

American Affairs

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Principal Contents

Comment.....	Editor	65
Uncle Sam in the Wheat Pit.....	Editorial Correspondence	68
Winds of Opinion.....		70
A Federal Plan for Education.....	Washington Correspondence	72
The Great Educational Hoax....	The Very Rev. Robert I. Gannon, S.J.	77
The Rule of Planned Money.....	Garet Garrett	79
A Dollar Is a Dollar Is a Dollar.....	Letters	88
Why We Can't Afford Deflation.....	Allan Sproul	89
Comes Next the Capital Levy.....		91
The International Bill of Rights.....	Digest and Review	93
The Virginia Idea.....	Governor William M. Tuck	96
England's Thought of Bankruptcy.....	London Correspondence	98
Mr. Churchill's Footprints.....	Noted by Himself	101
Review.....	G. G.	103
<i>Private Enterprise in the Official Dog House</i>		
<i>They Neglected Their Tools</i>		
<i>How To Foment Minority Passions</i>		
What To Do With Communists.....	Donald R. Richberg	109
What of a Stalin Plan?.....	Freda Utley	111
Thirty Years of Frustration.....	Senator Homer E. Capehart	115
A Germany To Live With.....	Walter Lichtenstein	116
Money Takes Its Revenge.....	Joseph M. Dodge	123

SUPPLEMENT

Federal Thought Control

A Study in Government by Propaganda

BY FOREST A. HARNESS

An American Affairs Pamphlet

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Notes on the Contents

A Federal Plan for Education. This is a critical analysis of the Report of the President's Commission on Higher Education. The meaning of it, which is strange to the American tradition, was not to be found in the newspaper reports.

Money. In the field of monetary phenomena there now is a world-wide sense of foreboding, and that is why there is so much about money in this number of *American Affairs*. There is first an article entitled "The Rule of Planned Money." It is followed by a statement of the fundamental argument for the return to a free gold standard, by Professor Walter E. Spahr, who is the most brilliant writer on that side. "Why We Can't Afford Deflation" is from a speech on what moves the United States Treasury to support the price of government bonds, by Allan Sproul, president of the Federal Reserve Bank of New York. "A Dollar Is a Dollar Is a Dollar" is an amusing exchange of letters between the Treasury and a Cleveland citizen who only wanted to know what lawful money means. "Money Takes Its Revenge" is a series of excerpts from the speeches of Joseph M. Dodge, president of the American Bankers Association, who has been going about the country with an evangel of sound banking, telling bankers what they may expect if they don't step on the brakes.

What of a Stalin Plan? Freda Utley is a world person, widely known for her lectures and writing on current history. Her journalistic experience began in Japan in 1928 as correspondent of the *Manchester Guardian Commercial*. Then she did research work at the Institute of World Economy and Politics, Academy of Sciences, Moscow; that is where she learned about Russia. After that she spent several years in China as correspondent of the *London News Chronicle* and representative of the *Reader's Digest*. She is a member of the Advisory Council of the Department of Politics, Princeton.

A Germany To Live With. Walter Lichtenstein, formerly vice president of the First National Bank of Chicago, spent a miserable time in Germany trying to put the wheels back into the ruined financial mechanism. He returned only a few weeks ago.

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

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American Affairs

GARET GARRETT, *Editor*

APRIL, 1948

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Comment

By the Editor

THE terrible dragon had made all consumables scarce and was beginning to eat up the durables. To slay him was imperative public business. The name of the dragon was inflation. He heard what everybody was saying about him and he was not in the least scared. In fact, he was amused, because the only thing that could kill him was a word that nobody could utter. The word was *deflation*. One day the dragon was seized with a violent fit from gorging himself on cereal dessert and lay on his back with all his feet sticking up in the air. Then did the people attack him? No. And a strange thing happened. The Washington seers, bankers, merchants, industrialists, editors and farmers all joined hands in a ring and went around and around the dragon intoning the formula: "He is sick but he will not die." Then the economists, official and private, held an inquest on the wreck of three-dollar wheat, and solemnly announced: "This is not it." By *it* they meant the beginning of deflation. Nobody wanted deflation. That was what the dragon knew. Least of all did the government want deflation. In Chicago the Secretary of the Treasury said:

"We estimate that peak production and employment, together with substantial price inflation, will combine to keep the government's receipts at these high levels. The cold facts are that present economic conditions, budgetary considerations, inflationary pressures and debt management problems are such that we cannot deliberately allow revenues to drop below present levels at this time."

So the government was actually counting on inflation. That leaves only the housewife. The government had been exhorting her to fight the dragon with the rolling pin. But the housewife, even as the dragon said, did not want deflation either, because it might put the old man on the porch with no job at all, and in that case how would she be any better off with butter at fifty cents than with butter at a dollar? What she wanted was cheaper groceries—that is to say, a decline in the cost of living, with the old man at work at high wages. Moreover, with

her mind on the grocery bill and knowing the cost of a sack of potatoes, she was cynical. She got that way from reading on the front page of the newspaper that the President said it was her job to kill the dragon and she could do it if she really tried, and then obscurely, in another column of the same paper, that the government had spent \$45 million this year to keep the price of potatoes up. After all, this dragon devours only things, and so long as people can afford to feed him he will keep the ogre away. The ogre is deflation and is supposed to devour people. A rise of a dollar a bushel in the price of wheat added a penny to the cost of a loaf of bread, and everybody complained of that; but a fall of fifty cents in the price of wheat, which canceled only half the rise, was a premonition of economic disaster. Likewise, if one half of the rise that has taken place in prices generally in the last two years—one half of it only—were canceled, American industry would be in the red. Inflation transfers buying power from those who save to those who spend; deflation transfers it back again. The moral is anything you can make of it. The dragon, at any rate, has a sense of humor.



WE have now of our own a governmental device comparable to the British *White Paper* by which oncoming policies cast their shadows afar. It is the *Report of the President's Commission*. The Commission is summoned by presidential command, performs its task and dissolves. Its task is to cause a light to fall in a certain way on a subject as to which people have not yet made up their minds or one about which popular thinking needs to be conditioned. Generally the papers are very well written. The eminent persons who sign them do not always write them, in fact almost never. Experts are hired to do that. The finished work is presented to the distinguished members of the Commission, who read it with vicarious pride of authorship, take here and there a minor exception which may be recorded in a footnote, and then embellish it with their names. Thus it becomes standard propaganda for the duration of the campaign. The President sends it to Congress with a message asking that its prin-

ciples be embodied in legislation and the public printer produces a quantity of it as an official document for wide circulation. Anybody may print it. The one entitled "To Secure These Rights," by the President's Commission on Civil Rights, reviewed in the Winter number of *American Affairs*, was made into a dollar book by a private New York publisher and got a big display in the windows of the Communist Party bookshop; it was reproduced also by *PM* on newsprint at a price at which the public printer could not compete. Now there is another one entitled "Report of the President's Commission on Higher Education." A digest of it appears on another page. What it proposes is that American youth shall be indoctrinated in a system of planned education subsidized by the Federal Government to the end that "teaching and learning shall be invested with a public purpose." The movements of the symphony are separately beguiling. The overture was Recovery. That is where we came in. Remember? The first movement after that was All Human Welfare as a Responsibility of the Federal Government, then Security, Painless Money, Administered Purchasing Power, Full Employment, Public Housing, Social Medicine, Civil Rights, and now Education. But these are all parts of one form and if you listen you will hear a single theme. The theme is the majesty of omniscient government, saying to society, "Put your hand in mine." Having gone so far toward minding how you live and what you do in all the relations of life, now very naturally it feels itself obliged to mind also what you think. "Where there is found a paternal government," said Disraeli, "there is found state education."

IN the middle of the extra night of the year 1948 the world suddenly sat up in bed and began to think back over the dream that had broken its sleep. The dream was that the United States had vanished without trace. It was simply nonexistent any more, gone, Marshall Plan and all; and the Russians were screaming, "It's a capitalist trick!" The first feeling was one of panic. What would happen now to the liberty-loving nations, to the starving millions, to Great Britain's balance of payments, to the Greek patriots and to the wretched Chinese? But the queer thing about it was that the panic had quickly subsided and, moreover, the total effect of the dream was not at all depressing. The world, sitting there in bed, could be sure of that; its heart was not palpitating with dread of any kind, its skin was cool and quiet, and its mind was exhilarated. Knowing its Freud, it went to work on

the dream to unravel its latent content. The panic was not deeply enough felt, as it may be in dreams with emotions of grief, and this could mean only that there were concealed consolations. Evidently in this dream the loss of the United States was not an absolute calamity. Why not? What were the compensations? By asking itself that question over and over the world began to get answers. To begin with, if there were no United States there would be much less discontent in the world. People could no longer compare their standards of living with the American standard and perhaps they would stop blaming their governments for not providing them with it. The Canadians, for example, could stop asking: "Are we doomed to be second-class Americans always?" They would be now the first-class Americans. Secondly, the world would be relieved of the terrible pressure of the Americans' solitary passion for internationalism, and people would be free once more to settle their quarrels in their own way with no American interference. Many of the world's problems would be simplified, and one—the dollar problem—would be instantly solved. The British pound sterling would become at once the best piece of money in the world, not only because it would be no longer in competition with the dollar but for the much better reason that if American industry vanished British industry, for all its inefficiency, would represent the paramount machine power of the earth. "I won't eat any more of that tinned American meat," said the world, and went back to sleep.

HAVING strained its roaring pouches in a burst of rage at an increase in the price of certain steel products, the government found as follows: by the Department of Justice, that conspiracy or collusion in restraint of trade could not be proved; by the Department of Commerce, that during ten years steel prices have gone up less than industrial prices generally, much less than agricultural prices, less than the cost of materials and less than wages; and by the President's Council of Economic Advisers, that although the steel industry's price policy has been moderate, nevertheless it has large earnings and for that reason, instead of adding "to the inflationary pressures on the economy at this time," it should have charged a specific loss to its general profits as a social-minded contribution. But the most important contribution the steel industry can make to the good of the economy is to keep the American steel-making machine the fittest in the world; and for that purpose its earnings, large as they may seem, are inadequate. That is because the cost of maintaining capital assets has more than

doubled, so that the value of earnings plowed back into property is only half what it was. The cost of creating new steel capacity in 1938 was \$100 per ton of output. Today the cost of creating new steel capacity is \$230 per ton. If the steel industry had to rebuild itself at \$230 per ton of capacity there would be no profit at all, but actually a loss, with steel prices as they are. Therefore, either the cost of steel capacity will have to fall or the price of steel will have to rise, else the steel industry in a little while will be in trouble. That is why the profits now reported are delusory, as Wall Street has been thinking for some time, witness its valuation of the steel stocks. In the annual report of the Chrysler Corporation, President K. T. Keller says:

"The original cost of all building machinery and equipment now owned and used by the Corporation in its operations was \$210,384,362. It is estimated that their replacement at today's price level would cost \$352 million. Against this eventuality today there have been accumulated depreciation reserves (out of earnings) of \$130,513,952."

So that for all its apparent profit the Chrysler Corporation is running behind. The Westinghouse Electric Corporation says that in 1938 it could build a fine plant for \$4.00 a square foot; now it costs \$8.00. Suppose it had to rebuild itself entirely at \$8.00 a square foot. Certainly it could not afford to sell its products at current prices. Not all at once but year by year as tools wear out or become obsolete, industry does have to rebuild itself. And nobody now can see how it is going to be able to do this out of earnings, unless earnings rise or costs fall. Profits may be either real or unreal. The year 1947 was one of high profits for British industry; yet Great Britain is facing bankruptcy, partly because she has been devouring her tools, even as we may be doing without knowing it. The American Society of Tool Engineers says the tools and methods with which we won the last war are already obsolete.



Epitaph

IN a sentence of three words the Dutch queen draws a line across history. "Colonialism," she says, "is dead." In view of Holland's long and successful career overseas one must take this to be a very competent opinion. And if it is true, the terms that have hitherto governed the division of labor in the world—Europe's terms they were—are in a way to undergo great change. It is difficult to realize that the wonderful design for the international exchange of wealth that was developed in the nineteenth century is broken, and quite impossible to see clearly the shape of things that will take its

place. When ancient Greece sent forth her surplus people to found colonies in the Mediterranean world she carefully enjoined them to seek fertile land and good water and timber for ships, but, above all, tame natives willing to work for masters who would protect them from aggression. Roman colonization was next. It was founded more upon tribute as the price of good government than upon tame natives. After the fall of Rome, colonization was forgotten. Nobody remembered it again until the discovery of the New World. The struggle to possess the New World, which lasted for three hundred years, was led by Portugal and Spain, followed by England, Holland and France, and turned out to be almost a total failure from Europe's point of view. Although European colonization in the New World was largely a business of preemption, tame natives would have been very desirable. It happened, however, that the natives of North and South America were neither tame nor industrious, nor could they get the idea of working for masters who would protect them from aggression; and since, therefore, the colonists themselves had to do all the work they decided at last to take title. That is why Europe lost the New World. Europe then was still self-contained, even as to food. She could live without colonies, and she began to wonder if they were worth what they cost.

Then came the Industrial Revolution, led by England, and the rise of the nineteenth century colonialism. What it represented was a division of labor between, on one hand, Europe with its monopoly of machine craft, and, on the other hand, the primary producers in Asia, Africa, North and South America. These primary producers were the tame natives again. On a low standard of living for themselves they worked the fields and the mines to produce the food and raw materials demanded by Europe in exchange for manufactured goods. England was the first to sacrifice her agriculture to industry, finding that it was cheaper to buy food from overseas than to grow it for herself; and, moreover, the cheapness of food permitted the population of Europe to increase so fast that a time came when it could not by any means produce enough food to sustain itself. England was the extreme example. She was the first to find herself in this strange position—that in order to feed herself she had first to feed her machines with imported material. It was with the products of her machines that she bought her food. Her very life was at hazard upon the continuous and uninterrupted flow of first raw materials and then food from overseas.

Thus for Europe, nineteenth century colonialism came to be a system of umbilical cords extending to the ends of the earth. Fear of what might happen to the cords was represented by England's resolve to rule the waves. But the crisis came in another way. The primary producers rebelled against the

terms of exchange; more than that, they became aware of the disadvantage of exchanging forever the yield of their drudgery in the fields and mines for the products of Europe's skilled labor. One might have seen it coming. The signs appeared after World War I, when the machine got free and went migrating and was embraced by all the backward people of the world as a symbol of liberation. The dispersion of the machine and machine technics has continued ever since, progressively. Now there are no more tame natives. Everywhere the backward people want their own. They are hot with national and racial ego. Everywhere they have their five-year plans to create industry of their own as a means to a better living. This means firstly that modern industry, which began as a European monopoly, will become as common in the earth as agriculture; secondly, that Europe will have to give more hereafter for her food and raw materials, and thirdly, that the old pattern of international trade is bankrupt. In *Lloyds Bank Review* J. E. Mead writes,

"Anyone familiar with the present compelling desires of underdeveloped primary producing countries to industrialize and to turn to the domestic production of manufactures will realize the special dangers which now confront the balance of payments for a country in our position. . . . In underdeveloped countries there is a fashionable enthusiasm for industrial development schemes which in some cases perhaps somewhat impedes the nicely reasoned calculations of economy; and in other cases it is doubtful whether the pressure behind the drive for industrialization is purely economic."

The 1947 Economic Report of the United Nations refers to the rapid industrialization of underdeveloped countries in Latin America, the Middle East, Asia and Europe—countries which heretofore were chiefly producers of primary goods, and says:

"Their stepped-up production of coal, electricity, steel and cotton has tended to belie the formerly sharp distinction between industrialized and non-industrialized countries. Such trends, especially if supported by deliberate action to promote development schemes, could prove more significant than the present prominence of the United States in world production."

One sixth of Holland's wealth is invested in the colonialism that the queen now says is dead. To this, magnificently, she adds:

"We do not disown our past and the proud achievements of bygone days. But a nation must be strong enough to make a new beginning. What the peoples of the world need now is a new way of living together in close partnership, based upon equality and mutual trust."

Change is what goes on and on to ever new beginnings. Stability is an interlude and dies.

Uncle Sam in the Wheat Pit

EDITORIAL CORRESPONDENCE

Washington, D. C.

AS an operator in the wheat pit your Uncle Sam fools everybody because his mind is not on the money. If you think you saw him coming when he was going, or going when he was coming, that means that you have the suspicious nature of a speculator and imagine that he acts by stealth and subtlety. That is not the case. He does not have to be subtle. If he turns speculators upside down and shakes the grain out of their pockets that is because he wants the wheat. He does not even have to be right. If he is wrong he charges his losses to the United States Treasury. His agent is the Commodity Credit Corporation. This is a corporation totally owned by the United States government. It was organized purposely to operate in commodities. It has a capital of \$100 million and a borrowing power of \$4¾ billion at the Treasury.

Now the facts are these. In July, 1947, the Commodity Credit Corporation appeared in the wheat pit as an insatiable buyer and bought steadily for twenty-one weeks, higher and higher, as if necessity had suspended the meaning of price. Here is the way it bought the wheat:

Week Ending	Bushels Bought	Week's Closing Price
July 3	1,362,175	\$2.17¼
July 11	4,077,267	2.26¾
July 18	3,133,314	2.32¾
July 25	19,291,382	2.35¾
August 1	32,948,664	2.31¾
August 8	15,717,423	2.33
August 15	9,414,600	2.361/8
August 22	9,606,698	2.443/8
August 29	7,300,788	2.521/4
September 5	3,328,400	2.64
September 12	2,251,545	2.77
September 19	9,658,539	2.701/2
September 26	9,100,231	2.671/2
October 3	25,006,322	2.83¾
October 10	16,082,621	2.91¾
October 17	12,264,740	3.021/4
October 24	8,969,052	3.121/2
October 31	7,662,387	2.89¾
November 7	2,067,569	2.931/2
November 14	6,990,908	3.021/2
November 21	8,685,118	3.031/4

The rise of roughly a dollar a bushel in the price was not owing entirely to the urgency of this buying. Partly it was owing to a wheat famine propa-

ganda organized by the government *while its agent was buying the wheat*. That was the Luckman business. The propaganda was to tell people that there was not enough wheat to go around. In order to relieve hunger in Europe we should have to eat less wheat ourselves and feed less of it to our chickens and livestock. So meatless and chickenless days to save grain. Any private speculator, trader or merchant behaving in that manner—crying up the price of the commodity he was buying—would be gathered up by his friends and sent to an asylum for examination. And all of this buying was for a relief program that was as yet nonexistent, except in the mind of executive government. In November, the President called Congress in special session to enact the interim aid bill for Europe. Before the bill was passed, that is to say, before the money had been appropriated, the Commodity Credit Corporation already had the wheat for Europe and was ready to ship it. The price then was above \$3.00 a bushel. At that point the Commodity Credit Corporation suddenly disappeared from the wheat pit. The government stopped buying. Then the Secretary of Agriculture blandly announced in Detroit that there was plenty of wheat, in fact more than enough. When 450 million bushels had been sent to Europe, the remainder would be perhaps one hundred million bushels more than we ourselves could afford to eat or feed at \$3.00 a bushel, and “the stubborn fact of that hundred million bushels (ha! ha!) is going to catch up with the speculator some day.”

For several weeks after this, speculators went about testing their senses by touching familiar objects. Then one of them decided that what he saw was really there and sold a million bushels for a fall. The fall in a few days was 50 cents a bushel. On this decline the Commodity Credit Corporation could have bought more wheat to swell the European relief program. It had the power of discretion and the money, too. But it stood aloof and watched the fall. The Secretary of Agriculture said the price was too high; the government was going to wait until the price stabilized itself.

For the curtain on this act of a play that might be

called “The Wheat Famine That Got Lost” you may read the front page of any newspaper on the third day of the terrific slump on the grain markets. One wide headline was on the White House press conference. The President held up to the reporters on his chest a chart that showed the cost of living to be jumping off into space; and this was to point the moral that unless the Congress gave him the power to keep prices from going up there would be a crash. Under another wide headline was the news of the crash of commodity prices, and what was the government going to do to stop the liquidation?

On the same day, Senator O’Daniel of Texas, whose parliamentary existence is the Senate’s carbuncle, was saying he knew why the government had bought wheat as high as it could. The idea was to scare the country into rationing and price control. That seemed fantastic. The Senate was scandalized and turned upon him angrily for saying it. Some farm-bloc members of Congress, on the other hand, blamed the government less for causing the price of wheat to rise and then for letting it fall, and suspected a political motive.

Anybody might know that a rise of a dollar a bushel in the price of wheat during six months, followed by a fall of 50 cents in six days, would throw the economic body into a convulsion, involving dangerously every organ, function and faculty. If this had been the work of private speculators in the wheat pit, public indignation would have been extreme, unreasoning and morally justified. But the government did it; and you are left with a bitter question. Which would you prefer really—a government that possessed the intelligence to pursue a bad intention adroitly or one that could inflict a shock like that by sheer stupidity?

NEWS NOTE. From *The New York Times*:

“WASHINGTON, March 3—Secretary of Agriculture Clinton P. Anderson announced today both April grain export allocations and the manner in which the government, after being out of the grain market since wheat prices tumbled a month ago, will ‘feel its way’ back to buying.”

THERE is a sense in which it may be said that it is easy to provide a precept for the abolition of poverty. Let every man be sober, industrious, prudent, and wise, and bring up his children to be so likewise, and poverty will be abolished in a few generations. If it is answered that men, with the best intentions, cannot fulfil this precept, because they make innocent mistakes, and fall into errors in judgment, then the demand is changed, and we are not asked for a means of abolishing poverty, but for a means of abolishing human error. If it be objected, again, that sober, industrious, and prudent men meet with misfortune, then the demand is for a means of abolishing misfortune.—*William Graham Sumner*.

