurring of the lines of responsibility between the three departments of the Federal Government is perhaps the most sinister of all threats to our freedom in the critical years ahead. The tyranny of administrative law—the bureaucratic despotism from which we suffer today—would be mitigated if the lines of demarcation between the legislative, executive and judicial functions had been kept sharp and clear.

As a fourth step, the founders of our Republic divided the responsibilities of government among the Federal Union and the states, counties and towns. They did that, so that each particular segment of government would not get too big for an intelligent citizen to understand. Today the Federal Government has arrogated to itself so many state and local powers, and has become so extremely huge and complicated, that the average congressman will tell you frankly that it is impossible for him even to read all of the legislation that is proposed or desired by the various federal departments.

Drawing from the experience of our British ancestors, the fifth step was to keep the control of the public purse in the hands of the House of Representatives—the arm of government closest to the people. Every effort at popular self-government that I have read about in history has eventually been destroyed by some demagogue who got his hands on the people's own money. In recent years Congress has delegated more and more latitude in respect to public expenditures to the Executive Department. Hence another grave threat to our freedom has arisen from what might well be termed the privy power of the public purse. . . .

Last, but not least, the men who set up the American Republic reserved the largest possible field for local and individual initiative by strictly limiting the powers of the central government. In respect to business, only interstate and foreign commerce were made subject to its regulation. The Tenth Amendment to the Federal Constitution provides

specifically that "the power not delegated to the United States by the Constitution nor prohibited by it to the states, are reserved to the states respectively or to the people." As the late Justice Brandeis said: "The makers of the Constitution . . . conferred, as against the government, the right to be let alone, the most comprehensive of rights and the right most valued by civilized man." I leave it to you to say to what extent that halcyon situation still exists!

THERE, in a nutshell, is the mechanism by which our forefathers sought to harmonize the will of the majority with the personal rights of the individual. Jobs, opportunity and freedom for us and succeeding generations depend on how well we safeguard that mechanism—a mechanism based on meticulous analysis of all previous attempts at self-government in the world's history; a mechanism so ingenious, so carefully organized, so accurately compensated against human vagaries and lust for power that it led the great English Prime Minister, Gladstone, to say that the Constitution was "the greatest instrument of government ever struck off at a given time by the hand and brain of man."

If we are willing to pay the price of freedom, we will take the advice of the Virginia Bill of Rights seriously and by frequent recurrence to fundamental principles examine every new proposal of government to see whether it fits soundly into the fabric of our system. Precise definition of the terms we use in our political discussions, clear thinking based on sound understanding, willingness to take a large measure of responsibility for our own physical welfare, self-restraint, courage, along with justice, temperance, moderation, frugality and virtue—these are the coin in which the price of freedom must be paid, yesterday, today and forever. As Somerset Maugham, the author, said recently, "If a nation values anything more than freedom, it will lose its freedom; and the irony of it is that if it is comfort or money that it values more, it will lose that too."

PARADOXICALLY enough, the release of initiative and enterprise made possible by popular self-government ultimately generates disintegrating forces from within. Again and again, after freedom has brought opportunity and some degree of plenty, the competent become selfish, luxury loving and complacent; the incompetent and the unfortunate grow envious and covetous; and all three groups turn aside from the hard road of freedom to worship the Golden Calf of economic security. The historical cycle seems to be: from bondage to spiritual faith;

from spiritual faith to courage; from courage to liberty; from liberty to abundance; from abundance to selfishness; from selfishness to complacency; from complacency to apathy; from apathy to dependency; and from dependency back to bondage once more.

At the stage between apathy and dependency, men always turn in fear to economic and political panaceas. New conditions, it is claimed, require new remedies. Usually so-called new remedies are not new at all. Planned economy, for example, was tried by the Chinese some three millenniums ago, and by the Romans in the early centuries of the Christian era. It was applied in Germany, Italy and Russia long before the recent war broke out. Yet it is being vigorously advocated by some misguided people today as a solution of our economic problems in the United States. . . .

Can we apply compulsory planning to a part of our economy and leave the rest to private business? Stalin says no, and so does Douglas Miller in his famous book about Hitler. In December, 1945, at a mass meeting in New York, Professor Harold Laski, then chairman of Britain's Labor Party, said: "We have come to the boundaries of the final dividing line between liberalism and socialism. . . . There is no middle way." That is the record. "Power over a man's support is power over his will," the Federalist Papers sagely observed. Yet I venture to predict that if we ever do lose our freedom in America it will be because of public ignorance of the perils involved in outright government planning and control of our economic life. All of which again demonstrates that the price of freedom is a deep understanding of the basic principles of self-government and recognition of the fact that "eternal vigilance is the price of liberty."

SIGNIFICANTLY enough, freedom for the common man has seldom, if ever, resulted from the efforts of either the aristocrat or the wage earner. The entrenched privileges of aristocracy and the leveling-down demands for equality under the rule of the proletariat have proven to be equally destructive of personal liberty. Hence such freedom as the ordinary man has enjoyed for brief periods since the dawn of history has always emerged as a corollary of the development of a middle class composed of business and professional men and farmers. A recent lecturer at Princeton University affirms that "political democracy came to the United States as a result of economic democracy." History shows that businessmen were principally responsible for such freedom as Athens enjoyed before the age of Pericles; as Rome had before the time of Marius and Sulla; as the Republic of Florence had under the early Medici. The merchant class, moreover,

created the free cities of the Hanseatic League. And certainly in modern times, freedom for the common man has been the outstanding characteristic of the business civilization of the Netherlands, Switzerland, France, Great Britain and the United States.