Winds of Opinion

If the middle class is, as used to be said, the backbone of the country, then Great Britain is rapidly becoming invertebrate.—*The Economist, London.*

The nearest approach to immortality on earth is a government bureau.—*James F. Byrnes.*

The Bureau of the Budget now operates as the greatest influence on the fate of legislation that carries an appropriation, or ultimately may lead to one (which covers nearly everything); as the proposer of text and details of important bills desired by the administration; and as fiscal master of the executive departments. This combination gives the bureau a drawstring around the public purse, which is the nominal property of Congress. And the President, to whom the bureau is directly responsible, can order the drawstring tightened or relaxed to his political advantage if he so desires.—*Arthur Krock.*

It is not uncommon nowadays to find open editorial reference to the State Department lobby, the Army and Navy lobbies, and so forth. All of these as well as other bureaucratic lobbies are powerful and dangerous, and often as selfish in their aims as any public utility, labor, or farm lobby.—*Louis Bromfield.*

The President's message on the "State of the Union" was proof—if proof were needed—that Mr. Truman, though he may lack Franklin Roosevelt's commanding personality, has not forgotten his policies or his stubborn determination to carry them through. Today's message would have been unthinkable before the New Deal.—*The Times, London.*

Socialism, that is, the substitution of state controls by officials instead of by private enterprise, will make it impossible for 48 million inhabitants to continue living in this island and at least a quarter of all who are alive today will have to disappear in one way or other, after enduring a lowering of standards of food and comfort inconceivable in the last fifty years.—*Winston Churchill.*

It is an illusion that scarcity and thus increasing inflation can be more than temporarily retarded by

compulsory fixing of wages, prices and rationing. Aside from the reduction of primary freedoms involved, history and our national experience prove that any such course sets up chain reactions which ultimately decrease production and defeat their very purpose. A part of western Europe's present difficulties is due to these practices.—*Herbert Hoover.*

Current propaganda of the Advertising Council uses the slogan: "Part of every dollar you get comes from foreign trade." The truth is that at present part of every dollar you get goes to pay for foreign trade.—*Senator Hawkes.*

A few months ago the President asked Congress for several million dollars with which to hire people to locate the Communists on the government pay roll, presumably because there was nobody on the pay roll who could tell the Communists from the New Dealers. But, as usual, the money appears to have been largely wasted. The last I heard, when in Washington in December, there were still "commies" roosting on the government pay roll, even in the State Department, which thinks up and administers the plans to save the world from Communism.—*Miss Jessie Sumner of Illinois, formerly a member of the House of Representatives.*

The Federal Government is still paying out on the average three and a third billion dollars a year in domestic subsidies and grants, all of which are accompanied by federal control over all who accept them, whether they are state and local governments, or individuals including businessmen, farmers, etc.—*Senator Byrd.*

We are all a little enchanted, of course, with the idea of a modest downturn which would relieve some existing pressures and forestall worse disturbance later. But no one has yet found a sure way of bringing about just a little depression.—*Allan Sproul, President of the New York Federal Reserve Bank.*

Merely to gain an emotional victory at the next election would be worse than useless. The Conservative task is completely to transform the thinking of the British public from the doctrine of the little man to that of the big, robust, adventurous, successful Elizabethan. It has to convince the nation that individual success is Christian, patriotic and possible. The right to personal success has been

called into question to such an extent that the best in the nation are halfhearted, and the less robust utterly defeatist.—*Private British comment.*

Fear rules our rulers—fear of trade unions, fear of increased wages, fear of stopping wage increases, fear of the electorate, fear to face any unpleasant situation.—*National Provincial Bank, Great Britain.*

I won't contradict the President. After all, he's a piano player, a potential member of the union.—*James C. Petrillo.*

It might be interesting if Senator Glen Taylor decided to run for the vice-presidency. The people have never had a chance so far to see what a whole horse could do for them in public office.—*H. I. Phillips in the Sun Dial.*

It is evident that the world is on the threshold of a currency devaluation phase such as that which followed the abandonment of the gold standard by the United Kingdom in 1931.—*The Statist, London.*

The problem remains: The miners believe that they should receive a scale of remuneration which takes into account the hardships of their work, and which would consequently be a scale far above that, say, of the agricultural worker. But on what principle is the difference to be settled? *It is not now a dispute between the worker and the employer,*

but between a group of workers and the community. The miners are in a position to enforce their views because, without coal, the country would face famine and collapse.—*From an article by Norman Angell, entitled "Britain's Two Year Trial of Democratic Socialism."*

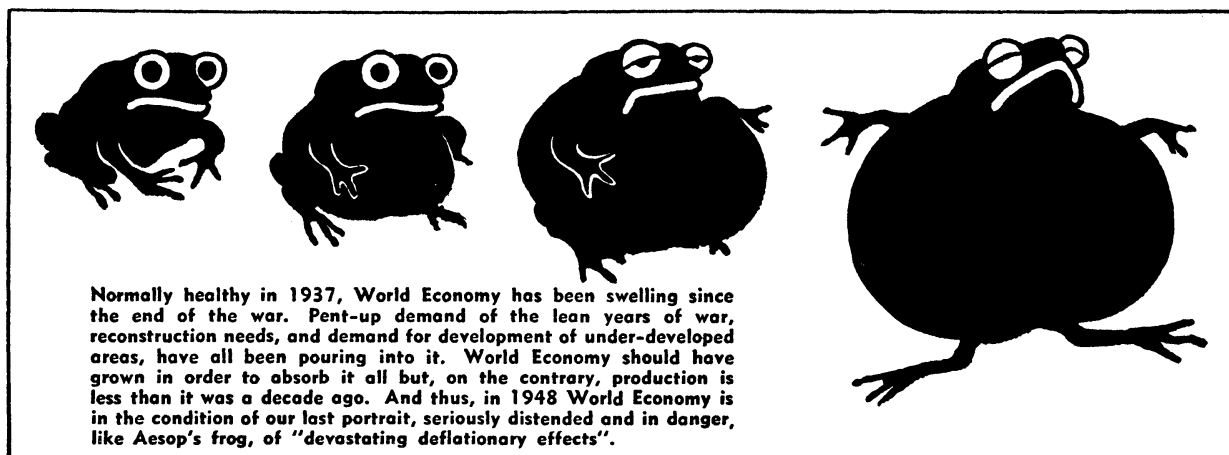
I think it is seriously open to question whether the American people realize today what it is to be a liberal. The self-styled liberals advocate measures seriously reducing the freedom of the people or freedom of thought. They present the process piecemeal and no one seems to notice the necessary final result or resent it, as it would have been deeply resented during the first 130 years of the republic.—*Senator Taft.*

When we go the next step to those corporations whose ownership is so diffused that management becomes in effect a self-perpetuating entity, we enter upon a new and profoundly significant condition. The task of management here becomes fiduciary in essence, closely akin to trusteeship, with obligations to four, not three, groups—government, employees, owners and the consuming public.—*Dr. Vannevar Bush, President of the Carnegie Institution.*

We have always said that if there was violence, it would not come from our party but would be in response to another party. If you make a change with a revolver and a bomb, you will find it difficult to get rid of the revolver and the bomb.—*Clement Attlee, British Prime Minister.*

A United Nations Cartoon

This inflated world is like Aesop's frog.



From the *United Nations Bulletin*.

A Federal Plan for Education

To the end that—

“Teaching and learning shall be invested with public purpose.”

And that—

“The official role of education shall be conditioned by policies established by the State Department.”

Digest of the Report of the President's Commission on Higher Education

WASHINGTON CORRESPONDENCE

THE Report of the President's Commission on Higher Education is and was intended to be the supreme word of propaganda for planned mass education, to be subsidized by the Federal Government and endowed with a public purpose. Among other proposals are such as these:

(1) That the country's educational enterprise shall be doubled, and that in so far as the states and communities are unable to double it out of their own resources, the Federal Government shall make good the deficit by grants in aid;

(2) That for this new mass education mill the raw material of school age population shall be sorted and graded according to basic federal regulations;

(3) That when all economic barriers to education have been removed by means of federal aid, then higher education shall be allotted to those whose mentality entitles them to receive it, and,

(4) That the official role of American education shall be conditioned by government policy.

The Report begins with the premise that the one great barrier to “equality of educational opportunity” is the inequality of family incomes. It says:

“It must always be remembered that at least as many young people who have the same or greater intellectual ability than those now in college do not enroll because of low family income.”

The quality of this sentence does seem to prove the need for higher education in grammar; nevertheless you know what it means, and it goes on:

“This is the single, most outstanding factor in the whole situation. It results primarily from the fact that the money incomes of more than one half of American families in 1946 were at or below \$2,600 a year. The index of the cost of living in December 1946 was more

than 50 percent higher than that of December 1940. Tuition costs have increased approximately 30 percent from the fall of 1938 to the fall of 1946 and are still increasing. Even without stressing other influences—such as discrimination in race, religion, sex, and national origin—the economic factors alone combine to make the problem of going to college progressively more difficult unless some new methods of defraying these costs are provided.”

Some may think that the simplest and perhaps the most democratic solution would be to equalize family incomes. Then if education were not equalized it would be the family's fault, all families being equally able to buy it. It takes but a moment's reflection, however, to show that such a solution would be very unscientific. Suppose every family should insist on sending its children to college. Certainly every family would have that right and if incomes were equal it would have also the means. But if what you are thinking of is education so designed as to make the most rational use of the country's mental resources, then you must face the fact that the inequalities are not all owing to the maldistribution of wealth in a free capitalist system. All children, as a biological fact, have not equal access to the gifts of Heaven. That is something government cannot help, at least not yet.

Looking at that fact and taking account of it, the Commission nevertheless gets itself involved in a contradiction with it. The Report says:

“The time has come to make education through the fourteenth grade available in the same way that high school education is now available. The time has come to provide financial assistance to competent students in the tenth through fourteenth grades who would not be able to continue their education without such assistance.”

This means that beyond high school, which is already free to all, everybody shall be entitled to

two years of junior college in free public institutions. Thus the ideal is generalized. But when the cruel analysts take up the subject, further along in the Report, they find that approximately only 49 per cent of our school-age population has the "mental ability" to complete two years of education beyond high school. What of the 51 per cent? The only way you could save the waste and cost of letting them start what they couldn't finish would be to say to the family: "This child of yours, having finished high school, is entitled to a two-year junior college course free, but only provided he is mentally equal to it. We have tried his intelligence and find he has not the mind for it; therefore we cannot let you clutter up our educational system by trying to educate him any further."

Formerly it was possible for a family to absorb the humiliation of this child by fictions, as to say, "He had to go to work" (a confession of poverty being easier to make than an admission of inferiority), or, "He just didn't like school." But now mental inferiority will be marked upon him officially. You must see, however, that if the Federal Government is going to subsidize mass education it must be realistic. The material that goes into that very expensive mill must be graded and when it is graded you find by scientific method what everybody already knew to be true, namely, that mental ability, or shall we say educability, tapers upward. For that reason something happens also to the 49 per cent who are equal to two years of junior college beyond high school. Of these only about three in five have the mental ability to go on.

Inventory of the Nation's Talent

Under the heading "Number Who Should Receive Higher Education," the Report sets up what it calls a National Inventory of Talent in the form of a table, thus:

	<i>Inventory of national talent</i>	<i>Goals for college enrollment</i>	
		1952	1960
13th and 14th grades	49 per cent of appropriate age group.	2,000,000	2,500,000
15th and 16th grades	32 per cent of appropriate age group.	1,385,000	1,500,000
Above 16th grade	Based on estimated national need.	500,000	600,000
TOTAL		3,885,000	4,600,000

There you see that the number who should go on to the very top, "based on estimated national need," will be 600,000 in 1960. That represents the content of really superior brain matter in the school-age population, never hitherto definitely and officially treated as a caste, and it is 13 per cent of the

total. A formula by which to estimate the "national need" will perhaps have to be invented.

So it becomes evident as a practical matter that if education is going to be subsidized it will have to be allotted, not because a great rich nation like this cannot afford enough education to go around, but because the mental material is so variable in quality and cannot be treated all alike. And who shall be responsible for allotting it? Who shall say, "This is 51 per cent stuff, no good beyond high school; this is the 49 per cent stuff, good for two years more of education; these grade up to the 32 per cent," and so on? The Federal Government will have to lay down the grading rules. The Report says:

"The broad basis for determining those applicants who would give definite promise of profiting from a college education should be set forth in regulations by the federal agency responsible for the administration of the total fund, which should be the one primarily concerned with higher education. The conduct of any examinations, interviews and the like would be left to suitable provision to be made by each state's scholarship commission in harmony with the basic federal regulations."

How To Equalize the Variables

Equality, simply defined as the state or condition of being equal, turns out to be a word that means only what you intend it to mean. For example, if you are going to create equality by a process of distribution, the distribution itself must be unequal. After the material has been graded, according to "basic federal regulations," then you have the problem of two boys mentally equal but one from a well-to-do family and one from a poor family. It is the boy from the poor family, of course, who gets the federal subsidy. The Report says:

"The primary basis for determining the award of scholarships should be financial need."

That may be all right, only now take two boys equally inferior, that is, both belonging to the 51 per cent who reach the limit of their mental capacity in high school. One of these is from a poor family and one from a rich family. According to the "basic federal regulations" somebody will have to say to the poor boy, "It will not be profitable to educate you any further." So he goes forth to become a plumber, whereas the rich boy's father sends him to college for the social prestige of it. How in that case shall equality be established? Should someone say to the rich father that whether he can afford it or not his boy is not entitled to go to college?

There is then an inequality between the rich community where schools are good and the poor

community where they are inferior. The Report says:

"From the Federal Government must come the funds needed to equalize opportunity between region and region, state and state, city and farm. This federal aid cannot, to serve its purpose, be distributed equally to all; it must be given in proportion to need. The most must go to those who can provide the least for themselves."

The Report finds that the expansion of the American educational enterprise "since the turn of the century has been phenomenal." In 1900 high school enrollment was 700,000, or only 11 per cent of the youth of high school age; in 1940 it was 7,000,000, and 73 per cent. And "almost as spectacular has been the increase in college attendance." In 1900 the number in college was only 250,000; by 1940 it had risen to 1,500,000 and in 1947 it was 2,354,000 of which 1,000,000 were student veterans. The Report says:

"This record of growth is encouraging, but we are forced to admit nonetheless that the educational attainments of the American people are still substantially below what is necessary either for effective individual living or for the welfare of our society."

In the Matter of Cost

The goal now in view, to be reached in 1960, calls for a doubling of the "student load" and at the same time, necessarily, for a doubling of "our educational plant, equipment and personnel." The estimated annual cost of the program will have reached \$2½ billion by 1960, the money to be provided as follows:

By the Federal Government	\$1,000,000,000
By the states	848,000,000
By local communities	24,200,000
By student fees	447,000,000
By private gifts	225,000,000
Miscellaneous	42,800,000
Total	\$2,587,000,000

This is the annual current budget as it would look in 1960. But before the goal year 1960 the Federal Government would have provided more than \$1 billion for capital expenditures—buildings and equipment—besides \$600 million for fellowships and scholarships during the first five years in the form of direct aid to students.

The federal money would be distributed as grants-in-aid to the states and communities, and as direct assistance to students through a national program of fellowships and scholarships. This magnificent program of subsidy, the Report says,

"... should emphasize the need for partnership between the Federal Government, the states and the

local communities in the support of an adequate program of higher education. The role of each partner should be established in terms of the social, economic and educational welfare of the nation. Objectives in fiscal policy should be correlated with objectives in social and educational policies."

It Is To Save Democracy

And what is it for—this doubling of the country's educational enterprise? The Report says it is for or toward "a fuller realization of democracy." In another place it speaks of a "rededication for democracy." But above all it is to save democracy, because "today we cannot be so sure that the future of the democratic way of life is secure. Within recent decades democratic principles have been dangerously challenged by authoritarianism," and:

"To preserve our democracy we must improve it. Surely this fact determines one of today's urgent objectives for higher education. In the past our colleges have perhaps taken it for granted that education for democratic living could be left to courses in history and political science. It should become instead a primary aim of all classroom teaching and, more important still, of every phase of campus life."

Although the word is never used, the great theme of the Report is indoctrination. American youth must be indoctrinated for democracy. It is very urgent and necessary, for otherwise we shall lose democracy.

The argument is persuasive. Who will deny that American youth should be taught to love and practice democracy. Nevertheless, it is permitted to ask certain questions. In view of the "phenomenal expansion of the American educational enterprise since 1900" how can the rise of this urgent necessity be explained? How came the American educational system to be infected with the ideologies of old-world Socialist and Communist regimes also calling themselves democracy? Who shall define the kind of democracy for which American youth will be indoctrinated by planned education? Can the organized indoctrination of youth by government be reconciled with the American tradition? By what principles may you distinguish between the organized indoctrination of youth by the Soviet Government and the indoctrination of it by the American Government?

One way to explore the last question is to read a book entitled "I Want To Be Like Stalin," by George S. Counts and Nucia P. Lodge.* The title is for the jacket. Beneath the title you will find a translation

* "I Want To Be Like Stalin," George S. Counts & Nucia P. Lodge. The John Day Company, New York.

of the Soviet Government's textbook for teacher training. It tells the teacher how to make good Communists.

In his introduction Professor Counts says the first feature of Soviet education is its public purpose—this from the teaching of Marx, that organized education has always been the servant of politics. The first sentence of the Soviet Government's textbook for teacher training reads:

"Education is for us a vital public concern and is directed toward the strengthening of the Socialist state."

Compare this statement from the Report of the President's Commission:

"Teaching and learning must be invested with public purpose."

Another notable feature of Soviet education, says Professor Counts, is its monolithic character, meaning that it is all of one piece.

Compare this from the Report of the President's Commission:

"The ends of democratic education in the United States will not be adequately served until we achieve a unification of our educational objectives and processes."

And:

"What America needs today, then, is 'a schooling better aware of its aims.' Our colleges need to see clearly what it is they are trying to accomplish. The efforts of individual institutions, local communities, the several states, the educational foundations and associations, and the Federal Government will all be more effective if they are directed toward the same general ends."

The Russian textbook lays strong accent upon moral education, above mere knowledge, and makes that a deep concern of the State, saying:

"The convictions which must determine the conduct of the individual in society and in his relation to nature are formulated for the most part in the process of instruction. Thus moral education is most intimately related to intellectual education."

The Report of the President's Commission says:

"Many colleges have tended in recent decades to concern themselves with the intellect alone. They have left to other agencies or to chance the student's spiritual and ethical development. But they obviously cannot leave the whole field of individual purpose, discipline, character, and values to the accidents of environment before and after college."

Also:

"Rededication to democracy will necessarily involve the emotions as well as the intellect."

The Russian textbook says:

"The cultivation of the spirit of Soviet patriotism in the younger generation is the most important task of moral education in our country."

For this there is no exact equivalent in the Report of the President's Commission. The nearest thing to it is:

"Only by seeing today's democracy in the light of our vision of democracy as it can be will we come to appreciate the size of the job that remains to be done."

If that sentence had been written, *only by seeing America in the light of our vision, etc.*, the President's Commission would have felt itself guilty of proposing to teach the kind of patriotism that breeds nationalism. This it makes clear when it adds:

"Admittedly there is danger in seeking to inculcate in youth a passionate loyalty to one way of life. . . . The allegiance we want dare not be unreasoning and intolerant, fanatic and self-righteous. If it is, it will only aggravate the excessive nationalism that is at the root of current failures in international cooperation."

The kind of democracy the Commission imagines would be, above all, world-minded:

"The task of the colleges here is to make the transition from a curriculum centered almost exclusively on the American-West European tradition to one that embodies the intellectual experience of the whole of mankind."

And again:

"There is urgent need for a program of education for world citizenship that can be made a part of every person's general education."

And to this end:

"Nothing less than a complete reorientation of our thinking will suffice."

This new education then is to condition the thinking of youth for internationalism; it is to create in the schools that world feeling without which the dream of international government cannot be realized.

Squeezing Out the Private School

The Commission makes a point of insisting that the federal subsidy shall be confined exclusively to publicly controlled schools, even though, as it says, this "will undoubtedly force many of the weaker private schools out of existence and profoundly affect the whole private institutional support." It

believes that most of the private colleges and universities will be able to survive the competition; but if they fail it will be their own fault. They ought to confine themselves to programs of a high quality and be more enterprising in their search for private funds.

This unsympathetic attitude toward private schools is perfectly consistent with the controlling idea that education shall be governed by a public purpose; and what the Commission means by public purpose is finally made very clear in Volume III, page 48.

"Unless education, as a whole, and higher education in particular, can play its important part in producing better understanding and good will among the peoples of the earth, what is done to improve education in any one country is not likely to have lasting significance. The role which education will play officially must be conditioned essentially by policies established by the State Department in this country and by ministries of foreign affairs in other countries.

"Higher education must play a very important part in carrying out in this country the program developed by UNESCO and in influencing that program by studies and reports bearing upon international relations. In conformity with the provisions of UNESCO's charter there has been set up in the United States a commission representing the various agencies most interested in its program. This commission is staffed largely by personnel provided by the State Department and plays an active part in making the program of UNESCO effective in the United States. The United States Office of Education must be prepared to work effectively with the State Department and with UNESCO."

From the beginning there has been an American truth. The State Department did not impart it, nor did we learn it from books. We were born with it, by reason of having inherited the right ancestors. We may betray it but we cannot change it, for if we change it we lose it. In that sense, whatever else you may think of it, internationalism is not truth. It belongs to the sphere of political idea and policy, and as the world goes it may turn out to be wrong. If it should turn out to be wrong, what would be the consequences of having indoctrinated the mind of the youth to accept it as truth? Would you say that the American power of accommodation to the political realities of the world had been thereby strengthened or weakened? The answer may be that in any case we should have learned the technique of changing the mind of youth by planned education—education governed by a public purpose.

The members of the President's Commission on Higher Education are the following: George F. Zook, chairman; Sarah G. Blanding, O. C. Carmichael, Arthur H. Compton, Henry A. Dixon,

Milton S. Eisenhower, John R. Emens, Alvin C. Eurich, Douglas S. Freeman, Algo D. Henderson, Msgr. Frederick G. Hochwalt, Lewis W. Jones, Horace M. Kallen, Fred J. Kelly, Murray D. Lincoln, T. R. McConnell, Earl J. McGrath, Martin R. P. McGuire, Agnes Meyer (Mrs. Eugene), Harry K. Newburn, Bishop G. Bromley Oxnam, F. D. Patterson, Mark Starr, George D. Stoddard, Harold H. Swift, Ordway Tead, Goodrich C. White, Rabbi Stephen S. Wise.

Of these, two, Msgr. Frederick G. Hochwalt and Martin R. P. McGuire, signed at the end a Statement of Dissent. They said:

"As members of the Commission we are convinced that it is our duty to state to the President of the United States and to the American public that this drastic recommendation to bar private colleges and universities from receiving federal funds does not reflect the thinking of the most representative cross section of American college and university leaders and will certainly have dangerous implications for the future welfare of both public and private higher education.

"This recommendation, as we understand it, is based on a theory of educational finance which asserts that 'public control' rather than 'service to the public' shall be the sole criterion of a school's eligibility to receive public funds. Underlying this theory is the assumption that American democracy will be best served by a mighty system of public higher education to be financed by local, state, and federal taxes, and to be controlled, managed, and supervised by governmental agencies. Accordingly, the Commission's report predicts—and without regrets—the gradual elimination of those private colleges and universities which are unable to keep pace with their publicly endowed competitors. The report also envisions the development of a nationwide system of higher education in which private colleges and universities will play an increasingly minor role.

"We believe it is timely in this connection to call attention to the dangers of a higher educational system largely or completely dominated by the State. Exclusive control of education, more than any other factor, made the dictatorships of Germany, Italy, and Japan acceptable to an ever-increasing number of their populations. The question immediately comes to mind whether American education can continue to withstand the modern social trend toward governmental domination of the educational process. We confess definite misgivings on this point, now that the Commission has so decisively recommended a monopoly of tax funds for publicly controlled colleges and universities. We fear that legislation implementing the Commission's recommendation would go a long way toward establishing an administrative structure for higher education whereby government in the United States might easily use the nation's public colleges and universities to promote its political purposes."

A minority of two against twenty-six.

The Great Educational Hoax

**By the Very Rev. Robert I. Gannon, S.J.*

President of Fordham University

IF we wish, for brevity's sake, to track down the chief educational fraud in a single document, we can find it embedded in the Report of the President's Committee on Higher Education as "the democratic spirit in education" or "equality of opportunity."

The fraud consists in using terms which, properly defined, everyone must support, and associating them with realities which everyone must condemn. The terms themselves are redolent of the eighteenth century. They would have aroused as much enthusiasm in Thomas Jefferson and Benjamin Franklin as life, liberty and the pursuit of happiness. But the Founding Fathers could not have grasped their implications in 1948. They could not understand the mass education of today any more than they could our mass production in Detroit. Still less could they have grasped the modern failure to distinguish between the process of making a machine and the process of making a man.

The fraud in the present campaign for educational inflation consists in spreading our national culture perilously thin and calling it "democracy of education." It consists in swelling the number of incompetents in American colleges and calling it "equality of opportunity."

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Graduates of Fordham Law School would, I am sure, find traces here of *suppressio veri* and *suggestio falsi*, both of them unintentional, of course. There has been *suppressio veri* in that small effort has been made to enumerate or analyze our present startling failures at the high school and college level, failures which would be multiplied and intensified if the recommendations of the Commission were carried out. *Suggestio falsi* must be charged in offering a panacea for the intellectual and moral crisis through which the country is passing by offering more and more schooling—even if it be, as it will be, inferior.

The report especially interests me as I have spent the last year covering pretty much the same ground as a member of the Governor's Temporary Commission on the Necessity of a State University. The President's Commission proposes the same general program as the Governor's, with emphasis on technical institutes and junior colleges. It points out

the need of certain types of research and teacher preparation and makes all the general observations that any professional staff will make in getting out an educational report.

An exception to the similarity was the section entitled "Religious Discrimination." This, I submit, is a regrettable performance which compares very unfavorably with the work of the Governor's Commission. It begins by calling anti-Semitism not racial or social, but religious discrimination, and goes on to describe as highly praiseworthy one of the most distressing incidents in the modern history of our city—the proceedings of the Hart Committee of the City Council.

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If you want your American blood to run cold, read the record and learn the methods and principles that were involved when a small but powerful political group had one of the world's greatest universities on the rack and was turning the screws. It is deplorable that the President's Commission should have mentioned it with full approval. But having done so, we are not surprised when the Report goes on to advise all the states to introduce legislation similar to the malodorous Austin-Mahoney Bill.

Here in New York we are sure to have an anti-discrimination bill of some kind. Most of us think it is unnecessary and unwise to legislate at all in the matter. Most of us are convinced that the small amount of discrimination unearthed by the Governor's Commission can be easily corrected by other means. But the political pressure is too great for either the Republicans or Democrats to resist.

It has been reported in the papers that I am sponsoring one of the bills. I am not doing anything of the kind. Mr. Austin and Mr. Mintzer both showed me early drafts of the measures they plan to propose and I pointed out various things that the colleges and universities of the state would have to resist in self defense. The later versions I have not even seen, but it is violating no secret to say that if they have gone beyond the recommendations of the Governor's Temporary Commission, if they have introduced a permanent commission whose function it will be to keep the private institutions in a constant state of panic, or if they would make it possible to prosecute a college through the insidious use of pattern evidence, every Protestant, Catholic

* From an address before the Fordham University Alumni Association.

or Jew in the state who values the American tradition of liberty will have to fight.

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Other sections of the Report to the President are admirable enough, though commonplace of today's academic discussions. They stress the importance of general education, moral training, the cultivation of a civic sense and an international outlook—but the over-all impression is that they are aiming at a dizzy expansion of facilities and a drastic concentration of control.

Briefly, they want by 1960, 4,600,000 students in higher education in place of the 1,500,000 that was normal before the war, and the 2,254,000 that we had last year with its peak load of one million veterans. They want a faculty of 350,000 persons, a physical plant of 713,000,000 square feet, and a budget of \$2,587,000,000. The Federal Government will toss in one billion the first year and call the plays, preferably through a new Secretary of Education in the Capitol.

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Life magazine for February 2 pointed out the difficulties of the program with amazing complacency: First, the high costs. That is the least important. Since 1932 many times two billion dollars have been spent on projects far less valuable than higher education. But here are the others:

1. Are so many really educable?
2. Will college standards be diluted if the masses pour in?
3. Will federal intrusion menace the independence of education?

Life answers the first by saying that, on the basis of the World War II Army General Classification Test, we shall have 4,600,000 ready for higher education in 1960. I answer the first by saying that on the basis of fifty years' experience with our American high school product, I know no educator with high ideals who would admit that we shall have half that number.

Life answers the second, "Will college standards be diluted if the masses pour in?" by an evasive "not necessarily." That is what they said about lend lease—it would not necessarily lead to war. About prohibition—it would not necessarily dull the conscience of the people. About unsecured currency—it would not necessarily lead to financial ruin.

But in all cases we were dealing with the loftiest probabilities. When the masses poured into the high schools thirty years ago, the old high schools did not bring the masses up to their level; the masses brought the high schools down to theirs.

This plan, in addition to two-year terminal schools, calls for doubling the population of the four-year colleges.

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It has been a normal condition of American colleges for years that one third of the so-called students were in the way, cluttering up the place and interfering with other people's intellectual progress. If we need more room to take care of the boom in 1960, let us create a good part of it by clearing out the useless lumber that we have already on our campuses. That will be like adding one new institution to every two in existence. Then, by making it more and more difficult to get into college, we can raise the whole tone of our higher education to the point where we can some day produce a few much-needed national leaders. How the Commission hopes to multiply the sheepskins and have fewer sheep I cannot imagine. The one blessing that came from overcrowding after the war was that it squeezed out a portion of the sheep. By multiplying college facilities until they can care for every high school graduate who does not want to go to work, the Commission is not doing the colleges or the country any favor.

To the fourth objection, *Life* magazine answered, "Federal aid need not turn into federal control." No, it *need* not. The mere fact that a cat is a cat does not mean that he likes cream. So why should we despair of finding a federal politician who is not interested in patronage or the control of public opinion?

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Taken all in all, the net result is bad news for the private colleges and universities of the country. This educational inflation will establish a standard of extravagant equipment in those institutions which can reach into government pockets that even Princeton and Yale could never hope to attain, and will wreck the faculties of the colleges with fixed incomes.

At present, all our private institutions in the United States are understaffed and overcrowded, conducting a program which has been sneeringly called "A silent conspiracy to defraud the public and the government." That, of course, is an unfair criticism, since the terrific pressure to take more students than we want has come from the government and the public. Moreover, we have regarded the situation as a temporary phase and have braced ourselves for a three-year pull. This program to promote 4,600,000 students into higher education threatens to make it permanent and suffocate us with tides of mediocrity.

The Rule of Planned Money

By *Garet Garrett*

Public money is like holy water. Every man helps himself—Italian proverb.

AS the hungry dollar devours its own purchasing power we may think we are going to find out what happened to the fabulous snake that swallowed itself. But we won't; and if we did, it would add perhaps nothing to the sum of human wisdom. There is a long history of monetary experience. It tells us that government is at heart a counterfeiter and therefore cannot be trusted to control money, and that this is true of both autocratic and popular government. The record has been cumulative since the invention of money. Nevertheless it is not believed. There is also a history of sound money, and if its lessons are likewise disregarded, what shall one conclude but that monetary delusions are, by some strange law of folly, recurring and incurable?

There was a century of sound money. During one hundred years preceding World War I, government touched money hardly more than to establish standards of weight and measure, to lay down the laws of liability and to license bankers.

In that century the wealth of the world increased more than in all preceding time of economic man.

In that century it was business that controlled money, banking and credit by laws of its own; and by that fact the scope of government was limited.

In that century government was confined and enterprise was released, with the result, beyond the prodigious increase of wealth, that never before had political man been so free.

In all that era of free exchange, free price and sound money there were two things responsible governments did not do.

The first thing was that they did not create money—or if they did, it was called *fiat* money and fiat money went bad so fast that no government having any regard for its credit could afford to do it again. It went bad because, in the first place, it represented nothing of value and because, in the second place, it had to circulate in competition with sound money. The result of that competition was that for everything there were two prices—a fiat money price and a sound money price—and the credit of the government was humiliated. By experience, therefore, in that century government learned the better way, which was when it needed money beyond its revenue to borrow it from the bank like

an individual, or to borrow it directly from the people at the prevailing rate of interest and afterward pay it back.

The second thing was that governments in that century did not manipulate money and credit. Such terms as *planned money* or *managed currency* were unknown. This needs to be somewhat explained.

Since the amount of money needful to be in circulation to effect the rhythmic exchange of goods is not a fixed quantity—and this for the reason that there are tides in the volume of business—it follows that the supply of money, even gold standard money, must be in some degree managed. Somebody must see to it that the quantity in circulation shall expand and contract as the need fluctuates. During that century of sound money it was the private banker who performed that office. You may think of him sitting with his fingers on the pulse of business, saying *no* to the borrower when the pulse was too high, thereby curtailing the supply of credit money, or, when the pulse was low, releasing credit freely, thereby increasing the supply of money as a stimulus to business. Such was the classic psychotherapy in a free economic system privately conducted.

BUT as people came more and more to do business with credit money, that is, checks drawn against credit at the bank, they were never pleased at the way bankers managed money.

They said, "Look what these bankers do. By a stroke of the pen on their books when it suits them to do so they create money. Again, when it suits them, by another stroke of the pen they write the money away. Thus at will they cause money to be either plentiful and cheap or to be scarce and dear, with alternating consequences that touch all economic affairs for both good and evil. That is more power than may be reasonably trusted to private persons. Control of money is properly a government function, to be exercised for the people's welfare. Moreover, these private bankers, as the record proves, do the thing badly. They lead us from boom to bust; and after all it is not their money to do with as they will."

In these sayings there was much seeming plausibility. It was true that the bankers often did it

badly. Boom and bust were alternating phenomena. But whereas bankers were seldom if ever blamed for the ecstasy of boom, they were bitterly denounced for the miseries of bust. What people complained of therefore was not what they exactly said. What they quarrelled with really was what may be called the pain function of money. If that function be suspended, or if there is nowhere an authority willing and able to exercise it, then a money economy is doomed to explode. Why? Because the imagination in pursuit of gain is boundless. Expectations are infinitely expansible. If then there are no limits to the supply of money, inflation will be uncontrollable to the point of disaster. Everyone knows this to be true; and yet never was there a borrower defending his own bubble who did not believe that if only he had been able to borrow more he could have saved it. That is why deflation is always painful. One of the uses of sound money is to produce that pain in the economic body; the ache tells it that by excess and wrong living it is doing its health a damage.

Now the first difference between the management of money by bankers and the management of it by government is that the banker is not as free as he seems. He is bound by the necessity to keep his bank solvent; he must stand always ready to meet the demands of his depositors, whose money he has accepted in trust with the understanding that while they are not using it he will lend it. It is true that by a stroke of the pen he can create credit money, but he cannot pay off his depositors with that.

He creates credit money by writing in his book a credit to your account; and when you draw upon that credit by writing checks to pay your bills the checks you sign serve the purpose of money. We say that what the banker does in this case is to *monetize credit*. The amount of credit money so created runs into billions, but against it at all times the banker must keep in his till a certain reserve of real money. If he carries the monetization of credit too far, a day comes when somebody appears at his window and wants a dollar of real money, and if he cannot pay it out on demand his bank will have to close. The amount of credit money the banker can create is therefore definitely limited by the amount of real money he has in reserve. As he finds himself passing that limit he must not only stop lending but must call upon borrowers at the same time to pay off their loans. This is deflation. The pain function of money is then acting.

But when the power to create money at will is in the hands of government the pain function will be suspended. The reasons are obvious. Firstly, it is not politically feasible for government to force deflation and so puncture the people's bubbles. After World War I the Federal Reserve System did it to reduce the cost of living, and the people whose bubbles were destroyed at that time have never

forgiven it. Secondly, why should the government force deflation? It has no solvency to keep. It is not in the case of the banker who must never forget that somebody may come to his window asking for a dollar of hard cash and that if he hasn't got it he is bankrupt. The government is never in that difficulty. If people come to its windows wanting dollars, it can print them. Whether it is real money or not the government can say it is legal tender, and people must take it as if it were real.

There is yet another difference and this is crucial in a political sense.

So long as government, like any other borrower, must go to the bank for funds, pay the ruling rate of interest and give sureties for the repayment of what it borrows, its projects are limited in both peace and war. But once it gets control of the monetary mechanism so that it can control the rate of interest and create money it is entirely free. Parliamentary control of government by control of the purse makes sense only so long as the quantity of money is limited; it ceases to have any meaning when the government itself controls the supply of money and may fill its own purse.

WHEN World War I started there were bankers who thought the duration of it might be counted in weeks because, as they could foresee, the cost of it was going to be frightful. They could not imagine how the money could be found to carry it on for long. This thinking belonged to the old days of war chests, when a government at war, needing more money than it had saved for that purpose, had to go to the private money market for funds, borrow there, give security and pay interest.

But it was not for want of money that World War I stopped. It was then that government, having overtaken the mysteries of credit banking, made a profound discovery. That was how to *monetize public debt*. That means simply to turn public debt into money. To understand what happens in that case it is not necessary to comprehend the techniques of banking procedure. Mark first that when a government sells bonds to the people it is, in a strict sense, a borrower; it borrows money from them on its promise to pay it back, and since it cannot borrow more than the people are able to lend, the amount it can borrow on its bonds is limited. But there is no limit to the amount of public debt that may be monetized. In that process the government does not sell its bonds to the people. Instead, with one hand it "sells" its bonds to the banks and then with the other hand it creates and provides the money the bonds call for.

The difference between this kind of money and pure *fiat* money is a matter of split perception.

There are two pieces of paper instead of one. In pure *fiat* money you have only one piece of paper engraved with the promise of the government to redeem it, and, since it represents nothing of value nor any increase of purchasable goods, the history of it will be that its value is destroyed by a rise of prices and that in the end it will be either partially or wholly repudiated. In the case of money created by *monetization of public debt* you have two pieces of paper. One is the bond engraved with the government's promise to pay and the second is the paper money that passes from hand to hand, secured by the bond.

In so far as this new currency represents nothing of value nor any increase in the supply of purchasable goods it produces the like effect as fiat money—that is, it will cause prices to rise and as prices rise its buying power falls. But now mark the difference that makes the monetization of public debt the wonderful device it turns out to be. The scandal of repudiation, which is the historic sequel of fiat money, is beautifully avoided. How? By this means: The government's promise to pay according to the engraving on the bond is a promise to pay in what? It is a promise to pay in nothing other than the money that is put forth on the security of the bond. Thus, one piece of paper is security for another. The bond secures the money and the money secures the bond. So you may secure a dog by tying him to his own tail. But so long as it works, no government any more needs to worry about money.

This is the discovery that made it so easy to finance World War I. However, the superstitions of solvency were too strong to be destroyed all at once.

AFTER World War I the old order, though somewhat damaged, was restored. England went back to the gold standard. In this country there was a purposeful deflation. Gold and paper money became freely interchangeable again and the public debt began to be paid off by taxation. Even Germany, after she had repudiated her paper money, was provided by her former enemies with gold on which to base a new gold standard money, and this was in order that other countries would be able to trade with her again.

It was certain, however, that government would never forget what it meant to be free from the frustrations of sound money. It was certain also that when the next occasion should appear the new economic intelligence of government would be ready with a complete and plausible doctrine of control derived from the experience of World War I.

First, however, it would be necessary to get rid of the gold standard. So long as money and credit were,

by law and custom, definitely related to a gold reserve a government could not manipulate the money supply with perfect freedom, nor infinitely increase it, and the great discovery of how to monetize public debt was of limited use. Every government, therefore, was an enemy to the gold standard. In the second year of the great depression England abandoned it on the ground that to support it had already cost her too much deflation. Shortly thereafter the American Government, under no necessity whatever, having in fact more gold than it needed, repudiated the gold obligations engraved upon its bonds and upon its money and at the same time seized control of money, credit and banking, which means that it seized definitely two powers, namely: (1) the power to manipulate money as an instrument of social policy, and (2) the power to create money by monetization of the public debt in peacetime as in war.

Merely to overthrow the gold standard was not enough. One thing more was necessary, and that was to make *sound money illegal*. The government's planned money had to be the *only* legal money, for if it were not it would find itself in competition with gold or gold standard money. And so private property in gold was destroyed. Private possession of gold was made a crime, and a law was passed saying that any contract stipulating payment in any kind of money other than the government's planned money was unlawful. This was the supreme monetary achievement of the New Deal—to make sound money illegal. Gresham's axiom was thereby cheated—the axiom that when two kinds of money, one better and one worse, are in circulation together the better money tends to disappear because people will hoard it. The New Deal made that kind of competition impossible. There was to be only one kind of money, and that was money as the government planned it. All that could happen after that was a black market in gold.

IT must be noted that what the New Deal did was popular. The government and the people struck hands. So it was also in Great Britain, when in a similar manner planned money was substituted for sound money. What government gained was a vast extension of power in the economic dimension, and what people gained, or thought they had gained, was immunity forever from the pain function of money. Never again should people suffer for want of money—that is to say, for want of purchasing power. The government could always provide enough of it. Never again would a banker be permitted to sacrifice social welfare on the altar of solvency. Never again would a banker be able to say: "Borrowers must pay off their loans and every-

body must sell more and buy less because we are running out of money."

For a while it works. Indeed for a while and for many it works so well that one may wonder whether there is not a kind of immediate logic in what we call monetary delusions. A never-failing abundance of cheap planned money offers immunity from liquidation. It holds forth also the delusory idea of stability. The alternation of boom and bust shall be abolished. For of course if nobody has ever again to suffer deflation for want of money there is no reason why there should ever be a bust at all.

What this turns out to be, however, is a fantasy of perpetual boom. The corrective principle of sound money, which we have called the pain principle, is to induce selling and liquidation under certain circumstances. When that function of money is suspended, the positive function, which is to induce buying, works alone, so that everybody would sooner buy than sell and the monetary mechanism acts as a clock without a pendulum, ticking up prices faster and faster. And this will go on until the spring is spent. What will happen then nobody knows. It is a calamity to be postponed as long as possible.

Meanwhile, the time comes when the government itself is helpless, even if it should want to stop inflation. The theory of planned money is that the pendulum can be put back when necessary. This is the doctrine of controlled inflation. But when the time comes to act the government faces not a theory but a political reality. It does not dare to deflate the economy by restoring the pain function of money. Was it not for that the banker was damned? Now shall the government do it in his stead? If so, what becomes of the delusion that once the government controls and plans the money people will be delivered forever from that experience?

One source of confusion is the idea that the frightful cost of war was the primary cause of this inflation. War provided the volcanic spectacle. But the fire was already burning. It began in the thirties when governments overthrew the gold standard on the pretext that it frustrated the social aspirations of people and took control of money. Long before the war, governments had freed themselves from the limitations of sound money. They had found a way to socialize money, and one consequence was that the cost of the war was enormously inflated.

SO now the incomparable delusion comes to a sequel. Planned money has run its course so well and true that there is today nowhere in the world an intelligible price for anything nor anywhere a piece of legal money for which people are willing, in the normal way, to exchange their goods; wherefore hoarding of things as a universal evil, black markets, a dishrhythm of exchange, a disorder

of production, and international trade more and more inclined to the principles of barter.

The evils of inflation assume now the proportions of a universal scourge. Yet in the mind of government the only thought is to deal with these evils as effects, by edicts forbidding them or by new mechanisms of control and capital levies, instead of acting upon the cause. How to act upon the cause, how to restore in the world the principle of solvency, how to get back to a kind of money that people will trust, that will stop hoarding, that will destroy black markets and release the forces of free enterprise—this is a problem for which there is no painless solution.

Since the rise of modern economy it has never happened before that money everywhere in the world was all at one time inflated. Never before was it impossible to test the value of inflated money by the simple method of pricing it in gold. Even in our own greenback days—that was in the Civil War period—*fiat* greenback currency could be valued in gold. The government's financial prestige suffered as the greenback dollar declined. At the lowest point it was worth 35 cents. Ultimately it was made redeemable in gold at full face value.

But now gold as money has been outlawed by government. The free market in gold has been suppressed. Where now will you test the value of the American dollar or the British pound by offering it in exchange for gold? The International Monetary Fund fixes the value of the dollar in terms of the pound sterling and the value of the pound sterling in terms of the dollar.

IF this were all, you would be dealing with a monetary problem. But there is much more. Deeply the problem is moral. Of all the principal monetary nations of the world there is not one that has not recently abased its money or repudiated the promises engraved upon its obligations. Distrust of money, therefore, is distrust of the word of government.

France now is struggling with that moral disability. She is the one country that ought to have known better. Her experience with inflation is historically classic. Nevertheless she carried the monetization of public debt to a point at which the franc was a demented currency, expressing values in a kind of gibberish. So at last she resolved to devalue it by edict and at the same time to permit what she would call a free market in gold and dollars. The International Monetary Fund pleaded with her not to do it. The fear was that she would wreck its cobweb of artificial parities and expose the true value of somebody's money, especially the British pound sterling, which was already selling in the black market at about one half what the Interna-

tional Monetary Fund said it was worth. Nevertheless, in selfish desperation, France did it, with the result that instead of solving any problem of her own she made the general confusion worse. The French people knew perfectly well that the new value of the franc was arbitrary and provisional; it could be changed again. Therefore they distrusted it still. Moreover, the new monetary law was properly read to mean that the French Government reserved the right to do anything it liked with money, even to confiscate it. As for the free market in dollars and gold, it was free not in its own right but by permission as an experiment, just to see what would happen. The French Government was so naive as to believe that if free trading in gold were permitted for a few hours each day the premium on it would tempt the French peasants to bring in their famous hoards; but the French peasants were not in the least persuaded to exchange their gold for any kind of paper money, not even paper dollars.

The moral debacle now is such that when and if governments do decide to deflate their currencies, confidence in money will not be reinstated. That is so for the reason that no government's word about money is good. Who can be sure that new promises are better than the ones that were broken? Only time can tell that. And there is no time. The necessity to restore the rhythm of exchange in the world is extremely urgent. It cannot be restored until people hear again the ring of sound money.

Gold would make that sound; but although there is more gold than ever before in the world the use of it as money is forbidden. It does pass between governments, mostly in the form of bullion, and all governments are jealous to possess it, since it is now the only measure of value that even governments can trust; but both gold coin and paper money convertible into gold on demand have disappeared from circulation in the whole world. An individual wanting gold to hoard must first find it in the black markets of Bombay, Cairo or China, and then smuggle it away, for it is subject to confiscation, and the individual found in possession of it is penalized.

The curious fact is that at the same time governments themselves are hoarding it, and they do this for the reason that they can no longer trust their own planned money.

UNDER the New Deal, the American Government passed a law making it a crime for an American citizen to possess gold. Then, having confiscated the people's gold, it buried it in the ground at Fort Knox. From time to time this hoard has been added to, until now it represents more than one half of all the monetary gold in the world. Yet the existence of this gold is not the true reason why

the American dollar is the least distrusted kind of planned money. It is the productive power of America that supports the dollar, not the gold hoard at Fort Knox.

It is said that this country has an "international gold bullion monetary standard," if you know what that means. It is said that the American dollar is "tied" to gold. It is said that against the planned paper money you have in your pocket there is a "gold reserve." These are monetary constructions only. What good does it do you to know that behind your paper money there is a gold reserve when it is illegal for you to touch gold, and when even the banker who keeps what is called a gold reserve has not got the gold? No bank has gold. No bank is permitted to own gold. What the bank has is a gold certificate issued by the government. This certificate cannot be converted into gold, except by the permission of the government, and then only provided the gold is wanted for the purpose of making an international payment. And this gold certificate, which constitutes what we call the gold reserve against our money, is neither legally nor morally any better than the beautiful yellow gold certificate you had in your pocket a few years ago engraved as follows:

"This is to certify that an equal amount of gold coin has been deposited in the United States Treasury and is payable to the bearer on demand."

That was the gold certificate the government obliged you to surrender on pain of fine or imprisonment. In doing this it not only disregarded the words engraved on the money; it repudiated a legal receipt for gold that had been deposited by individuals in the United States Treasury. That is simply to say, it confiscated the gold it held in trust for the people. So a gold certificate is not gold. If it was not gold in the hands of the individual neither can it be gold in the hands of a bank. No solemn word engraved on the paper by a government that has once broken its word can make it gold. Only gold is gold. It follows that against all the planned paper dollars now in circulation, the money in our pockets, there is actually in the whole banking system not one dollar of gold reserve.

IN all this confusion of fact and fiction the one thing that glitters is gold. To some its glitter is the evil eye of the basilisk, luring people back to nineteenth century capitalism; to others it is the wee light of day in the mouth of the cavern in which we are lost. Thus now the economists divide. And if you mark the line of their separation, which is like the line of a religious schism, with the modernists on one side and the fundamentalists on the other, you

will see that a point comes at which we cease to be talking about money. The argument turns not on monetary principles, which may be either proved or disproved, but upon political convictions, which are generally beyond argument.

Economists who believe in a planned economy believe also in planned money, and logically so, for when government undertakes to plan the economic life for social ends it must be able also to plan money. Otherwise its social intentions will be frustrated.

On the other hand, economists who believe in a free economy and limited government believe also in sound money, because sound money is, of all instruments, the one that has most successfully defeated the totalitarian instinct of government.

These are the fundamentalists. With a rising voice they now demand a return to the gold standard, and this not for monetary reasons alone but on the higher ground that there is no other way to save a free economy and a free society from total ingestion by government. Gold standard money is the one thing that government cannot swallow.

But the road back to sound money is hard. It was hard enough when there was but one natural obstacle, namely, the power of fallacy, which is always on the side of public money because there will be plenty of it and every man, according to the proverb, may help himself. But beyond this first obstacle are two more. The second is the resistance of government, with its intrenched control of the money supply. That is a power it will not give up without a struggle.

The third obstacle is the Keynesian Economist, who stands for the planned economy partly upon grounds of social conviction and partly, one may suspect, upon grounds of advantage, for in a planned economy he is raised to the honors of priestcraft. The influence of this Keynesian Economist is great, both upon government and upon economic thought, and in his field of vision there is scarce another image so hateful in every way as the gold standard.

IN Congress, the idea of returning to the gold standard is led by Howard Buffett of Nebraska, who has introduced a bill proposing—"To restore the right of American citizens to freely own gold and gold coins; to return control over the public purse to the people," and "to restrain further deterioration of our currency." The essential paragraphs are two, as follows:

The standard monetary unit of the United States of America shall be the gold dollar of fifteen and five twenty-one one-hundredths grains nine-tenths fine. Gold coins of not less than \$10 denomination and such larger denominations as the Secretary of the Treasury finds desirable shall be minted and issued upon demand.

All other money of the United States shall be main-

tained on a parity with the standard gold dollar by freedom of exchanges at par with standard gold.