Hence as a part of the price of freedom, businessmen must faithfully recognize their historic mission as preservers of the precious values of human liberty. To that end they should be shining examples of civic virtue, using that word virtue in the exact sense in which it is employed in my text. They must eliminate unethical practices in their own enterprises so that business can always come into the court of public opinion with clean hands; they must be keenly conscious of the social significance of their day-by-day decisions; they must be good stewards of the responsibilities with which individual freedom has entrusted them; they must constantly endeavor to create better conditions of employment; they must steadily seek ways and means of regularizing employment and cushioning the effect of advancing technology on the lives and fortunes of their workers; they must raise the standards of living by passing along the benefits of improved technique and quantity production through lower prices and higher wages. . . .

The unparalleled productivity of the American free competitive business system is the envy of the civilized world. Now this system and all the institutions of freedom that go with it are being challenged by the alien theories of collectivism. Certainly one sure way we can repulse this threat is to continue to demonstrate to the world that the American system can and does yield material benefits to the average man on a scale never known in the world's history. Productivity and freedom in America have gone hand in hand. They will continue to do so if the men of management will constantly do their duty as real industrial statesmen.

FOR many years those who would bring about state socialism by peaceful means have advocated this formula: Select a time of great political and social unrest; then discredit in every possible way those in power during the preceding era of prosperity; blame the ensuing depression on those leaders; then under guise of emergency, enact legislation that prevents confidence from returning. Finally, having destroyed the only basis on which private competitive business can flourish, say to the unthinking public: "We are extremely sorry to do it, but inasmuch as private individuals will not create prosperity, the State, greatly to its regret, must step in and do so through outright control of agriculture, industry, banking and commerce."

Now just go over the history of events of the past sixteen years and see how closely that pattern has

been followed. I am not for one minute asserting that those in charge of the public administration of affairs in this country are socialists or communists or fascists or anything of the sort. But I do believe very firmly that the pattern of events that has been followed, if continued much longer and further, will lead inexorably to state socialism.

We must not delude ourselves by what happened on November 5, 1946. The majority vote on that day was largely a vote of protest against labor strife and bureaucratic rules and regulations. Certainly the American people have not suddenly seen a great light and turned back with new conviction to the basic principles on which the Republic was founded and on which its perpetuation depends. All that has been won is a temporary rear-guard action in the long-range fight against the rising tide of collectivism.

NOW the question arises, what are we, as patriotic American citizens, going to do about this whole problem? Do we still believe in representative democracy? Do we want to preserve it? Are we willing to trade our liberty for security, our spiritual freedom for bread?

"What can I do?" you ask. Here is my answer:

1. *Study and understand the political philosophy underlying the American system of representative democracy, private competitive business and civil and religious liberty. Discuss this philosophy with your fellow citizens.*
2. *Test every proposed governmental policy against this political philosophy—thinking independently and not blindly following herd opinion.*
3. *Take an active part in politics by helping to form policies and assisting to select and elect the right men to office.*
4. *Vote yourself and see that others do so.*
5. *Seek ways of rendering public service yourself by serving on committees, governmental commissions and, if possible, by holding public office.*
6. *Advise and counsel regarding pending public questions with your elected representatives in city, county, state and nation.*
7. *Support actively those civic and industrial organizations that are fighting for the American system.*
8. *Interest yourself in education, public and private, in three ways:*
 - (a) *Insist that the curriculum stress mental discipline.*
 - (b) *Insist on the study of classical history where one sees time after time the recurrence of mass movements similar to those which we are now witnessing in this country.*
 - (c) *Insist on the study of political philosophy so that the rising generation may understand what the*

roots of liberty in America are and thereby acquire a sense of pride in our institutions.

9. *Interest yourself in the church, since our Anglo-Saxon political philosophy is founded on the religious concept of the sacredness of the individual in the eyes of a Sovereign God—a principle which is common to all three of our great religious faiths—Protestantism, Catholicism and Judaism.*
10. *Practice what you preach by demonstrating, through ethical conduct of your personal affairs, your own faith in constitutional representative democracy, private competitive business and civil and religious liberty.*

Those who doubt their capacity to do such things may find rare encouragement in a passage from "The History of the American Revolution," written by Dr. David Ramsay, a South Carolina physician and revolutionary patriot, in 1789:

"Men whose minds were warmed with the love of liberty, and whose abilities were improved by daily exercise and sharpened with a laudable ambition to serve their distressed country, spoke, wrote, and acted with an energy far surpassing all expectations which would be reasonably founded on their previous acquirements."

Pericles observed 2,400 years ago that "the secret of liberty is courage"; not food, not comfort, not money, but just plain old-fashioned fortitude of body, mind and soul. In thinking about the Four Freedoms that we hear so much of these days, I have often wondered what the reaction of the Pilgrim Fathers would have been the day they landed on the rocky, barren coast at Plymouth if Governor Carver had said: Those of you who seek primarily freedom from want, come ashore. Not a man would have stirred. Again suppose he had said: Those of you who seek primarily freedom from fear in this wilderness full of savages, come ashore. Not a man would have left the ship. But, thank God, impending privation and fear did not daunt those sturdy pioneers. They had known at firsthand what political, intellectual and spiritual tyranny meant and they were willing to pay the price for the blessings of such liberty in the new world, no matter what physical suffering was involved. They landed in midwinter. Before many months had passed, half of their number had died. Yet when the Mayflower sailed home in April, as an old historian says: "Not one of the colonists went in her. So sweet was the taste of freedom even under the shadow of death." May it not be written of us in the fateful years ahead, that we lacked that courage of body, mind and soul which, when all is said, is the real price of freedom.



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