Speaking of his bill, Mr. Buffett said:

"Somewhere along the line these thrifty and frugal people will decide that depriving themselves of immediate enjoyment by saving dollars is unwise. Then, like the populations of many European lands, these workers will no longer put their trust in an irredeemable paper currency.

"If Congress does not soon effectively deal with the problem, this peril may not be too far away. A mass abandonment of dollar-saving habits would be a major calamity, especially as a mass flight from the dollar would almost surely follow."

II.

THE best statement of the fundamentalist position that has been written is by Dr. Walter E. Spahr, Professor of Economics at New York University and Executive Vice President of the Economists' National Committee on Monetary Policy. It first appeared in the December, 1947, issue of *Monetary Notes*, which he edits, and is reproduced below.

By Walter E. Spahr

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A gold-coin standard provides the people with direct control over the government's use and abuse of the public purse.

When individuals can choose between gold, silver, and other coin and paper money, they will choose what they regard as the most valuable one when in doubt regarding the value of any of the other money. The factor of convenience in the use of paper money, for example, gives way to the desire for safety. When governments or banks issue money or other promises to pay in a manner that raises doubts as to their value as compared with gold, those people entertaining such doubts will demand gold in lieu of the silver, or paper money, or bank deposits, or government securities. These demands for gold become red flags of warning to the issuing authorities. They must fulfill their promises to pay or face trouble; they must put their financial affairs in order.

The gold-coin standard thus places in the hands of every individual who uses money some power to express his approval or disapproval of the government's management of the people's monetary and fiscal affairs. It gives the people of a nation direct control over the use or abuse of their public purse.

The basic question here is whether they should or should not have the right to exercise such power.

Under our international gold bullion standard of a highly restricted type, with all domestic currency irredeemable in so far as gold is concerned, and with only silver certificates and Sherman Notes of 1890 redeemable in silver, the people of the United States have lost the direct control over the public purse which a gold-coin standard provides. They cannot demand gold as against silver and subsidiary metal and paper money; they must take what the government provides in the form of money.

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A gold-coin standard is incompatible with a governmentally managed economy.

Apparently a gold-coin monetary standard and a highly developed system of a governmentally managed economy have never proved compatible for any important length of time. Conversely, where one finds a gold-coin monetary standard he is not likely to find a governmentally managed economy. The nature of such an economy requires that the people be deprived of their direct control over the government's management of the public purse.

The people of the United States were deprived of this direct control over their public purse when the gold-coin standard was withdrawn in 1933; and most adult persons should be able to see what the spending orgy and government abuse of the people's purse have been since that brake on public spending and the creation of currency was removed.

A "managed" irredeemable domestic paper and cheap metallic money is an integral part of a governmentally managed economy; they go hand in hand.

It seems reasonably clear, therefore, that those who oppose a return to a gold-coin standard in the United States are either wittingly or unwittingly taking the position that they desire a highly developed system of governmentally managed economy. Those who are insisting that our "managed" irredeemable paper currency system is good enough for the people of the United States, and even preferable to a gold-coin standard, are in effect also insisting that a governmentally managed economy is likewise good enough for us.

Scratch a defender of a "managed" irredeemable paper currency and the probability is that one will find beneath the surface an advocate of a governmentally managed economy.

It seems reasonably clear that the peaks of attainment of individual freedom, of the competitive-economy-private-enterprise system, and of the widest use of the gold-coin standard were all reached at about the same time—roughly during most of the nineteenth century and up to the disruptions caused by the first World War. Since then, governments have become increasingly dictatorial. Individual freedom has suffered a sharp setback throughout the world.

The gold-coin standard, like various other institutions associated with the movement toward an enlargement of individual freedom, has been subjected to an increasing amount of abuse by governments. In recent years, it has been denied practically all opportunities to perform its proper and beneficent functions as a standard of value, as a storehouse of value, as a clearing agent, as a reserve against promises to pay, and as a standard for deferred payments.

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To whom does, and should, the gold of this nation belong?

Does our gold stock belong, in the main, to the people of the United States or to their government? Under our present system it belongs to our government except in so far as foreign governments and banks can exercise claims against it.

Aside from the foreign claims against it, why should not the people of this country, rather than their government, be the owners of this gold?

The basic issue here is whether the government of a nation should have the power to deprive the people of the right to invest their savings and labor in any object of their choice. If people prefer to invest their efforts and savings in gold rather than in some other money or object considered by them less desirable, on what defensible grounds may a government deprive them of this opportunity?

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Why should people of other countries, but not those of the United States, have access to the gold which our government holds?

The reason that this arrangement exists under our international gold-bullion standard is that our government is in a position to tell our people what they must take as money whereas in respect to the governments and banks of other nations it cannot enforce such a dictatorial policy. It cannot say to them that they must take silver or paper in lieu of gold. Should it attempt this, the foreigners would say: "Either you pay us in gold or we will take your silver or paper money only at their market value." The foreigner can therefore choose as to what money of ours he will take; the people of this country must take what their government specifies—cheap silver and paper, but not gold.

Were the United States on a gold-coin standard, the people of this country could compete with foreigners for the gold now held by our Federal Government and thus determine who is to have it and why. As a consequence, one might reasonably assume that the amount of gold held by the United States Treasury and the amount of gold certificates held by the Federal Reserve banks would be less than would be the case under an international gold-

bullion standard since many people doubtless would wish to hold gold. Such withdrawal of gold would, of course, restrict the freedom of the Treasury and banks in the issuance of their promises to pay. If our government is really concerned about the great volume of money and deposits outstanding and wishes to see a contraction, then a return by this country to a gold-coin standard should provide an important answer to their concern and desires.

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The gold-coin standard and hoarding.

Perhaps one of the most commonly expressed objections to the gold-coin standard is that it makes gold hoarding possible and tends to invite it. These questions arise: Why should the people not hoard gold if they prefer it to other things? Is not such hoarding merely a symptom of people's lack of faith in the promises to pay issued by banks and the government? Is it not the device by which the people force banks and governments to refrain from the issuance of promises beyond their ability to redeem them? Should not the people have the right to show such distrust and to protect their savings as best they can? On what appropriate grounds can a government declare that the people must accept what may be highly unreliable promises in lieu of a form of wealth in which the people have greater confidence?

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The argument that there is not enough to go around.

This common contention involves a remarkable manifestation of thoughtlessness. There is not enough of anything to go around if it has value. A basic requisite of value is scarcity. There is enough of only those things that have no value.

Since those goods having value are scarce, we attempt by a variety of means to economize in their use. One of the notable ways in which we make them go farthest and perform the greatest service is by the employment of clearing devices of one sort or another. For example, gold can support a huge volume of credit if there is proper clearance of the credit transactions. To the extent that the clearing is defective and there are adverse balances to be paid, then the gold is demanded and used. The answer to the so-called scarcity argument regarding gold is to be found in the development of the proper clearing devices. Without these, the ratio of gold reserves to promises to pay in gold would always have to be 100 per cent if safety is to be assured.

Such a system would be extremely uneconomical; it would not permit the economies that are desirable and available in the use of valuable goods. We practice economies in the use of all other scarce goods, and we should do it with gold. We do not

have enough bridges to go around, if all who have the right to use them should suddenly decide to exercise their rights at once. We build bridges for an average group of users. The same is true regarding our trains, our ships, our airplanes, our automobiles, our hotels, our elevators, our roads, our hats, our shoes. Because abnormal loads can be thrown on any of our scarce economic goods, we try to devise fire escapes and emergency substitutes. So it is with a gold-coin monetary standard—we need to give attention to fire escapes and emergency devices. We also need to eliminate from our conversations this scarcity argument—unless we wish to reveal that we do not understand that scarcity is a requisite of value.

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Should our people have the best or an inferior monetary standard?

Paper and silver and other relatively cheap metallic moneys are inferior to gold in so far as the functions performed, the value of the material, and the people's faith in their values are concerned. How, then, can a people, who are free to choose, gain by taking the cheaper currency in preference to the more valuable one? Is economic well-being enhanced by choosing the cheaper thing when the more valuable thing may be had? If one is free to choose, does one take the cheaper house or automobile in lieu of the better?

Is there any reason why we in the United States cannot use gold along with paper or silver? Are we, like some poverty-stricken nations, not free to choose? The answer is that we are free to choose. The ratio of our gold to our non-gold money and bank deposits is almost at the highest level it has ever been since 1920, and it is practically twice as high as it was then. This ratio is, of course, another answer to the scarcity argument.

It seems reasonably clear that many people insist that they prefer "managed" irredeemable paper money to a gold-coin system because they fail to distinguish the convenience of paper money as a medium of exchange from the far-reaching and fundamental functions performed by gold: its services as a reserve against promises to pay, its clearing functions—domestic and foreign, its superior ability to store up values indefinitely.

Government officials interested in fostering a governmentally managed economy are likely to oppose a gold-coin standard because they wish to be free of the restraints which it imposes upon them. There are great limits to the abuse to which gold can be subjected by government officials; it resists manipulations. It escapes to places of safety and goes to those who most appreciate its value. It is honest; it pays in full. Paper money promises, on the other hand, are no better than the honor or ability of the promisor; and the record of human

beings in these respects has been a sorry one indeed. In contrast, the record of gold in payment has been without blemish for thousands of years—so far as history goes—except where man has interfered. One could today take ancient gold coins and travel around the world with them at their bullion value. This could not be done with the promises to pay of old nonexistent governments.

Gold has been, and is, blamed for man's mismanagement of it. Because he cannot do as he pleases with it, he condemns it. Because he cannot make things of less value, such as paper money, as valuable as gold without redeeming them in gold, he blames gold for his unhappy experiences and attempts to fix things so that he will not have to redeem his promises in gold. He even argues that since most nations, because of their abuse of gold and reckless issuances of promises to pay, have driven gold into hiding and have caused these nations to slip down to cheap paper currencies, the latter currencies are therefore to be preferred. The gold-coin standard, these "modernists" say, is out of date, old-fashioned, passé, a relic of barbarism. The cheaper money becomes "the best," and the more valuable "the worst." Such is modern man's intelligence, thinking, and argument today as to gold versus a governmentally managed irredeemable paper money.

Our international gold-bullion standard places some limits upon the volume of money and deposits that may be issued in this country, so long as reserve ratios are respected, but these limits are not as great as they would be under a gold-coin standard, under which system the people can draw down the gold reserves of the Treasury and banks. In addition, most of the other virtues of a gold-coin standard are missing; and these are of basic importance to the people of the United States.

*

Conclusion.

It seems reasonable to conclude that the attitude of the people of the United States toward a return to a gold-coin standard is and probably will be indicative, in high degree, of their attitude toward a governmentally managed economy. It appears doubtful whether many of them will think through clearly the relationship between the absence of a gold-coin standard and the existence of a highly developed governmentally managed economy. It seems, rather, that a resistance to a governmentally managed economy may carry people's thoughts to a serious consideration of their basic rights, such as their rights to property and their right to invest their savings in objects of their choice, and, finally, to a demand for gold. Or, unless guided by wise government officials, they may find their way back in more painful ways—as a consequence of a sharp depreciation in the value of man's promises to pay.

It is clear that people in general do not appreciate the lessons of history in respect to gold-coin versus paper money. There is endless hope, apparently, that man can find a way to make a cheap thing like paper as valuable as gold, without direct redemption into gold, and its functioning even superior to that of the gold-coin standard. History and science provide no support for such hope. For example, even after the French had suffered severely from the paper money schemes of John Law in the early part of the eighteenth century, they, like us today, would not profit from that and similar lessons, when they decided in 1790 to try again the issuance of paper money not redeemable in gold or silver. They, like us, insisted that they were more enlightened than were their grandfathers at the time of Law and that they could safely be trusted to manage such currency properly. They learned in the hard way that they were no smarter than their predecessors and that after all paper is paper and gold is gold.

We in this country would do well to respect both science and history in matters pertaining to money—as well as in other things. And we should recognize that if we wish to end our march toward a governmentally managed economy apparently one of the best ways to do this—at least a speedy way—is for the people of the United States to demand and to force a return to a gold-coin monetary standard.



"If you'll give me a nickel, I'll buy some lemonade and that will be good for your business."

A Dollar Is a Dollar Is a Dollar

The following beguiling exchange of letters took place between the United States Treasury and a curious citizen of Cleveland

December 9, 1947

Honorable John W. Snyder
Secretary of the Treasury
Washington, D. C.

Dear Sir:

I am sending you herewith via Registered Mail one ten-dollar Federal Reserve note. On this note is inscribed the following:

"This note is legal tender for all debts, public and private, and is redeemable in lawful money at the United States Treasury or at any Federal Reserve Bank."

In accordance with this statement, will you send to me \$10.00 in lawful money.

Very truly yours,
A. F. Davis

Encl.
Registered Mail
Return Receipt Requested

TREASURY DEPARTMENT
FISCAL SERVICE
WASHINGTON 25

Office of
Treasury of The United States
In replying please quote JLS:mw

December 11, 1947

Mr. A. F. Davis
12818 Colt Road
Cleveland 1, Ohio

Dear Mr. Davis:

Receipt is acknowledged of your letter of December 9th with enclosure of one ten dollar (\$10.) Federal Reserve Note.

In compliance with your request two five-dollar United States notes are transmitted herewith.

Very truly yours,
(a) M. E. Slindee
Acting Treasurer

Enclosures.

December 23, 1947

Mr. M. E. Slindee
Acting Treasurer
Treasury Department
Fiscal Service
Washington 25, D. C.

Dear Sir:

Receipt is hereby acknowledged of two \$5.00 United States notes, which we interpret from your letter are

to be considered as lawful money. Are we to infer from this that the Federal Reserve notes are not lawful money?

I am enclosing one of the \$5.00 notes which you sent to me. I note that it states on the face,

"The United States of America will pay to the bearer on demand five dollars."

I am hereby demanding five dollars.

Very truly yours,
A. F. Davis

AFDavis:NW
Enclosure
Registered Mail
Return Receipt Requested

TREASURY DEPARTMENT
FISCAL SERVICE
WASHINGTON 25

Office of Treasurer of
the United States

December 29, 1947

In Replying Please Quote JLS:mw
Mr. A. F. Davis
12818 Colt Road
Cleveland 1, Ohio

Dear Mr. Davis:

Receipt is acknowledged of your letter of December 23rd, transmitting one \$5. United States Note with a demand for payment of five dollars.

You are advised that the term "lawful money" has not been defined in federal legislation. It first came into use prior to 1933 when some United States currency was not legal tender but could be held by national banking associations as lawful money reserves. Since the act of May 12, 1933, as amended by the Joint Resolution of June 5, 1933, makes all coins and currency of the United States legal tender and the Joint Resolution of August 27, 1935, provides for the exchange of United States coin or currency for other types of such coin or currency, the term "lawful currency" no longer has such special significance.

The \$5. United States note received with your letter of December 23rd is returned herewith.

Very truly yours,
(s) M. E. Slindee
Acting Treasurer

Enclosure.

THE communities hitherto founded by socialists—the Jesuits, the Port-Royalists, the American communities at New Harmony, at Brook Farm, at Zoar, are only possible by installing Judas as steward.—*Ralph Waldo Emerson.*

Why We Cannot Afford Deflation

By Allan Sproul

President of the Federal Reserve Bank of New York

PLANNED money and a cheap money policy go always together. Now are signs that the government's cheap money policy is running into weather. Bond prices have been falling steadily for nearly a year, which means, to say it another way, that the rate of interest has been rising. Historically these are symptoms that give rise to anxiety. "The bond price drop has wiped out hundreds of millions of dollars of paper profits on the books of financial institutions," says the National City Bank. Capital expenditures have been rising steeply, owing to the high cost of creating capital assets, and at the same time the supply of capital is less and less plentiful. Mechanically, the controlling factor is the price of government bonds, and that is determined by Treasury policy. When weakness first appeared in government bonds early last autumn the government was complacent about it, thinking that a little rise in the interest rate was a good thing; but in November it had gone too far and the Treasury began to buy government bonds to support the price. The effect was not what was intended. The more it bought the more the selling increased. Then suddenly it lowered the level of support. A few weeks later Mr. Sproul made this exposition of the government's dilemma to the New York State Bankers Association—the dilemma, namely, that even while pursuing a mild anti-inflationary policy, which means a restriction of credit, the Treasury, for fear of what worse might happen, is obliged to go on buying government bonds to support the price, which is the reverse of an anti-inflationary policy. A deflationary policy, Mr. Sproul thinks, is something the country cannot afford. —Editor.

I WOULD agree that by exerting aggressive pressure on bank reserves we could set in motion forces which would reverse the trend of prices. Experience suggests that if we chop into this situation with a meat axe we could also start a depression, and this despite the existence of what appears to be an almost insatiable domestic and foreign demand for our products.

To use our existing powers, as some critics have implied we should use them, would mean that our action would have to be drastic enough to lower the money income of a large segment of the consuming public. To accomplish this by over-all monetary or credit action would mean a serious decline in production and employment. It seems to me, therefore, that our critics are chiding us for not having used

powers, which we would be foolish to use—which are not really available to us in the present state of domestic and international affairs, and in the face of a federal debt exceeding \$250 billion and interwoven into our whole economy.

This latter point suggests a question which I know is in the minds of some bankers. Why should we support the government security market, and to that extent circumscribe our powers and our actions to control the volume of credit?

To me it is not primarily a question of cheap money or low interest rates so far as the government debt is concerned, although it is sobering to calculate how big an increase in the cost of servicing the debt would be involved if short-term interest rates rose, say, to 2 or 3 per cent (a not impossible level if an aggressive credit contraction policy were pursued). It is primarily a question of what good can be accomplished in the present situation by a vigorous, aggressive policy of over-all credit contraction and what are the risks.

The Price of Deflation

Our critics say that if a drastic fall in market values of government securities is the price we must pay to bring about deflation now, and prevent a worse "bust" later, we should pay it. I say we can't bring about deflation by general credit action, in this situation, unless we bring about such an indiscriminate reduction in consumers' disposable income as to threaten the kind of disaster we are trying to avoid.

To illustrate, the food situation is near the root of much of our present troubles and continued high or rising prices for food makes much more likely another round of wage increases and so on. But how can we expect a reduction in the aggregate demand for food (or other scarce materials) to follow a policy of allowing government security prices to seek their own level—or forcing them down by System sales to contract credit—unless the policy were so vigorous as to reduce substantially production and employment and, therefore, consumers' disposable income?

We are all a little enchanted, of course, with the idea of a modest downturn which would relieve some existing pressures and forestall worse disturbance later. But no one has yet found a sure way of bringing about just a little depression. I think our present program of modest restraints involving a combination of debt management and credit policy

is the best course to follow in trying to achieve our objective, which is to prevent bank credit from adding further to inflationary pressures and, if possible, to reduce somewhat the supply of money.

It might still be argued, I suppose, that abandoning our support of the government security market could be encompassed within our modest program and that only moderate declines in security prices would occur, that government securities would reach a "natural" level, and that everything would then be much better. With markets as delicately balanced as our contacts and experience indicate the present markets to be, I cannot agree with this opinion or judgment.

Without our support, under present conditions, almost any sale of government bonds undertaken for whatever purpose (laudable or otherwise) would be likely to find an almost "bottomless market" on the first day support was withdrawn. A rapid descent in prices going far beyond any question of the government's credit (which is high) or relative interest rates would be most likely. Uncertainty would almost surely persist for a considerable time after such a development, the government's necessary refunding operations would be made very difficult, and private security markets would be seriously affected.

In such circumstances, there could easily be a flight of "cash" out of both markets, and price changes so erratic as to make new financing almost impossible for some time, with what ramifications I do not like to contemplate. In the face of a federal debt of over \$250 billion, in all sorts of forms held by all sorts of holders, and with a high-consumption, high-employment economy, in which there are already severe stresses and strains, we can't treat the government security market as we might a \$50 million issue of the XYZ corporation. I am not a believer in more and more government controls, certainly, but this is one control which I would not want to try to let go, voluntarily, under present circumstances.

The Spiral Squeeze

One possible further means of dealing with the situation by credit measures has been suggested by the Board of Governors of the Federal Reserve System—the so-called special reserve plan. . . . But as a method of meeting the present situation and getting us off the horns of the dilemma where we are now perched, not too comfortably, I doubt that further authority to increase reserve requirements of the banks of the country, either primary or special, is the answer. Any effective rise in primary reserve requirements would have to result in the sale of government securities by virtually all banks. Any effective imposition of the special reserve requirement would result in the sale of government

securities, presumably bonds, by a substantial number of banks. Other sales by frightened nonbank holders might be expected to follow, in addition to the sales by nonbank holders which are already in prospect. It should now be obvious that the market would not absorb such unloading and the Federal Reserve Bank would have to take even more vigorous support measures. It is quite possible, in these circumstances, that more credit would have to be put out than could be locked up by the new requirements. The result would be a further random distribution of Federal Reserve credit at a time when new measures were being taken to tighten reserves.

Voluntary Restraint

I should rather concentrate attention on doing a good job with our present powers, than on trying to get a ticket from Congress for a ride on what seems to me to be a merry-go-round. And I should hope that the campaign for sanity and soundness in lending which is being launched by the American Bankers Association would bring strongly to our support the whole banking community.

There I must introduce a slightly sour note, however, if I am to be wholly frank. That campaign will be no more successful than other similar campaigns for voluntary restraint, if the final determinant of a banker's policy is to be what the bank or the insurance company down the street will do. This is a time for some leadership in banking, not for following the practice of those of your competitors who are least conscious of their responsibility for the general credit structure and of the risks to their individual institutions which are inherent in the present inflationary situation. Yet many a good resolution has been broken when the alternative seemed to be the loss of a customer. . . .

If all of these remarks can be marshalled in support of one thesis, it is that general quantitative credit controls are not the whole nor even the main answer to the creeping, jumping price rise which has characterized the kind of inflation we are having. We cannot move forward, without serious interruption, toward our major objectives of increased production and continued high employment at home and without interference with our political and economic aims abroad, if we are going to induce a substantial decline in the purchasing power of a large section of the consuming public, by the drastic use of indiscriminate over-all credit controls. We can restrain or prevent further increases in the supply of credit if we have the cooperation of the commercial banks, and we may be able to reduce, somewhat, the amount now outstanding, by a wise combination of debt management and credit policy. This in turn, will depend upon a fiscal policy which assures a substantial surplus of Treasury cash revenues so long as present inflationary pressures persist.

Comes Next the Capital Levy

WITH socialized money there is a certain sequence of events. At first, because money is cheap and abundant everybody is happy. Then prices rise. The cost of living goes up. Inflation begins. Inflation, the government perceives, is caused by the fact that people spend the money. To restrain this spending it increases the income tax, which is to take back from the people with one hand what it gives them with the other. But no matter how high the income tax is raised, the spending goes on. This is accounted for partly by the fact that taxes, too, are paid with cheap money. But there is another reason. All capital values have been inflated and now people are spending their capital. This is the point at which the government begins to think of a capital levy or a forced loan.

Great Britain now is moving toward a capital levy. The Socialist government naturally is silent, because when the thing is done it must be done suddenly so that people will not have time to invent ways of escape; but everybody else has been discussing it so freely that the idea is quite familiar. Some of the reactions are unexpected. All Socialists, you might think, would be ardently for it. But George Bernard Shaw, the most famous Socialist of them all, Russophile, co-founder of the Fabians, the man who put the capital *L* in British Labor, is hurt where it hurts, and denounces it. On the other hand some bankers and conservative economists are for it, on the grounds that the alternative would be drastic deflation, which is too frightful to contemplate. Mr. Shaw writes a letter to *The Times*, London, saying:

"Sir,—May I remind the Labour Party leaders and the Left Wing in general that a Capital Levy, like the General Strike and some other Left superstitions, is doomed to fail for the quite simple reason that there is no such available fund as capital in the Stock Exchange use of the term? On the Stock Exchange, the sole function of which is to organize and regulate the exchange of incomes for ready money, it is normally possible to sell incomes of, say, £5 a year for perhaps £100 cash down on the nail according to the security. But this possibility is inexorably limited by the previous savings in the hands of those who have enough to spare, and wish to exchange it for a permanent income, face to face with others who, having a permanent income, wish to exchange it for a lump sum which may amount to 20 or 30 times the income. On the Stock Exchange consequently a person with a permanent income of £X is said to be 'worth' £X plus £X multiplied by 20 or 40. This fiction has to come out of the current agricultural

and industrial harvest or the harvests of previous years; for by no magic can the harvest of 1968 be reaped and consumed in 1948, though the right to it may be sold in 1948 to a consumer willing and able to postpone consumption so far.

"Such transactions are possible only in a market where there are buyers and sellers. Put an extinctive tax on savings, and the market becomes one in which there are all sellers and no buyers, bringing the price of future incomes to zero; for where there is nothing the King loses his rights. Lloyd-George found that out when he let the Left Wing persuade him to tax land values instead of rents. Rents are income; and only income can yield anything to the Exchequer.

"I once suggested that savings immediately invested in approved enterprises should be exempt from estate duties and capital taxation. No notice was taken; but already hard facts have obliged the Treasury to sell taxation reserve certificates free of tax on the interest, which comes to the same thing.

"I shall be reminded that estate duties ('death duties') are now levied on capital. They are highly objectionable and cruel; but they are not a case in point because, as we do not all die every year, the money market can be strained to that extent without national bankruptcy. A Socialist government cannot do everything. What it leaves to private enterprise should not be grudged and sabotaged, but encouraged and aided to reach the highest possible efficiency.

"Let me add that I am not a Right Winger. I am so far to the left of the Left (having some knowledge of fundamental political economy) that I am if possible less understood on the Left Wing than on the Right.

"G. BERNARD SHAW

"Ayot St. Lawrence, Welwyn, Herts, January 16."

The Lesser Evil

On the other side, Professor J. R. Hicks, writing in *Lloyds Bank Review*, thinks it may be, in the circumstances, the only sane thing to do, meaning by "circumstances" the fix in which the controlled economy now finds itself. He says:

"While we are at present using our taxation system to restrict spending out of income, we are leaving spending out of capital (both by persons and by businesses) unrestricted except by quantitative controls. What we need to need is a more effective way of controlling expenditure out of capital.

"Expenditure out of capital can only be brought under general control if there is control over the funds out of which such expenditure is made. The traditional method of control would have been credit restriction; but that, in its old form, seems nowadays to be ruled out. However justifiable it may be to argue that it is the practice of quite unrestricted credit (operating through the maintenance of the market for government securities) which has brought us to our present pass, a simple reversal of the engines in this direction cannot be looked for. With our present national debt,

the budgetary repercussions of a simple rise in interest rates would set the Chancellor too hard a problem for him to face it. And the association of the credit restrictions of the past with the slumps and the unemployment of the past has given the method too bad an odour.

"In view of the association between credit restriction and the reactionism of what the Chancellor calls 'financial Bourbons,' it is curious that the most obvious alternative to credit restriction is a measure which would be likely to find favour at the opposite political extreme. It is the capital levy. Some years ago (in 1940) I had occasion to examine the case for a capital levy as a means of dealing with war debt, and I concluded that the case for a levy would be less strong after this war than it was in 1920. On strictly fiscal grounds, I think this still holds. There would not be much in it from the point of view of the Exchequer, when all offsetting losses have been allowed for. But I granted then that conditions might come in which there would be a strong case for a levy as an anti-inflationary measure, and these conditions seem now to have arrived. There is a strong case for a capital levy, stronger perhaps than could have been foreseen seven years ago. For a capital levy would be a more useful measure against suppressed inflation, of the kind we are now experiencing, than it was against the overt inflation experienced by continental countries in the 1920's. The drawback to a capital levy, in the latter case, was the extreme difficulty of prompt collection. By deferring payment, the capitalist was able to avoid the greater part of his real burden. That difficulty would be greatly diminished in our present situation.

"Thus the case for a capital levy is stronger than is usually supposed nowadays."

The thought of a forced loan has been seeding itself here. It is the idea of an income tax credit certificate. You would go on paying your income tax to the government in cash, but for a certain part of it you would receive a piece of paper you couldn't spend, called a credit certificate, nonnegotiable and redeemable at some future time, in the discretion of the government. If and when the demand for goods began to fail, the government would say: "Now you can spend your credit certificates," and offer to redeem them in money. It is a scheme, therefore, to take purchasing power away from the people at one time and give it back to them at another time, when buying needs to be stimulated. If the government did actually impound the money by locking it up or hiding it under the rug, the effect might be somewhat as intended. But if the government spent the money, as almost certainly it would, then when the time came to redeem your credit certificates it would have either to borrow the money for that purpose or print it.

Canadian Revolt

From *The Financial Post*—Toronto

A CONTINUING policy of austerity and regimentation for Canada does not make sense. We are too close to the United States and it is too easy for young men and women to leave this country, cross the border and enjoy the American standard of living. If the current restrictions were continued more than briefly we would lose many additional thousands of our best citizens.

The unwelcome truth about us Canadians is that so far we have only been partial beneficiaries of the riches and opportunities which as members of North America we should enjoy. Economically, we are second-rate North Americans.

As citizens of North America we want to live and eat and dress and work and have fun like our fellow citizens south of the border. And no amount of economic punditry on the theory and mathematics of why we must be lesser Americans in our standard of living will stop our people seeking that goal.

Canada is now at a turning point in her national existence. We may fairly soon "bail ourselves out" of our immediate exchange crisis and then go coasting along in our role as "lesser Americans" until we get into another crisis.

Or we can say: "We've been second-class North Americans long enough. Let's see if we can't live as well as they do; let's make a still stronger Canada, with more opportunities, more attractions for our ambitious, energetic young; more 'dividends' of an improved standard of living, and security for all our citizens."

It is this second point in which most of us are interested.

Especially in the past half century our growth has been speeded much by the influx of American branch plants. Now a large and important segment of our industry gets its policy orders from abroad, sends much of its dividends there. Both branch plants and a good many Canadian plants which have "working agreements" with U. S. firms have their activities regulated by assorted agreements on marketing, exports, pricing, and so on.

On such mutually profitable collaboration with U. S. industry have our growth and strength to an important degree depended.

But if Canada is to go forward aggressively to full mature development, some way must be found of escaping our position of economic colonialism and of letting Canada have her full share of North American industry.



The International Bill of Rights

"It may become one of the most significant documents of history."—United Nations

THERE has been almost no critical discussion of the idea of an International Bill of Rights to be administered by the United Nations, which, in the character of a treaty, would supersede our own Bill of Rights and become the supreme law of the land. International forces nevertheless are moving powerfully to bring that end to pass.

The first difference between our own Bill of Rights and an International Bill of Rights is one of principle. Our own Bill of Rights is in the Constitution; it was put there by the will of a self-governing people. First it was written by a Congress elected and controlled by the people and then it was ratified by the several states.

This International Bill of Rights, by contrast, is the work of a body not elected by the people nor controlled by the people, namely the United Nations, and it represents not American thinking but the composite thought of many extremely diverse people, including some who have never understood freedom.

The second difference goes to the matter. The American Bill of Rights concerns itself with political rights. This International Bill of Rights proposes also to establish social rights, such as the *right* to work and the duty of government to provide work, the *right* to a high minimum standard of living—food, clothing and housing, the *right* to medical care provided by the government, the *right* to social security, the *right* of motherhood to special care and the *right* of everyone to public employment regardless of race, sex, national origin or political opinions.

Genesis

Of this International Bill of Rights, which will be presented to the General Assembly for final action next September, the United Nations says:

WORK to implement one of the basic purposes of the United Nations reached a definite stage with the publication on December 17 of the conclusions of the Commission on Human Rights.

"Meeting at Geneva for over two weeks, this eighteen-member body agreed on two drafts—a draft Declaration and a draft Covenant—either or both of which may become the basis of one of the most significant documents of history: a charter of the fundamental rights and freedoms of men and women the world over.

"What are the human rights and fundamental freedoms to which the Charter refers? What is meant by an 'International Bill of Rights'? Should the Bill be in the form of a convention or covenant, which on ratification would be binding on governments and possibly even a part of the basic law of nations? Or, should it be

simply a declaration which would go to the member countries as a recommendation by the General Assembly? These questions had all to be dealt with.

"The Commission expressed opinions on possible methods of implementation, but it decided to take no definite action on this aspect until member governments have expressed their views on the present drafts."

THE TEXT

The document entitled "Draft International Declaration on Human Rights," produced by the Commission on Human Rights of the United Nations (Mrs. Eleanor Roosevelt chairman) is in full as follows:

Article 1

All men are born free and equal in dignity and rights. They are endowed by nature with reason and conscience, and should act towards one another like brothers.

Article 2

In the exercise of his rights, everyone is limited by the rights of others and by the just requirements of the democratic state. The individual owes duties to society through which he is enabled to develop his spirit, mind, and body in wider freedom.

Article 3

1. Everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction of any kind, such as race (which includes color), sex, language, religion, political or other opinion, property status, or national or social origin.

2. All are equal before the law regardless of office or status and entitled to equal protection of the law against any arbitrary discrimination or against any incitement to such discrimination in violation of this Declaration.

Article 4

Everyone has the right to life, to liberty and security of person.

Article 5

No one shall be deprived of his personal liberty or kept in custody except in cases prescribed by law and after due process. Everyone placed under arrest or detention shall have the right to immediate judicial determination of the legality of any detention to which he may be subject and to trial within a reasonable time or to release.

Article 6

Everyone shall have access to independent and impartial tribunals in the determination of any criminal charge against him and of his rights and obligations. He shall be entitled to a fair hearing of his case and to have the aid of a qualified representative of his own choice, and if he appears in person to have the procedure explained to him in a manner in which he can understand it and to use a language which he can speak.

Article 7

1. Any person is presumed to be innocent until proved guilty. No one shall be convicted or punished for crime or other offence except after fair public trial at which he has been given all guarantees necessary for his defence. No person shall be held guilty of any offence on account of any act or omission which did not constitute such an offence when it was committed, nor shall he be liable to any greater punishment than that prescribed for such offence by the law in force at the time when the offence was committed.

2. Nothing in this article shall prejudice the trial and punishment of any person for the commission of any act which, at the time it was committed, was criminal according to the general principles of law recognized by civilized nations.

3. No one shall be subjected to torture, or to cruel or inhuman punishment or indignity.

Article 8

Slavery, in all its forms, being inconsistent with the dignity of man, shall be prohibited by law.

Article 9

Everyone shall be entitled to protection under law from unreasonable interference with his reputation, his privacy, and his family. His home and correspondence shall be inviolable.

Article 10

1. Subject to any general law not contrary to the purposes and principles of the United Nations Charter and adopted for specific reasons of security or in the general interest, there shall be liberty of movement and free choice of residence within the borders of each state.

2. Individuals shall have the right to leave their own country and, if they so desire, to acquire the nationality of any country willing to grant it.

Article 11

Everyone shall have the right to seek and be granted asylum from persecution. This right will not be accorded to criminals nor those whose acts are contrary to the principles and aims of the United Nations.

Article 12

Everyone has the right everywhere in the world to recognition as a person before the law and to the enjoyment of fundamental civil rights.

Article 13

1. The family deriving from marriage is the natural and fundamental unit of society. Men and women shall have the same freedom to contract marriage in accordance with the law.

2. Marriage and the family shall be protected by the state and society.

Article 14

1. Everyone has the right to own property in conformity with the laws of the state in which such property is located.

2. No one shall be arbitrarily deprived of his property.

Article 15

Everyone has the right to a nationality.

All persons who do not enjoy the protection of any government shall be placed under the protection of the United Nations. This protection shall not be accorded to criminals nor those whose acts are contrary to the principles and aims of the United Nations.

Article 16

1. Individual freedom of thought and conscience to hold and change beliefs is an absolute and sacred right.

2. Every person has the right, either alone or in community with other persons of like mind and in public or private, to manifest his beliefs in worship, observance, teaching, and practice.

[Concerning the following two articles 17 and 18, the Commission decided not to elaborate a final text until it had before it the views of the Sub-Commission on Freedom of Information and of the Press and of the International Conference on Freedom of Information.]

[Article 17]

[1. Everyone is free to express and impart opinions, or to receive and seek information and the opinion of others from sources wherever situated.]

[2. No person may be interfered with on account of his opinions.]

[Article 18]

[There shall be freedom of expression either by word, in writing, in the press, in books, or by visual, auditive, or other means. There shall be equal access to all channels of communication.]

Article 19

Everyone has the right to freedom of peaceful assembly and to participate in local, national, and international associations for purposes of a political, economic, religious, social, cultural, trade union, or any other character, not inconsistent with this Declaration.

Article 20

Everyone has the right, either individually, or in association with others, to petition or to communicate with the public authorities of the state of which he is a national or in which he resides or with the United Nations.

Article 21

Everyone, without discrimination, has the right to take an effective part in the government of his country. The State shall conform to the will of the people as manifested by elections which shall be periodic, free, fair, and by secret ballot.

Article 22

Everyone shall have equal opportunity to engage in public employment and to hold public office in the State of which he is a citizen or a national. Access to public employment shall not be a matter of privilege or favor.

Article 23

1. Everyone has the right to work.

2. The State has a duty to take such measures as may be within its powers to ensure that all persons ordinarily resident in its territory have an opportunity for useful work.

3. The State is bound to take all necessary steps to prevent unemployment.

Article 24

1. Everyone has the right to receive pay commensurate with his ability and skill, to work under just and favorable conditions, and to join trade unions for the protection of his interests in securing a decent standard of living for himself and his family.

2. Women shall work with the same advantages as men and receive equal pay for equal work.

Article 25

Everyone, without distinction as to economic and social conditions, has the right to the preservation of his health through the highest standards of food, clothing, housing, and medical care which the resources of the State and community can provide. The responsibility of the State and community for the health and safety of its people can be fulfilled only by provision of adequate health and social measures.

Article 26

1. Everyone has the right to social security. The State has a duty to maintain or ensure the maintenance of comprehensive measures for the security of the individual against the consequences of unemployment, disability, old age, and all other loss of livelihood for reasons beyond his control.

2. Motherhood shall be granted special care and assistance. Children are similarly entitled to special care and assistance.

Article 27

Everyone has the right to education. Fundamental education shall be free and compulsory. There shall be equal access for higher education as can be provided by the State or community on the basis of merit and without distinction as to race, sex, language, religion, social standing, financial means, or political affiliation.

Article 28

Education will be directed to the full intellectual, physical, moral, and spiritual development of the human personality, to the strengthening of respect for human rights and fundamental freedoms and to the combating of the spirit of intolerance and hatred against other nations or racial or religious groups everywhere.

Article 29

1. Everyone has the right to rest and leisure.

2. Rest and leisure should be ensured to everyone by laws or contracts providing in particular for reasonable limitations on working hours and for periodic vacations with pay.

Article 30

Everyone has the right to participate in the cultural life of the community, to enjoy the arts, and to share in the benefits that result from scientific discoveries.

[Article 31]

[The Commission did not take a decision on the two texts reproduced below, but submits both for consideration.]

[Text proposed by the Drafting Committee:]

[In States inhabited by a substantial number of persons of a race, language, or religion other than those of

the majority of the population, persons belonging to such ethnic, linguistic, or religious minorities shall have the right, as far as compatible with public order, to establish and maintain schools and cultural or religious institutions, and to use their own language in the press, in public assembly, and before the courts and other authorities of the State.]

[Text proposed by the Sub-Commission on the Prevention of Discrimination and the Protection of Minorities:]

[In States inhabited by well defined ethnic, linguistic, or religious groups which are clearly distinguished from the rest of the population, and which want to be accorded differential treatment, persons belonging to such groups shall have the right, as far as is compatible with public order and security, to establish and maintain their schools and cultural or religious institutions, and to use their own language and script in the press, in public assembly, and before the courts and other authorities of the State, if they so choose.]

Article 32

All laws in any State shall be in conformity with the purposes and principles of the United Nations as embodied in the Charter, insofar as they deal with human rights.

Article 33

Nothing in this Declaration shall be considered to recognize the right of any State or person to engage in any activity aimed at the destruction of any of the rights and freedoms prescribed herein.

Touching the Individual

Article 15, above, suggests the beginning of world citizenship. Everyone, it says, has a right to nationality; and persons who do not enjoy the protection of any government shall be placed under the protection of the United Nations.

The idea of permitting the United Nations to touch the individual in any way, as for example, through an international court of human rights to which minority groups and individuals may appeal, is beginning to excite anxiety. The American Bar Association has taken it up. At a recent meeting in Chicago, its House of Delegates adopted the following resolution:

"RESOLVED, That the American Bar Association especially opposes the establishment of procedures whereby individuals, associations or groups may bring complaints or charges of violations of a convention or covenant on human rights, before any council, commission or subordinate agency of the United Nations; and urges that the right to bring such a complaint or charge, against a state or otherwise, be possessed only by such other states as have themselves become bound by the covenant alleged to have been violated.

The Virginia Idea

Restore the Electoral College

By Governor William M. Tuck

The movement called the Revolt of the South assumed a special aspect in Virginia, where Governor Tuck put before the General Assembly a bill to restore the Constitutional intent of the Electoral College. Under the Constitution, neither the president nor the vice president is elected by direct vote of the people. The Constitution provides that the people shall elect electors and that the electors shall elect a president and a vice president; and these electors shall be free to elect whom they will. It was so in the beginning. Then came the institution of party conventions at which the candidates were named, and although people continued to vote for electors as before, this procedure came to be a mere formality because the electors were bound to vote for the party nominees. Later came the practice of printing on the ballot the names of the candidates, and after that people had the sense of electing the president and vice president by direct vote. The Electoral College continued to exist legally but all it did after an election was to perform a perfunctory task.

Governor Tuck proposes that the names of the candidates shall not appear on the ballot. The people of Virginia shall vote for electors only, as the Constitution intended; and the electors, instead of being bound beforehand to vote for a certain candidate, shall be electors really, subject only to instructions from their party in Virginia. In the Electoral College, therefore, the vote of Virginia would be free; and if in the same way several other states were to keep their electoral vote free, the Electoral College might be stymied. In that case the election of a president, according to the Constitution would be thrown into the House of Representatives, with each state having one vote.

The vehement parts of the speech with which Governor Tuck laid his proposals before the Virginia General Assembly are reproduced below.—Editor.

I AM sure all of the members of the General Assembly are cognizant of my reasons for proposing this legislation. They were forcibly impressed upon us in no uncertain terms in the recent masterful address of the distinguished senior Senator from Virginia, the Honorable Harry Flood Byrd. He vividly portrayed to us in that address the effect of President Truman's so-called ten-point civil rights program, which he has recommended to the Congress, upon Virginia and the other Southern states, as well as upon the country as a whole.

It would include, among other things, a permanent Federal Employment Practice Committee, usually known as the FEPC; the abolition of segregation among the races, a federal antilynch law, and federal regulation of suffrage in the states so as to abolish the poll-tax eligibility requirement.

These measures constitute not only an obvious invasion of the field of government clearly and explicitly reserved to the states by the Founding Fathers in the Federal Constitution, but an uncalled for and unwarranted assault upon the established customs and traditions of the entire Southland. If such legislation is enacted, it will constitute a precedent which will bring about the final and complete destruction of the autonomy of not only the Southern states, but of all the states. Precedents are dangerous.

These proposals, if adopted, will open wide the door for the establishment of a totalitarian form of government in this country. If the Federal Government is permitted to exercise jurisdiction in the field of general crime by the anti-lynch law, then, upon principle, there is nothing to prevent it from doing likewise with respect to all crimes. If it can lawfully regulate suffrage in the matter of the poll tax, it can also impose or dispense with all other suffrage requirements. If, at the expense of the taxpayers, it can set up a huge bureaucracy to conduct an inquisition into the conduct of a private business to determine whether the employees have a grievance against their employer because of so-called racial discrimination, it can do likewise to ascertain whether the conduct of the various churches of the land conforms to a federal pattern hereafter promulgated.

Suppose

This is sufficient power to create in America the counterpart of a Hitler or a Stalin. The hordes of police officers set up under the proposed FEPC could easily be converted into a huge gestapo by expanding the scope of their field.

Suppose that a few years hence, in the swing of the pendulum of public thought, Wallace, or a man of his type, should be elected President. He would find a ready-made gestapo for the harassment and the persecution of the successful businessmen whom Wallace now so bitterly abuses.

Though this legislation is aimed at the South, it is certain that its repercussions will not be confined to that region. There is nothing to prevent any dissatisfied employee in any state from invoking it against his employer. The last Congressional election was generally interpreted as an expression of the people that they were weary of bureaucracies. And yet this proposed FEPC is the worst of

them all. If it is established a howl of protest will arise in every state in the Union as soon as it is evident that personal liberties are being destroyed.

The cardinal purpose of the Constitution was to preserve the liberty and freedom of the people. Our forefathers had lived under a tyrannical government. They intended to insure that the government they established should be forever free of tyranny and usurpation of authority. The fundamental principle adopted to effectuate this purpose was to divide the powers of government. The powers assigned to the Federal Government were strictly limited and even these were diluted by separating them among the legislative, executive, and judicial departments, each of which was intended to be substantially independent of the other. But the primary and really effective division of the total powers of government was that made between the state governments on the one hand, and the Federal Government on the other. Each state remained a sovereign and retained all powers except those limited ones it delegated to the central authority. All powers not so expressly delegated therefore remained with the sovereign states. Thus was erected an insuperable bulwark against usurpation of power by the Chief Executive. It would be virtually impossible for a would-be usurper, by a sudden coup or by any other means, to convert forty-eight separate state sovereignties into one dictatorial or tyrannical government.

Roosevelt Forgotten

It is both interesting and instructive that the truth of this principle was recognized and emphasized by the late President Roosevelt during the time he was Governor of New York. On March 2, 1930, he delivered a stirring radio address in support of States' Rights which he then considered anything but decadent. After warning of what he thought to be danger signals of approaching autocracy in our national government, he pointed out how to avoid it. He said:

"Now, to bring about government by oligarchy masquerading as democracy, it is fundamentally essential that practically all authority and control be centralized in our National Government. The individual sovereignty of our states must first be destroyed, except in mere minor matters of legislation. We are safe from the danger of any such departure from the principles on which this country was founded just so long as the individual home rule of the states is scrupulously preserved and fought for whenever it seems in danger." (*Roosevelt's Addresses—Vol. 1, pp. 571-572.*)

I believe we can all agree on the soundness and truth of this proposition so eloquently advocated by Governor Roosevelt, and can agree further that the

danger signals he then saw flying in 1930 have been multiplied manyfold since that time.

Purpose

Now to get down to the precise purpose of the proposed bill. For many years the democracy of the South has been ignored by the national administration when legislation objectionable to it was under consideration. The electoral vote of the South has been counted by the Democratic presidents even before it was cast. No insult to this region was considered too vile to affect the outcome of the election. The result has been, as I pointed out in my inaugural address, that the people of the Southern states have been placed upon the sacrificial altar to appease racial and other minority fringe groups in states having a large number of electoral votes, such as New York, Pennsylvania, Illinois, and California.

As I have stated frequently before, this is not a race issue in Virginia. The white and Negro races have lived here together in peace and harmony, and with mutual respect, for a longer period of time than in any other part of our hemisphere. The so-called civil rights proposals of President Truman would not improve these relationships; to the contrary, they would impose the greatest strain upon them. They would undertake to enforce imaginary rights which do not exist, and in so doing would emasculate and destroy rights of personal freedom which have been established and enjoyed by the people of all of the states throughout the history of the republic.

Clean Hands

The President and his Committee on Civil Rights had much to say about lynching and poll taxes. In 1928, Virginia enacted a strong anti-lynch law. As a result, there has not been a death by lynching in this state since that time. Aside from the unconstitutional aspects of the federal proposal, it is evident that no reason exists for such Congressional enactments, as the states possess ample power to deal effectively with this problem.

Two years ago, upon the recommendation of Governor Darden, in which I joined, Virginia started the machinery for abolition of the poll tax as a prerequisite to the right to vote. The plan has received the approval of one regular session of the General Assembly and is now before the second with every prospect that it will go to the people in a referendum at an early date. If adopted by their vote, the change in our State Constitution will thereby be effected. Regardless of what our action may have been in the past, or may be in the future, these matters relate to functions of government belonging strictly to the states. Federal legislation has no place in these fields.

England's Thought of Bankruptcy

LOOK at this picture of Britain today—the paradox of a great country where week by week the production figures are rising, yet week by week the people are asked to take more cuts in food and goods and amenities. **WHY?**—From “Britain’s Battle of the Gap,” published by British Information Services.

London

GREAT BRITAIN'S industry holds second place in the world and now is producing actually more than ever before in its history. It came into this year with total exports running 28 per cent over 1938 (the last prewar year), calculated not by price but by volume. The minimum target for steel production in 1948 was fixed at 14 million tons; the February output was at the rate of 15 million. That is still much less than she wants, and yet there has been steel enough to provide the means for a very large increase of machinery exports, which in the first quarter of 1948 were running 80 per cent over prewar exports. The special drive to increase motor vehicles exports has produced remarkable results. In January the sales of British motor cars overseas exceeded the industry's highest previous record by $2\frac{1}{2}$ times. At a recent press conference the Director of the Society of Motor Manufacturers and Traders, Mr. Cooke, said the outlook for British cars in foreign markets was very good “because British volume-produced cars, although admittedly smaller, are cheaper than American cars.” They use less gas and are easier to park. British motor cars now are being advertised in the American market, and Mr. Ford has recently suggested that the Ford Motor Company in Great Britain may produce a low-priced competitive car for sale in the United States. And when the ships now building are completed the British merchant marine will be larger than ever before.

Such are the rough measures of Great Britain's postwar recovery. As a footnote it may be added that 1947 was a very profitable year on the books of British industry as a whole.

But for all of that, Great Britain is running heavily into debt with the world. Sir Stafford Cripps estimates the deficit for this year at \$1 billion. *The Economist*, whose estimates are generally better than those of the government, thinks it may be nearly twice that much. If *The Economist* is right, then the 1948 deficit will amount to more than Great Britain's share of the Marshall Plan money.

“Britain faces bankruptcy,” says *The Economist*, and continues:

“That is the real significance of the government's latest white paper. At last, the British people now know

where they stand. In the past 2 years, they have as a community overspent their income to the extent of \$4,000,000 and the rate of overspending was almost twice as large in 1947 as in the preceding year. At the present rate of expenditure (which has fallen since its peak last August but now shows signs of settling down at a monthly figure of some \$160,000,000), the remaining reserves may last Britain and the sterling area until midsummer. After that it will just be impossible to buy either the food or the raw materials which are necessary for Britain to eat and work. The specter of starvation and mass unemployment is now alarmingly close.

“When a family faces bankruptcy, either it goes under to a life of perpetual makeshift and pauperism, or it restores its solvency by vigorous action—by buying less, by cutting down every kind of expense and by straining every nerve to sell more of its goods and services. A nation is in no different case and the choice open to the British people is in reality precisely the same difficult choice between pauperism and gruelling recovery. The only question worth asking today when the crisis is, in Sir Stafford Cripps' words, not a matter of years, but of months and weeks, is what further steps the British people can take to consume less and produce more, to reduce their standard of living and at the same time do harder work.”

The despondency is official. The *White Paper* on the state of the nation, issued in February, and the *Economic Survey of 1948*, issued in March, are perhaps the two most dismal state papers ever published to the world by any government. Without aid from the United States, the British Government says it will be impossible to maintain anything like a decent standard of living in England. Imports of both food and raw materials will have to be cut deeply, and the result will be “wholesale unemployment, distress and dislocation of production.” Sir Stafford Cripps says:

“It would be overoptimistic to expect that merely by increasing our exports we can get over the dollar drain. United States, Canada and Argentina would have to take a much larger proportion of our goods than they could or would. A large unbalance on the dollar side is inevitable this year and therefore we need help.”

By help he meant help from the Marshall Plan. He said also that resistance to British exports would probably increase from now on, owing to the fact

that the postwar "sellers' market" cannot last much longer.

If Great Britain's industrial production and exports both have not only recovered but have reached higher levels than at any time before the war, why now is the country facing bankruptcy?

Sir Stafford Cripps says:

"About 60 per cent of the total worsening in our position is accounted for by the change in price levels and about 40 per cent by losses due to the war and postwar liabilities which involve increased governmental expenditure overseas. Nearly all of these factors were beyond our control. I give the explanation not as a hard-luck story but because it is an interesting analysis of a state of affairs that puzzles many people."

By the "change in price levels" he means that the cost of what Great Britain buys from the world has increased more than the price of what she sells to the world. And this disadvantage he estimates to have amounted to a loss of \$750 million in the year 1947 alone. He calls attention also to the fact that Great Britain's "invisible income" from overseas, meaning both income from investments that were liquidated or lost during the war and income from services exported, has fallen \$2½ billion. To get this figure he apparently calculates not only the actual loss of income in pounds sterling, but also the reduced buying power of what income is left, owing to the rise in prices. He does not mention the Socialist government's very large expenditures for nonproductive purposes nor the fact the government itself now is spending nearly one third of the national income. Notwithstanding the fine showing the private steel industry has made, he says that it will have to be nationalized, like coal.

The government has plans for rebuilding Great Britain's neglected industrial machine, which by American standards is very inefficient. The difficulties are two: first, how to find the capital; secondly, how to do it all at once. The true aspects of this problem were exposed in a withering manner by Lord Lucas of Chilworth, an industrialist, in an address to the House of Lords on the economic situation. He said:

"If the fact that we are today a high-cost producing nation is responsible for this gap in our balance of payments, it is not a new problem for this country. This gap appeared after the 1914-18 war and progressively grew against us through the inter-war years. It was camouflaged by the fact that the dividends from overseas investments kept up our standard of living, but it was primarily brought about by our neglect—I do not think it would be an exaggeration to say our criminal neglect—of the modernization of our industries and their re-equipment.

"Through the war years, that equipment, which was outmoded and antiquated in 1938, had to stand an in-

creased strain, and today we are trying to compete in a highly competitive world against nations far better equipped, through the fortunes of war, than ourselves. We are trying to compete with them with worn-out and antiquated tools.

"When the cry goes up that we have got to work harder, what exactly is meant by that? If it means that we have to substitute mechanization and re-equipment by human sweat and elbow-grease, we shall get nowhere. If we are to attain a competitive position in the industrial race again, there is no alternative but to increase the horsepower at the hand of the worker. We cannot go on sweating and using elbow-grease with worn-out tools.

"It might rightly be asked: How are we re-equipping our capital industries? By any calculation I can make, we are today re-equipping industry at only two thirds of the rate we were doing it in 1938; and the 1938 rate was admittedly far too small. I suppose the question could be posed to me, and rightly posed: How are we to find the money to re-equip our industries and put them in that competitive position? The first thing that must strike us when we look at that balance sheet is the fact that government expenditure alone is close on £3 billion pounds a year. If we cannot find sufficient economies in that account to re-equip our capital industries, then I can see no alternative but a lower standard of living for the people of this country. The sooner the people wake up to that fact, and the sooner they face up to it, the better it will be for us."

One crucial fact is that for the first time since she lost her position of industrial supremacy in the world Great Britain now is trying to live on her *current* production. For fifty years, more or less, her current production has been inadequate to sustain her, and the deficit has been made up by income from her investments overseas. This income from overseas represented *past* production. Thus she was in the case of an individual who, finding that his style of living costs more than the current income from his business, keeps it up by using the income from stocks and bonds in his safety deposit box. What would happen to that individual if he lost his stocks and bonds is what happened to Great Britain when she lost a great part of her overseas investments during the war.

Now the question is: Can she live by current production alone? The nineteenth century was her bonanza time. It was then that she accumulated her wealth overseas and became the great creditor nation, receiving what she called "tribute" from all over the world. It is not imaginable that ever again will the exchange of manufactured goods for food and raw materials be so profitable. The question would be much easier to answer if she could produce her own food; but her population now is more by one third that can be sustained by her own agriculture.

It is impossible to say what the future shape of Great Britain's life will be. The British themselves

have no clear idea. More and more the gloomy prophecies of Dean Inge are remembered. Many are saying that the population of Great Britain will have to be dispersed; that the young must go adventuring overseas, to Africa especially, provided their habit of reliance upon government for security has not destroyed the spirit of adventure.

The most thoughtful and best informed letter of confidential comment now written in England says:

The population of Britain must be reduced. There is in fact already concealed unemployment. It is not fully true to say that there is too little labor available except in special cases. Firm upon firm is overstaffed; some hardly realize it—many do, but are afraid to upset their staffs which do not yet realize the gravity of the situation and which have become accustomed to having their own way. Some directorates care too little about the financial side of overstaffing; modern taxation creates prodigality.

Not only is there this gross overstaffing in many concerns and, therefore, for all productive purposes, virtual unemployment, but in the near future there will probably be open unemployment on a large scale.

In any event, Britain cannot, in modern conditions by any possible means earn enough foreign money to buy the imports needed by 48 million people living in such a small island. She must shed a large amount of her population.

Those who remain will live by producing (a) high grade goods, (b) earning foreign currencies by invisible exports like the tourist trade, overseas investments and the rendering of high-grade services: banking, shipping, insurance, etc.

One may make the reservation, however, that British solutions have never been rational. Through all her history unemployment and poverty have been her two chronic economic ailments. "There are too many people in England" is an old and familiar cry. It was old one hundred years before the beginning of the Industrial Revolution, when in 1704 Daniel Defoe wrote a pamphlet to combat it. He said:

"I humbly crave to lay these heads down as fundamental maxims which I am ready at any time to defend and make out:

"(1) There is in England more labor than hands to perform it, and consequently a want of people, not of employment.

"(2) No man in England of sound limbs and senses can be poor merely for want of work."

Public charity, he believed, or what we might now call social security, served only to ruin families and increase the poor. That was another world in Defoe's time, of course, with no such problem as the balance of international payments and dollar scarcity; but these may be after all the same people.

England's Middle Ideology

By Clement R. Attlee

The British Prime Minister

This is the speech in which Mr. Attlee developed the theory of democratic socialism, standing between the tyranny of Russian communism and the extreme inequalities of American capitalism.

LIBERALISM which triumphed in western Europe was never really accepted or put into practice in eastern Europe. Today in eastern Europe the Communist Party, while overthrowing an economic tyranny of landlordism and capitalism, has renounced the doctrines of individual freedom and political democracy and rejected the whole spiritual heritage of western Europe.

*

The history of Soviet Russia provides us with a warning here—a warning that without political freedom collectivism can quickly go astray and lead to new forms of oppression and injustice. For political freedom is not merely a noble thing in itself, essential for the full development of human personality—it is also a means of achieving economic rights and social justice, and of preserving these things when they have been won. Where there is no political freedom, privilege and injustice creep back. In Communist Russia "privilege for the few" is a growing phenomenon, and the gap between the highest and lowest incomes is constantly widening. Soviet Communism pursues a policy of imperialism in a new form—ideological, economic, and strategic—which threatens the welfare and way of life of the other nations of Europe.

*

At the one end of the scale are the Communist countries; at the other end the United States of America stands for individual liberty in the political sphere and for the maintenance of human rights. But its economy is based on capitalism, with all the problems which it presents, and with the characteristic extreme inequality of wealth in its citizens. As a new country with immense resources it has not yet had to face the acute problems which have arisen in the other capitalist countries.

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Great Britain, like the other countries of western Europe, is placed geographically and from the point

of view of economic and political theory between these two great continental states. That is not to say that our ideas are in any sense "watered-down capitalism" or "watered-down communism"; nor that they constitute a temporary halting-place on a journey from one creed to the other. Ours is a philosophy in its own right. Our task is to work out a system of a new and challenging kind, which combines individual freedom with a planned economy, democracy with social justice. This task which faces not only ourselves but all the western democracies requires a government inspired by a new conception of society.

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Mr. Churchill in the House of Commons the other day said that the state needed both an engine and a brake. In the uphill task of raising the standard of life of the people the advocates of change had always had the brake put on against them, sometimes by the Liberals, but generally by the Conservatives. That was why progress was so slow and why reforms came so late.

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A quarter of a century has gone by since the Sankey Commission reported in favor of nationalization. How much better placed we should have been today and how much misery and loss would have been avoided if what we had done now had been done then.

*

No responsible Conservatives suggest that you can today do without government planning. Where, then, do they disagree with us? I think that it is in the object aimed at. Unlike the Labor Party, which is a good cross section of the population, the Conservative Party, as you can see from its composition in the House of Commons, is a class party. It would, therefore, plan on a class basis. The Conservatives have reached the point of conceding the need for a national minimum standard of life, but above that there is to be a scramble for the surplus with the dice loaded in favor of the property owner. Hence their opposition to the transfer to the community of blocks of property which should in their view be used for the making of profit by the few.

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The policy of democratic socialism which the Labor Government is carrying out seeks to create conditions in which a good life will be attainable by every individual in the community, free from oppression whether by governmental or by vested interests. Already great strides have been made towards a fairer distribution of wealth. Broad measures of social security have been passed. Basic industries are being steadily brought under public ownership without sacrificing any of the liberties which we all hold dear.

Mr. Churchill's Footprints

** Reviewed by Himself*

And: "Will there be war?"

I AM very glad to see the great change that has taken place in American opinion. Four years ago, the views we held so strongly about Greece, and the action we took in consequence, were the subject of widespread disapproval throughout the United States. Not only the large majority of the press, but the State Department also, were highly critical of what was then held to be an imperialist and reactionary policy on the part of Great Britain.

However, in the interval, the United States Government have entirely come round to our view, and are acting in exactly the same upright and disinterested spirit and intention as that which animated the national coalition government. My hope is that having put their hand to the plow, the United States will not look back, and Greece will be allowed and enabled to settle its affairs in accordance with the freely expressed wishes of the majority of the people, and that it will not be reduced to another Communist-ridden police state, such as have been set up against the will of their peoples behind what has come to be called "The Iron Curtain."

I cannot help also feeling content to see that not only the British, but the American Government, have adopted to a very large extent the views which I expressed at Fulton nearly two years ago, and have, indeed, gone in many ways far beyond them.

I was much criticized on both sides of the Atlantic for the Fulton speech, but in almost every detail, and certainly in the spirit and in its moderation, what I there urged has now become the accepted policy of the English-speaking world. The language used by the Prime Minister and the Lord President of the Council about Soviet Russia, and about the dangers of a new war, far exceed in gravity and menace anything which I said at that time, or, indeed, have ever said on this subject since the war. The joint use of bases, the maintenance of the common staff arrangements between Great Britain and the United States, and the close integration of our foreign policies, are being pursued throughout the English-speaking world without any prejudice to the overriding and supreme status of the world instrument of the United Nations, which it is our solemn duty to sustain to the best of our ability,

* A speech in the House of Commons, January 23.

and ultimately, to bring into effective reality as the sovereign instrument of world government.

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In another sphere, events are also moving along the lines which I have earnestly desired. It is a year ago since I spoke at Zurich. There I pleaded for the ideal and objective of a United Europe, and later we formed a committee of all parties in this country to promote that cause.

It shows how durable is truth. The essence of my conception was that France should forego her thousand-year quarrel with Germany, and rise again to a leading position in Europe by bringing the German people back, with all our aid and goodwill, into the comity of nations. That implied a sublime act of faith on the part of France, but we are now in a region where such acts are perhaps the only ones which will be decisive.

I was very glad to observe that six months ago Mr. Marshall spoke of our movement as a link in the chain of thought which had led him to his memorable decision.

I am often asked: "Will there be war?" and this is a question I have often asked myself. Can you wonder that this question obtrudes itself upon us when the Lord President of the Council speaks, as he did ten days ago, of the "risk of war" with Russia—twice, I think, he used that phrase—and speaks of:

"The availability and, if necessary, the readiness of armed force to prevent the outbreak of violence"—

and when the Prime Minister says—and I agree with him when he says:

"Soviet communism pursues a policy of imperialism in a new form—ideological, economic, and strategic—which threatens the welfare and way of life of the other nations of Europe."

Can you doubt that times are grave when the word "sabotage" is used in accusation of one of the greatest powers of the world, both by Mr. Marshall in the United States and by the Foreign Secretary in this House? Such language in any previous period would have been incompatible with the maintenance of any form of diplomatic relations between the countries affected. I think it quite right to say the things said, but when they are said it is certainly not odd that we should have to ask ourselves this grim and hateful question: "Will there be war?"

Speaking on this subject fifteen months ago, at Fulton in the United States, I said that I did not believe that the Soviet Government wanted war. I said that what they wanted were the fruits of war.

I will only venture now to say that there seems to me to be very real danger in going on drifting too long. I believe that the best chance of preventing a war is to bring matters to a head and come to a

settlement with the Soviet Government before it is too late. This would imply that the western democracies, who should, of course, seek unity among themselves at the earliest moment, would take the initiative in asking the Soviet for a settlement.

It is idle to reason or argue with the Communists. It is, however, possible to deal with them on a fair, realistic basis, and, in my experience, they will keep their bargains as long as it is in their interest to do so, which might, in this grave matter, be a long time, once things were settled. When this Parliament first assembled, I said that the possession of the atomic bomb would give three or four years' breathing space. Perhaps it may be more than that. But more than two of those years have already gone. I cannot think that any serious discussion which it may be necessary to have with the Soviet Government would be more likely to reach a favorable conclusion if we wait till they have got it too.

We may be absolutely sure that the present situation cannot last. The Foreign Secretary has just spoken of the Russian frontier line which runs from Stettin to Trieste. This was exactly the line which I mentioned in my speech at Fulton—Stettin to Trieste. He also mentioned the Elbe, and who can ever believe that there will be a permanent peace in Europe, or in the world, while the frontiers of Asia rest upon the Elbe? But now this line runs farther south along the Adriatic shore, and there is actual fighting now going on in Greece to decide whether it shall not curl round Athens, and so to the Dardanelles and Turkey.

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Surely, there can be doubt in our minds that this is highly dangerous, and cannot endure. It is not only here in Europe that there are these iron curtains, and points of actual collision. In China and in Korea there are all kinds of dangers which we here in England find it baffling to measure. There is also much to be considered in the Middle East. There are very grave dangers—that is all I am going to say today—in letting everything run on and pile up until something happens, and it passes, all of a sudden, out of your control.

With all consideration of the facts, I believe it right to say today that the best chance of avoiding war is, in accord with the other western democracies, to bring matters to a head with the Soviet Government, and, by formal diplomatic processes, with all their privacy and gravity, to arrive at a lasting settlement. There is certainly enough for the interests of all if such a settlement could be reached. Even this method, I must say, however, would not guarantee that war would not come. But I believe it would give the best chance of preventing it, and that, if it came, we should have the best chance of coming out of it alive.

Review

Official Dog House for Private Enterprise

ON further reflection, the President's Council of Economic Advisers finds that what it suspected turns out to be true. This American giant had a bad bringing up at the hands of free enterprise. He was weaned on the profit motive and his dream life was neglected. His social consciousness, therefore, is rudimentary. The only hope for him now is that he will respond to a course of adult education.

These thoughts are set down in the Council's Second Annual Report. So many things are wrong that it hardly knows where to begin. First of all it is desirable to know itself, and with that idea it spent a good deal of time regarding the law by which it was created. This was the *Employment Act of 1946*, and from thinking about it the Council comes to the conclusion that the title was wrong. Employment was not the right word, for certainly "employment was not desired as an end in itself"; and it is worse still if you speak of *full employment*, since countries having low levels of production are typically the countries of full employment—everyone slaving away with feeble tools to eke out a meager living. Now if you say that employment is not an end in itself but a means, you have to ask: a means to what? The Council finds, of course, that it is a means to purchasing power. Then should the *Employment Act of 1946* have been named the *Purchasing Power Act*? No. The Council thought of that definition and rejected it because it was astonished to find in the year 1947 "that abundant monetary purchasing power confronted us with inflationary dangers rather than calling forth adequate production." The Council settles at last for the term *maximum production*. That is what the *Employment Act of 1946* really was aiming at—a state or condition of maximum production. However:

"... it is not reasonable to interpret that phrase as meaning the very largest total mass of goods and services that could be turned out for consumption during a given year. It must in all reason mean that volume of production which the people of a country when given opportunity to apply their labor whenever they see fit and under efficient conditions of employment, will want to turn out before they prefer to turn their time to the enjoyment of leisure. It is evident too that this practical interpretation of the phrase 'maximum production' implies also that the scale of production at a

given time shall be adjusted to a reasonably long-time perspective."

Holding in mind this ideal of symmetry and balance you have only to look about you, as the Council did, to see that many things are wrong. The girl in rayon stockings may be wrong:

"America became a strikingly well-dressed country, but many a working girl sacrificed proper diet to having nylon stockings or a fur coat."

It may not be the girl's fault. She may have been overpersuaded by the nylon stocking industry. At least you may suppose that industry as a whole had not offered her things in right proportion. Either it did not know what was best for her or did not care, but in any case the problem is:

"With the growth of large, complex, and round-about processes of industrial production, the consumer certainly does become a less direct personal determinant than he was under simple conditions when the hunter went out to kill the meat for his dinner and provide the skins and furs for his clothing."

As the consumer becomes "a less direct personal determinant" shall we leave it to profit-minded industry to produce what it thinks it can sell or persuade the consumer to buy? The consequences, if we do, will be hurtful to the symmetries, for look at what the automobile industry did.

"The ownership of a horse and buggy never fired the ambition and modified the expenditure pattern of American families in general, as has the automobile. In fact, the cost of a car—a pretty luxurious car—rapidly came to absorb so much of the income of the wage earners and farm families that standards of domestic housing, comparatively considered, tended to lag."

It may scandalize the Council to suggest that if the American people had not been like that about automobiles the American motor vehicle industry would not have been the exorbitant whale it was when the war came and we might have lost the war for want of it. Nothing like that could have been foreseen. In the Council's perfectly planned world there is no place for the extravagance of the mysterious man-animal when he is preparing beforehand the tools of his destiny, not knowing why he does it. The entire American development may be regarded in that light. It was wasteful, reckless, thoughtless, irrational, and impatient, but always *big*. Was that megalomania? Were we pursuing bigness for its own sake? Or was it a premonition that the one thing we could not afford to waste was time?

Questions of that kind are not for the Council. It must keep its mind on what we should know. How are we going to arrive at a "pattern of recipro-

cally balanced consumption and production which could reasonably be expected to become established" unless we know:

"How many automobiles can we really live with, and how much rebuilding of streets and highways will that number call for? How much personal transportation by air will be given preference by the rising generation to other kinds of satisfaction? Will the total package of market goods and services of a maximum production economy require more pounds of steel per capita or will soft goods or even intellectual and artistic pursuits play a larger part?"

Why should we know? Because:

"Here, for example, the automobile industry is now confronted with the task of working down the backlog of war-deferred demand. This involves a problem of reconciling the rate at which this demand should be satisfied with the claims of other industries (and the foreign aid program) for resources during a period of relative shortages. But even more importantly, from the long-range viewpoint of sustained maximum production, it involves the question of whether the automobile industry should try to work down the backlog at the most rapid rate that it possibly can, or whether such a procedure would 'saturate' the market within a few years and lead to a sharp and serious contraction of a key industry."

The trouble hitherto has been that decisions touching what to produce, how much and how fast, were left to the free play of ungoverned forces—to the profit motive, to the engineer thinking always in terms of technique and efficiency, and to the "capital hungry" business manager who, even when he used capital "to reduce costs and to produce a product of better quality and greater consumer appeal," did it for his own profit. Then having made the profit, what did he do with that? He did as he pleased with it. Too often it was something like the farmer did before the government began to plan agriculture—that is, he "raised more corn to feed more hogs to buy more land to raise more corn to feed more hogs to buy more land," and so *ad infinitum*. One of the consequences of going along like this is that we never know whether we should be consuming more and saving less or saving more and consuming less. When we save more and consume less we are, as the economists say, forming capital. But capital formation can be carried too far. Who knows at a given time whether we are forming too much or too little? The Council says:

"It is sometimes asserted that we cannot have too much capital formation, because every added unit of equipment magnifies the productive power of human labor. It is no doubt true that a bold and ingenious people cannot set any limit to the amount of capital that they will ultimately need. But if their dreams are wisely blended with hard economic sense, they will be

careful to adjust the current rate of capital formation to the rate of consumption that will keep capital plant utilized at the highest practicable capacity with the greatest practicable steadiness."

Pursuing this thought, the Council finds that dreams and economic facts have not been wisely blended in the past. It is true that as we saved and formed new capital and put it back to work instead of consuming it, the productive power of the country increased wonderfully. Nevertheless, we must remember:

"... that the accumulations of capital over the years have in fact involved deprivations of the rank-and-file worker."

This is a startling statement. Free enterprise people evidently have been far too complacent. They have been thinking that the rank-and-file worker shared continually in that increase of his productivity which was owing to the use of more and more capital; they have indeed produced a mass of statistical evidence to prove it. The Council does not say the statistics are wrong. It disregards them and says thus flatly that the rank-and-file worker was deprived. And since the sum of his deprivation was an involuntary contribution to the wealth of the country:

"His children may now with reason expect to benefit from the fruitfulness derived from that contribution."

As the rank-and-file worker gets back some of that contribution which his father was not permitted to enjoy he will have perhaps more leisure. And what will he do with it? That is something else we need to know. For if he is going to play in his leisure time the capital for that must be provided. The Council says:

"Indeed, since even our amusements are to a great extent mechanized, we need to accumulate and maintain a considerable capital stock of 'playthings'—ranging from the syndicated movie chain, the commercial bowling alley, or amusement park, down to the individual's fishing tackle and golf clubs—if we are to get the fullest consumer satisfaction also out of our leisure hours. Present standards for our 'content of living' require a considerable paraphernalia for play; we are not content merely to loaf."

May we trust private enterprise to see to all of this? Acting freely as in the past will it provide durable goods, consumer goods and play goods in just the right proportions for the life of good content? The Council thinks not. It says:

"In recent years, there is evidence that due to the 'roundabout' methods of production, requiring heavy investment in capital equipment to produce goods for markets remote in time and space, serious imbalance

of supply and demand often results. In other words, the so-called free market is neither as responsive nor as dependable a guide to production as it was in a simpler economy. . . .

"The point of our question, therefore, becomes this: Will private physicians and nongovernmental hospitals, will schools and training agencies outside the public system, and will commercial ventures in music, art, drama, radio, and recreation attract a sufficiently rapidly expanding personnel and provide sufficiently enlarged facilities so that the satisfaction of wants in these areas, superimposed on those which have been more exclusively the area of industrial and commercial activity, bring the level of total activity in the economy up to an acceptable total of maximum production? If not, is it reasonable to expect that we shall channel more of our resources and derive more of our satisfaction through government agencies in these areas? We must then find ways of developing them no less prudently and operating them on the average as efficiently as the much larger area which we may hope will continue to be organized and operated through the agencies of the private market."

Even if private enterprise had the wisdom, it could not provide the means. The Council comes to this conclusion by looking at the cities. You may wonder how they got built in the first place, doing it all by themselves, but look at them now as the Council sees them:

"Many of our cities and towns are outmoded in whole or in part. There have been telling dramatizations of the social consequences of this. But we are only beginning to probe the depths of the economic consequences, such as the effects upon property values, local tax structures, and institutional investments. Yet there is an almost universal realization that no single investor or group of investors can bear the cost of writing off this obsolescence at a sufficiently rapid rate. Some writing off does take place, it is true, through reorganization, recapitalization, and shifts in ownership. But adjustments of this kind are inadequate from the viewpoint of increasing our national wealth or releasing truly productive energies.

"The application of some government resources at all levels to the preparatory stages of urban redevelopment would have an extraordinary leverage effect upon opportunities for the private employment of men, money, and materials."

For this job what are the government's resources? Where will it get the money? It will get it from the cities. The city dweller can be obliged to pay his income tax to the Federal Government; he cannot be obliged by the Federal Government to rebuild his own slums. That is a nice point.

The report ends with a warning to private enterprise. It can very easily make too much of the fact that the *Employment Act of 1946*, creating the Council of Economic Advisers, "embodies the proposition that the system of free competitive enterprise in which we live is to be maintained." The

Council remarks that it "reaffirmed and expounded this philosophy in its First Annual Report." Nevertheless, as it studies the law it finds that it limits neither its own purpose nor the responsibilities of those who are charged to carry out its intentions. Beyond the thought that private enterprise shall be maintained, the law says it shall be:

"The continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy . . . to coordinate and utilize all its plans, functions, and resources, for the purpose of creating and maintaining . . . conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power."

The Council quotes that declaration of policy and says:

"This statement *per se* does not involve precommitment to an expanding role for government at the expense of voluntary initiative. But it does involve frank recognition that the government accepts a complementary role in areas where, or in times when, private enterprise fails to provide adequate productive use of the nation's resources."

So, you private enterprise, watch it! If you cannot so conduct the national economy as to provide all the satisfactions of the good life in perfect balance, nylon stockings against a girl's proper diet, motor cars against houses, work against play, today against tomorrow, there are those who think they can—and they are telling you.—G. G.

They Neglected Their Tools

A MONOGRAPH of sixty-nine pages entitled "Technological Stagnation in Great Britain," by Professor George Terborgh, research director of the Machinery and Allied Products Institute, puts a devastating light on the distress of the British economy. The inefficiency of Great Britain's industrial machine is relative, not actual. If you compare it with the American machine its inferiority seems almost hopeless; the British themselves are in despair over it. But if you compare it with anything else you see at once that since the destruction of the mighty German machine it is the second most powerful and most efficient in the world. Why then are the British so despondent? For two reasons: First, they know that in a competitive world the

most efficient industrial nation will determine values; secondly, that if they cannot meet the American competition their pattern of life will break. During most of the nineteenth century their industrial machine was far superior to any other and they remember very well what that advantage meant. Then they lost it. What happened? There the story begins.

Simply they neglected their tools. They did not let them wear out. That was not it. They let them go out of date. "Britain knew how to build great industries," says Terborgh, "but never knew how to rebuild them."

The first great challenge to Great Britain's supremacy was the rise of German industry, all new, with better tools, better technique and much more scientific research. The second challenge was the rise of American industry, which was destined to surpass them both. But instead of accepting this competition, which would have required them to rebuild their machine not once but again and again to keep it ahead, they felt secure in their prestige and relied upon trade strategy, Empire arrangements and cartel agreements to protect their profits. One of the British commissions that has recently been making a study of this history, industry by industry, writes of the textile industry:

"Lancashire supplied two thirds of the world's cotton textile imports. The expansion depended mainly, not on the winning of markets in competition with other modern industries, but on using our industrial lead to sell factory products to nonindustrialized countries in which British political influence was used to maintain the British creed of free trade."

But the textile manufacturers, as the custom was, went on taking their profits out, instead of plowing them back, with the result that they lost not only the profit but also their principal. The profits you see, were illusory. Now they see it, but it may be too late, unless they can borrow from the United States the capital they need to remake their machine. *The Economist* of London says:

"British industrialists, with a few notable exceptions, have never been 're-equipment minded.' The general attitude towards plant replacement before the war was to scrap a machine only when it could not longer do the job for which it was originally designed. Only rarely was the question asked whether a new machine could do the job better and more economically than an existing one; or whether a new plant layout involving, say, two new machines instead of three installed, would do the job more economically still."

Here an ironical fact may be noted. While the competitive power of the British industrial machine was being destroyed by creeping obsolescence the economic imagination of Great Britain was cap-

tured by the fatal Keynesian theory. The trouble with Great Britain, said Keynes, and the cause of her chronic unemployment, was oversaving for investment, with investment opportunities at the same time vanishing; whereas now it is clear that the trouble was underinvestment—underinvestment actually in the means of survival. Professor Terborgh comes to the moral:

"It is an extraordinary picture. We have seen some of Britain's chief industries operating with mechanical antiques and outmoded production methods. We have seen both management and labor obsessed with a passion for security and 'stability,' reflected, on the one side, in combinations in restraint of competition, and on the other in featherbedding and resistance to mechanization. We have seen a tax system inimical to enterprise and adventure. We have seen a fatalistic acceptance of inferiority, and a resort to easy apologetics and rationalizations. We have seen, finally, the logical sequel, or at least its beginnings, the intervention of the state."

And he adds the lesson:

"If the British experience teaches anything, it is the imperative necessity of combating restrictionism on both sides of the management-labor fence. It is an insidious disease, far easier to prevent than to cure. For, once management and labor have accustomed themselves to the ease and comfort it provides, heaven and earth can scarcely induce them to abandon its protection and face once more the icy winds of competition. It is like putting Humpty Dumpty back on the wall."

Great Britain's mortal economic sin was complacency.—G. G.

How To Foment Minority Passions

THE spirit of Machiavelli now belongs to the liberals. The Political Education Department of the National Citizens Political Action Committee has issued what it calls a *Manual of Practical Political Action*. It is a loose-leaf book with a thumb index, so that supplements may be added as new techniques are discovered and proved and as new issues present themselves. The techniques already proved have all one purpose and that is to excite the emotions of racial and national minorities. Under the head of Organization you will read:

"In the United States today there are 14,000,000 Negroes and 35,000,000 people who were either born abroad or are members of families in which one or both of the parents were born abroad. This one third of the

nation is special in many of its political interests and responds more readily than the rest of the population to certain types of political appeals and techniques. It is a segment which is often liberal, yet largely untapped by independent progressive movements. . . .

"We are talking about the greatest portion of the Negro vote, the Polish, Scandinavian, Italian, Mexican, German vote and the techniques independent citizens committees can employ to marshal these forces for active participation in their organizations and campaigns."

Notwithstanding their differences, the *Manual* says, "all national groups have two characteristics in common: an intense and lively interest in the 'old country' and a special evaluation of themselves as Americans." There are four ways to reach them, namely (1) through their own fraternal and social organizations, (2) through the foreign language press, (3) through the foreign language radio and (4) finally through the consulates and embassies of their native countries. But when you have reached them what will you say to them? The *Manual* tells you:

"There is, however, one issue that transcends all disagreements among foreign nationalities, one issue to which all will rally. That is the question of FOOD. Foreign-born Americans are worried about the suffering and starvation among their relatives abroad. They are not fooled by sweet talk. They are militantly in favor of a food program that will produce results in terms of bread, meat, and vegetables in the mouths of the starving."

And then having used food for Europe to make them forget their ideological differences, how do you go on? It is their vote you want. To get their vote you have to excite them politically about something *here*. How do you do that? The *Manual* says:

"The best entry to the foreign language organizations is via the labor movement. Educational directors of many unions can supply the names of members acting in foreign language organizations who would be anxious to serve on local citizens groups. A few such men will serve as a nucleus for interesting many men in your work."

And when by that means you have got them on your local citizens' group, what next? The next thing is to give them "political consciousness." To make them politically conscious what do you tell them? The answer is carefully spelled out in the *Manual*. You tell them first that they will die a year sooner than they should die because of their "political inactivity." This means that they should vote for socialized medicine. After that you go on to make them see "the simple relationship of politics to daily bread and butter." You tell them everything

is political and you make it clear to them in these words:

**"Jobs depend on politics."
"Wages depend on politics."
"Housing depends on politics."
"Health depends on politics."**

It is not necessary for the *Manual* to say how these statements will be translated; everyone knows how. "Jobs depend on politics" will be translated: *Vote Yourself Jobs*.

"Wages depend on politics" will be translated: *Vote Yourself Higher Wages*.

"Housing depends on politics becomes: *Vote Yourself Houses*.

"Health depends on politics" means: *Vote Yourself Free Medicine*.

What a wonderful American world that would be if all you had to do was to vote yourself a job, higher wages, good housing, longer life and no doctor's bill. And what wicked demagoguery it is!

Then the Negro. The best way to the Negro, too, says the *Manual*, is "through the labor movement," because generally he is a worker in the low income group. The *Manual* says:

"If you start with four Negro members of your executive committee that are known and liked, they will be able to triple their number in a half hour at the telephone. With this nucleus of a dozen members the only limit to your potential Negro participation will be the results you are able to accomplish and the publicity you give to your work."

But since all party machines have "wooed the Negro voter ardently in the last two weeks of every campaign," and the Negro for that reason is skeptical, how are you going to convince him? That is the hard question. The *Manual* says:

"The answers can be learned at the next meeting of your executive committee by turning to one of the Negro members of your board and asking him. The answers may surprise you. Maybe the housing project that is going up off State Street is barring Negro veterans, or the state employment division in your city has Jim Crow offices. Maybe the Mayor's Committee on Race Relations has no Negro member. Maybe your Congressman has not signed the petition to place the FEPC Bill before the House. Whatever the issues decided upon, if your action is forceful and successful, it will earn the Negro community's support.

"It will, provided they hear about it. And they will hear about it if your publicity subcommittee is skilled and keeps the Negro press and other publicity media fully informed of your activities.

"As the Negroes in your community become interested in your citizens committee, as they start to join, it is important that they be made productive and not merely paper members. Give them, give all your members, concrete jobs and responsibilities and expect as

returns enthusiastic belief in your organization and your work."

It will then be up to you to make your action forceful. Here the *Manual* sets out an "Outline for Action Techniques," from the case history of one campaign that was organized to save the OPA when price control was about to be discontinued. Among other procedures, all approved by the *Manual*, were these:

"Set up sidewalk telegram booths to send night wires to Congressmen.

"All veterans sign with old serial numbers—Congressmen sensitive to veterans.

"Sell 'Taft apples' or name them after local inflationist Congressmen.

"Call all high prices 'Taft prices' or after local inflationist Congressmen.

"Swamp papers with letters to editor. Show you understand trick amendments.

"Picket Congressmen's places of business.

"Phone Congressmen at home and at Washington home, in office, or call cloakroom—get him off the floor. National 3120. Get hundreds to call incessantly.

"Have people at every meeting or assembly write and wire Congressmen from there. Have your people tell and phone others, write and take other action.

"Hit papers with paid ads, releases; try to get 'public service' time; get spot announcements on air.

"Put out leaflet (or in other medium): '*Senator Blank has his hand in our pockets.*' Put it in terms of dollars and cents and items.

"Hang inflationist Congressmen in effigy. Slow-burn them. Good for vets.

"Round up disabled vets—parade or display dramatically showing what happens to their benefit pitances when prices rise.

"Pressure all local party leaders in same ways—they react directly on Congressmen.

"Picket price-increasing stores swiftly and dramatically. Everything suggested on this page requires maximum publicity and ingenuity.

"Put signs on your people's autos: 'Worth \$2,000—Taft price,' and so forth. Make life miserable for local Congressmen by this quiet threat of a tag they can never shake. Substitute their names for Taft, too.

"Rallies of any kind. Automobile parades, with rough signs.

"Float in parade or other medium: Veteran in barrel: 'Suit \$125.'

"If Congressmen vote against people, let vets hang them in effigy between high buildings, then slow-burn effigies. Public reaction has been extremely favorable where AVC used this."

It is a complete manual. There are chapters on how to select and exploit local issues, how to buy radio time, how to prepare pamphlets and leaflets, how to design posters, how to write

speeches, how to stay clear of the Hatch Act, how to raise money by mail and in the streets, how to organize glamour and music, how not to kiss babies in a political manner, and, above all, how to torment members of Congress.

No way of exploiting the emotions of groups, classes and nationalities has been forgotten; no principle of government is remembered. From reading the *Manual* you would never know that the first condition of a free society is a government founded on principle, or that government has any need of principle at all. The entire theme is how to get what you want out of government by political action. The *Manual* says the people must be made to believe:

"The simple fact that politics determines the availability of jobs, the value of a dollar bill, the number of dollars in every pay envelope, and the price that is paid for produce at the market place."

In politics, therefore, lies all power over things—power to give people what they want or to withhold it from them. If only the people will vote for good politicians, recommended by the National Citizens Committee for Political Action, they can have anything they want—jobs for sure, fat pay envelopes, lower prices in the market place, appeasement of all their group and class dissatisfactions, and at last, a longer life for due contentment on earth.

The members of the National Citizens Committee for Political Action who tell the people this call themselves liberals, and are named as follows: Frank Kingdon, Chairman; Elmer A. Benson, Chairman Executive Council; C. B. Baldwin, Executive Vice-Chairman; Vice Chairmen: Verda White Barnes, Mary McLeod Bethune, Bruce Bliven, Evans Carlson, Don Chapman, Bartley C. Crum, Mrs. Marshall Field, Mrs. J. Borden Harriman, Robert W. Kenny, Freda Kirchwey, Max Lerner, Michael M. Nisselson, Dorothy Parker, James G. Patton, Gifford Pinchot, Morris Rosenthal, R. J. Thomas, Channing H. Tobias, J. Raymond Walsh, Mrs. Edward M. M. Warburg, Orson Welles, A. F. Whitney, Bishop R. R. Wright, Jr.; John Abt, General Counsel; James H. McGill, Comptroller; Jerome I. Udell, Treasurer, Clark Foreman, Secretary.

They are saying: "Look up, people. Look up to us. Your politicians down there have been fooling you."

The promises of a bad politician may be cynical, but such promises as these are intellectually immoral and proceed from the base intent to reduce politics to the level of minority passions. What will happen when people find they have been worse fooled by looking up? What will they do with their wrath?—G. G.

What To Do With Communists

*By Donald R. Richberg

THE Committee has invited me to offer suggestions as to legislation which may serve to protect the American people and their government from the subversive activities of organizations which aim at revolutionary changes in our institutions of self-government. It may be helpful to submit a preliminary statement of the problem presented as the basis for a suggested solution.

I shall not waste your time with any effort to prove that communism and other totalitarian programs are hostile to the continuance of the American way of life. The survival of our institutions depends upon preserving among the American people—

Liberty—

Faith in Man—

Faith in God.

Communism seeks to destroy these three pillars of our wisdom. With mental drugs we are first to be made fools and then the cringing servants of a lot of glorified policemen, calling themselves the State.

Communism, spreading the satanic doctrine that the end justifies the means, makes a habit of fraud and treachery. Thus the good faith between men and the sanctity of contract, upon which we have built our civilization, is rotted away.

Communism scorns a faith in God whereby men are inspired to live and work together under divine commandments, seeking spiritual as well as material satisfactions. The Communist creed treats men as little better than animals that must be driven to work by hunger and are disciplined only by man-made laws. (*Soviet Constitution*, Art. 12: "He who does not work, neither shall he eat.") All this means that communism is the irreconcilable enemy, not only of our political and economic institutions, but also of our spiritual happiness and growth. Yet, vicious ideas cannot be exterminated like wild beasts, or even screened away from our homes like insect pests.

The Congress could pass an act outlawing the Communist Party, but it would reappear under some other name. Communism thrives in dark places as well as in dark minds. It should be forced into the light, not driven underground.

The Congress, without abridging freedom of speech and press, might conceivably pass an act prohibiting the advocacy of a political program of fraud and violence. Of course, all the befuddled liberals who are helping the Communists to destroy

their heritage of freedom would raise a dust storm about civil liberties. It has never yet been held that the right of free speech is violated by a law forbidding incitements to crime, but perhaps I would be reckless to assert that this judicial rule will remain unchanged.

There is, however, another sounder argument against a law seeking to forbid the spread of communist propaganda. The best way to get rid of a bad odor, or of explosive gas, is usually to let it spread and be dissipated in plenty of fresh air. Please do not think that I believe Communists should be left free to publish pamphlets and to make speeches which are plainly designed to incite mobs of illiterates and frustrated incompetents to practice revolutionary tactics through violent demonstrations and political strikes. There should be a limit to public tolerance of such disorderly campaigns and maneuverings to prepare for the day of a big push!

But I do not believe there is any substantial value in legislative efforts to suppress those Communist activities which are limited to organization and propaganda, carrying the appearance of ordinary political procedures, and which do not spill over into openly lawless acts.

The chief source of Communist strength and its chief menace to the general welfare lies, however, in a privilege which can legally be denied to Communists and to all political organizations. That is the privilege of *secrecy*, which is entirely different from the right of *privacy*, which is one of our cherished liberties. The right of privacy does not provide a cloak under which secret conspiracies against the public can be carried on legally. For example, the right of citizens to bear arms is protected by the constitution; but that does not prevent enforcement of laws that prohibit the carrying of *concealed* weapons.

In like manner the right to be clothed does not make unconstitutional a law prohibiting the wearing of a mask or a disguise, particularly if the purpose is to conceal responsibility for an ultimate unlawful act.

Political organizations exist for public purposes. If they have honorable aims they should and do welcome publicity. Of course their individual members also have rights of privacy; and many a politician often wishes that the newspapers would not publicize *everything* he does! But, in their authorized purposes, objects and programs, political organizations should live, and, if reputable, are willing to live, in glass houses. The inherent menace of any secret political organization is so obvious that legislation eliminating some of the secrecy of such associations is plainly justified, and also clearly within the constitutional powers of the Congress.

In order to make my suggestions easily understood I have prepared a tentative draft of an act of

* Statement at a hearing by a Subcommittee of the House Committee on Un-American Activities.

Congress. This is not a finished product. I would hope to improve it myself on further study. It would certainly be improved in going through the legislative mill. But, it will enable you at least to see what I have tried to accomplish, even if the performance itself is seriously defective.

Outline of a Law

The essential parts of Mr. Richberg's proposed bill are as follows:

The existence or activity in the United States, or in any territory, possession or other area under the jurisdiction of the United States, of any secret political organization, as hereinafter defined, shall be and is hereby declared to be unlawful at any time after ninety days from the date of the enactment of this Act.

A "political organization" is hereby defined to be any association of persons which has for its object, or is engaged substantially in, any of the following activities: (a) influencing the election or appointment of public officials, (b) influencing the making or revision or administration of laws, (c) influencing the formulation or expression of public opinion that is intended, or can reasonably be expected, to have a partisan effect upon the choice of public officials or upon the processes of lawmaking and administration, provided however, that an organization publishing a newspaper or other regularly circulated publication, which is not dependent upon or does not otherwise function as the controlled organ of a partisan political organization, shall not be regarded as a political organization within the foregoing definition or as subject to the requirements hereinafter imposed on political organizations.

A "secret political organization" is hereby defined to be a political organization which refuses or fails to furnish the public information regarding its membership, purposes and activities which is hereinafter required.

Every political organization shall within ninety days after the enactment of this Act, and periodically thereafter, file with the Secretary of State the following reports which shall be certified as accurate and complete by the appropriate officers of the organization duly authorized to furnish the information therein contained:

(a) A true and complete copy of its constitution and by-laws or any similar compilation of all the laws which govern the organization, membership and conduct of the organization.

(b) A duly authorized comprehensive statement of the purposes, the programs and the current activities of the organization, including full information as to its relationship, association or affiliation with any other domestic or foreign organization.

(c) A report showing the names and addresses of the principal officers of the organization and giving explicit information as to where are recorded or can be ascertained the names and addresses of all other officers and of all members who are paying dues or are otherwise definitely attached to the organization.

The documents filed with the Secretary of State as herein required shall be public documents, available at all reasonable times for public inspection and copying. The officers of political organizations certifying to the accuracy of these documents shall also be obligated to testify fully at any time concerning the matters reported upon or matters related thereto, at the request of any committee of the Congress provided, however, that no person shall be required by this Act to testify as to how he or anyone else voted in an election of public officials, or upon any matter officially submitted to the vote of citizens of the United States or of a state.

Any political organization which has affiliations of any character with an organization existing outside the United States shall be required, in furnishing the information required under the preceding Section 5 of this Act, to report exactly the character or extent of the control or influence, if any, which is exercised over it by any such foreign organization. Upon the publicly announced decision of the Secretary of State, supported by his published findings of fact, that any domestic political organization is subject to any measure of control or to substantial influence by a foreign organization, it shall be his duty to require said domestic political organization and its representatives to register as agents of a foreign principal under the laws providing for the registration of such foreign agents and it shall be the duty of such a political organization and its officers or other representatives to register as, and to comply with all the obligations imposed by law on, such foreign agents.

Inasmuch as communism is known to be an international political movement, and any political organization of Communists in the United States is subject unquestionably to the control or influence of foreign organizations of communists, the Secretary of State is hereby directed, without further investigation, to require each and every organization of Communists in the United States to register as, and to comply with the requirements imposed by law upon, foreign agents.

THE British Government has decided that no member of the Communist Party shall be employed in any work vital to the national security. The announcement of this decision by the Prime Minister to the House of Commons, March 15 last, was, said *The Times*, London, interrupted by a Communist member's "rendering of a snatch of the *Red Flag*." The Prime Minister said:

"Experience, both in this country and elsewhere, has shown that membership of, and other forms of continuing association with, the Communist Party may involve the acceptance by the individual of a loyalty which in certain circumstances can be inimical to the State. It is not suggested that all those who adhere to the Communist Party would allow themselves thus to forget their primary loyalty to the State. But there is no way of distinguishing such people from those who, if opportunity offered, would be prepared to endanger the security of the state in the interests of another power."

What of a Stalin Plan?

By Freda Utley

Author of "Last Chance in China" and "Lost Illusion"

WHAT is the Stalin Plan—if there is one? It is obvious now that the Kremlin never intended to cooperate with the Western world, but even so there was for a while no need for it to work by any plan. It was necessary only to fill the surrounding areas of vacuum and to exploit the concessions held out by the Americans to win Stalin's "trust" and "friendship." Thus the ring of satellite states now serving the Soviet Union as an outer defense, and at the same time insulating the Russian people from contact with the capitalist world, may be accounted for—Finland, the Baltic states, Poland, Czechoslovakia, Albania, Yugoslavia, Rumania, Hungary and Bulgaria.

But now in place of American appeasement there is purposeful resistance. The Truman Doctrine was a declaration of cold war to stop Russia. There is the Marshall Plan. And suddenly America is arming again, naming Russia as the enemy. Moreover, the idea of war with Russia is much more widely accepted by the American people than was the idea beforehand of war with Hitler's Germany.

Therefore now there has to be a Stalin Plan. The Kremlin must make up its mind to stop, to retreat or to go on. It must decide what to do about the Marshall Plan—whether to sabotage it aggressively or to profit by it in the way of trade with the Marshall Plan countries of western Europe. It must decide what to do in Italy, France, Iran, Turkey and China, and what techniques to employ in the several cases.

So again what is the Stalin Plan?

The answer naturally is one that must be deduced, and the process of deduction will be helped if we entertain and hold in suspense two questions:

First, what is the Kremlin defending really—the Communist ideology or its own power?

Second, in either case what are its necessities? This may be to ask: What is the Iron Curtain meant to conceal—strength or weakness?

The Myth

Today the Communist myth serves not itself but the economic and political needs of the Soviet Government. The same was true of Nazi Germany and did not make her less dangerous. Hitler, it can be presumed, did not fight for world empire because of his belief in "Aryan" superiority; he used the idea of a master race to excite the people and justify his course. Stalin, similarly, has not used the war and the opportunities the Americans gave him for ex-

pansion because of his belief in the superiority of the Communist over the capitalist order of society. The Communist ideology, like that of the Nazis, is not the cause, but provides the justification for aggression. The real cause is the totalitarian system which, by its very nature, needs to conquer in order to survive. Only by the totalitarian system is it possible for dictatorship to preserve its own powers.

The plain fact, obscured by propaganda, and if we must say it, by many Americans' inferiority complex about their own economic and social system, is that the Soviet system is too top-heavy, wasteful and inefficient to endure without subsidies and tribute from abroad. Lend-Lease and UNRRA supplies, together with war booty and reparations, have provided some relief, but hardly enough to compensate for war losses, whereas the Soviet Union's inability to make ends meet was already apparent before the war.

To put it in business terminology, the overhead costs of the Soviet system are so high that there is never enough profit to pay a dividend to the shareholders, namely, the Russian people, who are supposed to be the owners of the enterprise. These costs partly consist in the large number of people employed in unproductive labor. Socialism on the Communist model requires that the peasants and "workers by hand and brain" support an ever-increasing number of persons who consume but do not produce. The continually increasing share of the national income allocated to the bureaucracy, the police, the army, the propagandists and the Communist aristocracy, who are the preferred shareholders, drastically reduces the share received by the producers, and also diminishes the incentive to work.

Failure of Slave Labor

The gross inequalities of material welfare in Soviet Russia, together with the absence of political liberties and civil rights, and the dependence of large sections of the Soviet economy on the forced labor of the millions held in concentration camps, mean in effect that the Soviet system is a modern adaptation of slavery.

The basic fact which explains Stalin's policies is the low productivity of slave labor today as in past ages.

Since the Russian peasants and workers toil for one master, the state, which is owned by the Communist Party, the new system of servitude is even more unproductive and inefficient than ancient

forms of slavery. For not only the workers but also their masters have been deprived of the profit incentive. The factory managers, commissars, and other members of the ruling or privileged class, are rewarded, not for the efficiency with which they conduct the enterprises they run, but for their loyalty to the "leaders" and their skill in making rapid turns when the "party line" changes.

On the one hand, the absence of incentive keeps the productivity of labor very low. This is witnessed by the fact that Soviet agriculture, in spite of the investment of capital in the form of tractors and other machinery, produces no more grain than the backward "agriculture of Tsarist times."* Similarly in industry a Russian worker, miserably paid as he is, produces less "surplus value" than the highly paid American worker.

On the other hand, the number of people in Russia employed to keep the others working and terrorized is an enormous burden. The dictator dares not trust anyone and must perpetually create new guards to guard the guards. To the two million MVD (formerly NKVD and before that OGPU) internal army of police, spies and troops, there has to be added the officials of the Party's Control Commission, the military intelligence operatives, the private spies of the leading bureaucrats, and the countless number of informers employed outside the ranks of the uniformed "internal security" army and police.

Added to all these "security" forces, which alone constitute a crushing weight on the national economy, are the multitude of executive and administrative and supervisory personnel, the accountants, and the huge number of bookkeepers required to calculate the exact value of each laborer's work day on the farms and in the factories. Lastly there is the parasitic class of theoreticians, writers, poets, and others engaged in propaganda and "public relations" activities together with the directors of Communist activity abroad.

Chronic Bankruptcy

To summarize: Russian labor, despite its submarginal living standard, does not produce enough profit to maintain those who own the state—the Communist party—and the millions of functionaries, police, spies and soldiers. Hence the recurring crises in the Soviet economy. The absence of incentive, other than fear, keeps the national income low; and the numbers required to force the people to work and to prevent revolution, make the social structure so topheavy that the system is always bankrupt in greater or lesser degree. *It is this*

internal problem, rather than the Communist ideology, which drives the rulers of Russia to seek to expand the empire they rule.

Totalitarian states prove a new economic law: the disproportionate rise of unproductive expenditures in a system in which fear instead of profit is the driving force of the economy.

At intervals the Russian ruling class has attempted to escape its dilemma by cutting down the numbers of the bureaucracy, relaxing the government's control over all sectors of the economy and adopting a policy of retreat or conciliation in foreign affairs. From 1921 to 1928 (the NEP period), from 1935 to 1939 and from 1943 to 1945 (the Teheran period), the Soviet Government allowed a limited revival of private enterprise and a skeleton free market in order to revive incentive when the wheels of industry and agriculture had almost ceased to turn. But however clearly the Kremlin may understand that human beings work better with the prospect of a carrot before them, it knows that if once a substantial number of the Russian people could earn their bread independently of the state, the Soviet system and the Communist Party would be doomed. Thus it must choose to expand its base by conquest. The alternative would be to set the people free, and that would be fatal.

They Must Not Know

The internal economic pressures which drive the Kremlin along an aggressive course might, instead, have led Stalin to accept American friendship with all the advantages it offered him in the shape of loans, credits, gifts and security for the Russian people, were it not for the political considerations which compel him to insulate his subjects from the capitalist world.

Before the war no Russians, except for a few carefully screened members of the Communist hierarchy, were ever permitted to go abroad or have intercourse with foreigners. The mass of Russian people were completely isolated from the capitalist world. But after Germany's defeat, millions of Russian soldiers had the opportunity to see and marvel at conditions outside Soviet Russia. To Americans the material condition of the people of eastern Europe may have seemed poor, but to the Russian moujiks and factory workers in uniform they seemed so wonderful that it was easy to persuade them, as for example in Austria, that the apartment houses they looted were not the homes of the working class but of the hated "bourgeoisie."

Today it is therefore more than ever necessary for the Soviet dictatorship to cut off all intercourse between the Russian people and the rest of Europe, at least until living standards outside Russia have been reduced to the Soviet level and all democratic

* On the basis of "biological yield" used by the Soviet Government, the total grain harvest in 1913 was 94.1 million tons as against 82.7 in 1936, 120.3 in 1937 and 95.0 in 1938.

freedom destroyed. So it is not only the need to acquire capital, commodities and slave labor from abroad to reinvigorate the decaying Soviet economy which impels Stalin to an aggressive foreign policy. It is also the *political* necessity to insulate the Russian people from contact with the free world on the other side of the Iron Curtain.

Today Marxist *theory* and the *facts* of the international situation are completely at variance. It is not the capitalist world, led by the United States, which fears the attraction of the Communist world, but the Soviet Government which fears the attraction of the capitalist world. The Communist belief that "one or the other must conquer" is now necessary to the survival of Stalin's government.

Two Views

There is some evidence of internal conflict in Russia among the members of the Soviet aristocracy as to the best course to pursue in order to save themselves and destroy us. There would seem to be a "moderate" faction in the Politbureau (which under Stalin's chairmanship determines Russian policy at home and abroad) which has advocated a policy of caution. Their view is that the safest course to pursue is to provide increasing supplies of commodities to the Russian and satellite peoples at the expense of armament expenditures, and a conciliatory policy toward America which would provide American credits and American supplies of capital and consumer goods while giving Russia a breathing space in which to consolidate her hold on eastern and central Europe.

Professor Varga, under whom I once worked in Moscow, was the theoretician of the "moderates" who argued that an American depression might not come soon enough, or be severe enough to weaken America to the point of impotency, and that it would therefore be advisable to conciliate instead of to challenge the American colossus.

The extremist faction in the Politbureau, reputedly headed by Zhdanov and Molotov, is reported to have argued, on the contrary, that the Soviet Union should hasten to take possession of the strategic positions in Europe and Asia which will put Russia in a position to isolate America when war comes. The extremists argue that time is working *against* the Soviet Union and that, since both Communist influence in western Europe and America, and the war-fostered illusion about Soviet aims are declining, Russia should hasten to take all she can *now*.

The fact that Varga, although disgraced and dismissed from his position as head of the Moscow Institute of World Economy and Politics, has not been liquidated, indicates that Stalin has not yet made up his mind. His decision is likely to be made

according to whether America appears to be finally girding its loins for a conflict with Russia deemed inevitable or preparing the way for a new era of appeasement.

The Communist coup in Czechoslovakia does not necessarily prove the ascendancy of the extremists in Stalin's councils. For, as Senator Taft has pointed out, Russia was merely "consolidating" a part of the sphere of influence given to her at Yalta by President Roosevelt.

Czechoslovakia constituted a weak link in the chain of satellite countries on Russia's borders so long as it retained any ties with the West under the pro-Soviet, but not Communist, government of Beneš, Masaryk and other "liberals." But Czechoslovakia's fate was really decided at Yalta. Stalin knew that he risked less in taking over Czechoslovakia completely than Hitler risked in 1939.

In none of his moves, so far, has Stalin challenged the United States to armed conflict. He has merely capitalized on the advantages afforded him by American agreements at Yalta and Potsdam and in the postwar era of appeasement of Soviet Russia. In Greece and China he can foster and arm native rebellions; in Austria he can demand a ransom which must deliver that little country into his clutches; in Italy he can take advantage of the "Treaty of Peace" which disarmed her, weakened her economically and disheartened the anti-Communist forces; in France he can, although with diminishing success, take advantage of the positions secured by Communist leaders as "heroes of the resistance." Nowhere, so far, has Stalin needed to go beyond the wide bounds allowed to him by America and her allies in their war and postwar commitments.

The Test

The real test both of Stalin's intentions and of America's is Germany.

In 1918, Lenin proclaimed that he would risk all the gains of the Russian Revolution for only the hope of a Communist revolution in Germany. On many other occasions Lenin declared that German technology united with Russian manpower and resources would insure the victory of the world revolution. Even at the most desperate moments in the war, Stalin always distinguished between the German people and the "Hitlerites," and declared on November 6, 1942, that "it is not our aim to destroy all military force in Germany, for every literate person will understand that this is not only impossible in regard to Germany . . . but also *inadvisable from the point of view of the future.*"

He was, naturally, ready to reap the benefits we offered him by the Morgenthau Plan, which by condemning millions to die of starvation in a

"pastoralized" Germany, would have made Communist domination appear a lesser evil than the punishment inflicted by American "democracy." Stalin also, no doubt, instructed the Communist Parties in the United States, Britain, France, Poland and Czechoslovakia and other countries to urge the worst possible treatment of the defeated Germans, thus using his left hand to push the Germans into his right hand. But Stalin himself has never subscribed to the concept of the Germans as a peculiarly wicked and aggressive race.

If Moscow had consistently pursued the old Communist line of opposing all racial discrimination, acting in accordance with the Marxist conception of the unity of the workers of all nations, blaming the war on Germany's rulers not on her whole people—if it had sought to win the Germans as allies instead of punishing them collectively, the Germans would almost certainly have flocked to that side. For the West offered them nothing but misery, vengeance and contempt and was determined under the Morgenthau-Roosevelt directives to treat them as pariahs. This opportunity was lost both on account of the behavior of the Red Army, whose looting and raping will not soon be forgotten in any German family, and because the desperate situation of Russia's own economy drove the Soviet Government to strip Germany and other defeated or allied nations of anything movable which could be of use, including manpower kept in Russia as slave labor.

What Germany Fears

The end, however, is not yet. The fate of Germany, and together with it that of Europe, will be determined as much by American policy as by the necessities of the Soviet state.

The Germans are already saying that the Western powers must give them a guarantee of military protection against aggression, since they themselves are disarmed. What German would dare risk joining a "German Government" set up at Frankfurt in defiance of Russia, unless assured of the protection necessary to prevent a Communist *coup d'état* backed by the Russian Army? Already the Russians are warning the Germans in Berlin of the reprisals they may expect if they support the Western powers.

Whatever economic advantages the Germans of Bizonia may now expect from becoming second-class citizens or colonial subjects of a Western European Union, and however great their hatred of and fear of communism, they will not dare to throw in their lot with the West so long as we keep them disarmed—unless the United States is prepared to conscript enough young Americans to take the place of a German army in Europe. And it would be more than a little ironical if so soon after the war to destroy

Germany, Americans should be forced to die to defend her while the Germans themselves escaped the necessity of military service.

In the Far East, Stalin has been assisted, even more than in Europe, by American appeasement or blindness. The Chinese Communists already hold almost the whole of Manchuria and most of North China, and are already threatening Central China. Far from having helped the Chinese National Government to withstand the Communist onslaught, the United States has spent its efforts since V-J day in trying to force it to admit the Communists to a share of power in a coalition government. In pursuance of this self-defeating objective, General Marshall, in August, 1946, had an embargo placed on exports of arms and ammunition to China, while the Russians were supplying the Communists with all they required to defeat the Nationalist forces. Thanks to America's postwar policy, as well as to the Yalta agreement which gave Russia control of Manchuria's railways and of Port Arthur, Stalin has already almost secured the strategic positions in the Far East from which to dominate China.

Can He Wait?

Up to now, Stalin has not needed any extraordinary political intelligence to get the better of the United States. The Communists have outthought and outflanked the Americans because they have refused to think.

And the belief still held in America that dollars unbacked by military force can save the world from communism leaves the initiative with Stalin.

He can calculate that if American policy continues to be one of shoring up all weak points on the Soviet periphery by gifts of commodities and capital, while refusing to use American military power and the atom bomb, the United States will eventually ruin itself. Its resources and productive capacity are not unlimited and the cost of construction is high, whereas the cost of destruction is not only low, but profitable if combined with robbery.

So Stalin has everything to gain and nothing to lose by continuing to tear down what America strives to build up. He may think that if he is patient enough he can fatally weaken the United States without war. In that case he would wait in Europe and concentrate his main attention on the Far East.

On the other hand, the internal situation in Russia may be so bad that Stalin cannot afford to wait.

The Chinese philosopher, Hu Shih, formerly Ambassador to the United States, was fond of saying that all wars are caused by one miscalculation. Having embarked on the same path as Hitler, Stalin also may yet make one fatal miscalculation about the Americans.

Thirty Years of Frustration

**By Senator Homer E. Capehart*

EVERY scheme which this nation has entered into for the past thirty years has failed to accomplish the thing which the American people and the world were told it would accomplish. I am not going to debate whether we should or should not have gone into a single one of these schemes, because I voted for some of them, and I have no regrets.

I remember that thirty years ago I joined the Army in order to help save democracy in World War I. I remember that we were told that if we would go into World War I we could save democracy. That was the purpose.

I remember that we did not become a member of the League of Nations, but other nations did. It failed to maintain peace.

I remember the Disarmament Conference. This body voted for the Disarmament Conference. I remember, as a young man, that we were propagandized into believing that by going into the Disarmament Conference we were going to avoid future wars, and that it would be a grand thing. I thought at the time that it would, and I am certain that those who voted for it thought it would; but it failed to accomplish the purpose for which it was intended. I am not critical because we went into it. We tried.

I remember the Kellogg-Briand Pact, which was a nonaggression pact between this nation, Japan, England, France, Italy, and many other nations. I say that it failed to accomplish the purpose for which it was intended. Japan tore it up when she moved into Manchuria. Italy tore it up when she moved into Ethiopia; and we sat idly by and did nothing about it.

I remember the Neutrality Act. I remember that when the President of the United States signed that act he signed it with a dozen pens, which he gave away in different directions. In substance he stated that signing that act was one of the greatest privileges a President of the United States ever had.

That act provided in very simple terms that if two nations went to war this nation would remain neutral. Let not Senators shake their heads and say it is not true. It is true. I remember that when the first gun was fired in Europe that act was almost violated, if not violated. It was later repealed.

I remember the Johnson Act, which provided

that this nation would not lend money to any nation which was in default in its debt to the United States. I remember that it was said that the cash-and-carry provision would keep us out of war. I remember the 50 destroyers. I remember lend-lease.

Then, during my time in the United States Senate, I remember very well the United Nations, because I voted for it. I remember very well Bretton Woods, because I voted for it. I remember very well the British loan. I voted against it. I remember very well the Greek-Turkish loan. I voted for it.

I have had high hopes for the United Nations, and I have had high hopes for some of the other plans; but I say to you they have failed to accomplish the things for which they were intended. The best proof in the world that the statement I have just made is correct is that had they accomplished the things for which they were intended there would be no necessity for the so-called Marshall Plan.

But I ask myself this question: How can I follow leadership that has had a record for thirty years of having every single scheme that it has put forward and voted into effect fail to accomplish the purpose for which it was intended? I am not blaming them. I am not saying that I could have done any better. But I am calling the record to the attention of the American people and to the attention of the United States Senate.

Our Telephone Folkway

POSTWAR telephone growth has far surpassed all previous experience and indicates the increasing value of telephone service to more and more people. It took about 40 years for the Bell System to gain its first six million telephones. Since V-J day, the number has increased by more than six and a half million. At the end of 1947, 28,500,000 Bell telephones were in service—30 per cent more than when the war ended and more than twice as many as a dozen years ago.

To meet the continuing public demand, the Bell System last year produced, built and installed more telephone lines and central office apparatus than ever before. Expenditures for new telephone construction set an all-time high of \$1,185,000,000. The amount of new capital obtained by the System likewise exceeded a billion dollars and was the largest sum ever raised in a single year.

So great was the new demand, however, that about 1,500,000 people, most of whom had requested service during 1947, were on the waiting list when the year ended. Also, many people who now have party-line service are waiting for individual lines.—*From the 1947 Annual Report of the American Telephone and Telegraph Company.*

* From a speech in the Senate on the Marshall Plan.

A Germany To Live With

**By Walter Lichtenstein*

Formerly Chief of Financial Institutions for the American Military Government in Germany

THE question we should ask ourselves is what kind of race will the Germans be in the next generation: a people on the whole who are physically, mentally, morally, spiritually weakened? Are they likely to be able to engage in offensive warfare in the visible future? I regard much of the talk of the need of preventing German aggression in the future as unrealistic. I know I may be told that after the first World War people also said Germany was not in a position to wage war again and see what actually did happen. All I can say, there is just no comparison between the Germany now and the one at the end of the first World War.

Most German cities are wrecked. Except for those who have been in Germany since the war, no person can visualize the havoc and ruin prevailing. Photographs merely show the destruction of separate buildings; words are not adequate to paint the complete picture. Suppose you think of Chicago proper, let us say from Howard Street as far as the southern boundary of the city, and in that area find only here and there a whole block in which most of the houses are still inhabitable; all as far as your eye can reach are walls without windows and in most instances just a shell remains of the buildings.

If you can bring such a scene before your mental vision then you may begin to have an idea what most of the German cities look like. But in addition, you would have to realize also, to continue the illustration, that the steel mills in Gary are more or less gone; only occasionally a furnace here and there is still intact and that in all the suburbs, while they are not completely destroyed, more or less damage has been caused. Then, and then only, will you have some conception of the Germany of today.

How Long?

While in Germany, I often asked people, both Americans and Germans, how long they thought it would be before the average German would again be able to lead a normal life. By normal life I did not mean a life such as had been theirs before the first World War, or even in the period between the wars, but when would the average German again be able to hold down a job which would pay him money with which he could buy sufficient food; occasionally, say once in two years purchase some badly

needed clothing, and expect to go to a room after the day's work is done, where he might have some privacy and in winter some warmth and comfort. No one could answer such a question, but the mere posing of it may give you some idea of conditions. The countryside and small towns are on the whole far better off. Always the farmer in a situation such as I am describing suffers much less than the city-dweller. However, it must be remembered that Western Germany—that is the British, American, and French zones—is largely industrial and certainly depends for its future upon manufacturing, for the valuable agricultural land of Germany is in the Soviet zone and some of the most important part of this is not even in the Soviet zone but has been absorbed by Poland or Soviet Russia, presumably permanently so.

And How?

It is of some interest to speculate on the methods Germany will use to rebuild her cities. German exports are to pay for those imports which Germany will need to enable her to feed her people and supply raw materials for her industries to manufacture goods to be exported. As far as one can estimate, to produce these exports will require all the manpower and all the facilities available in Germany. Where then is the manpower to come from to pay for exports needed to import materials required to rebuild modern cities and plants: in fact, where is the manpower to come from needed for the actual manual labor for building houses? Let me say again it is not a question of rebuilding a house here and there, but of furnishing living accommodations for millions and millions of people.

Take a city like Berlin which in normal times had a population of about three to four million. Many were killed and others disappeared, but the places of those killed and those who wandered away have been taken by refugees from other parts of Germany and those of German race and ancestry expelled from Rumania, from Yugoslavia, from Poland, from Czechoslovakia, and from the Baltic provinces. As far as numbers are concerned, we are witnessing a migration of people greater than that of the Age of Migrations which followed the collapse of the Roman Empire in the fourth and fifth centuries of our era. I have tried to paint, however inadequately, the picture, and have sought to make

* Condensed from an address before the Chicago Council on Foreign Relations.

you understand why I question whether in anything like the visible future Germany will be a menace.

The Ancient Enmities

Enmity between France and Germany does not owe its origin to the rise of Prussia, and the blame for its existence falls on both nations. It is true that, owing to the increase of German power following the Franco-Prussian War and a decline of French power, France has had to fear Germany, but prior to that time the shoe was for many centuries on the other foot and the diplomatic history following the first World War certainly gives no ground for the belief that there could not be a return of relationships such as had existed in earlier times.

I may refer, just as one example, to the prevention of a customs union of Germany and Austria favored by all countries except France and her satellites who compelled the union in question to be dissolved. According to André François-Poncet, at the time French ambassador in Berlin, this was the final blow to Chancellor Bruening's prestige and led to the downfall of Bruening's cabinet, which paved the way for Hitler's ultimate assumption of power. The French always made concessions to men of good will, such as Stresemann and Bruening, grudgingly and too late. After the rise of Hitler the concessions asked for in the twenties and which might have saved the Weimar Republic were granted to the Nazis. Is it very surprising to find the Germans concluding that force would bring better results than decency and reasonableness?

France and some parts of what is or has been Germany have been in conflict ever since the death of Louis the Pious, son of Charlemagne, in 840, which was followed by a division of Charlemagne's Empire among the sons of Louis. It was therefore in 840—now eleven centuries ago—that the Alsace-Lorraine question first became acute and it has remained so ever since. It would seem to me that he or she is a bold person who would maintain that the present arrangement is the final one or the only proper one. Most of the European questions with which we are struggling are very old, are deeply rooted in the past, and it is rather foolish for us to suppose that present-day settlements are likely to be final or for that matter that necessarily the next generation will regard those arrived at now as proper and desirable.

For Germany to return to some type of prosperity such as she knew prior to the first World War or even in the period between the wars is likely to require at least one hundred and fifty years which would be three quarters of a century less than she needed to recover from the effects of the Thirty Years' War.

The present break-up of Germany may not be an

unmitigated evil even for the Germans themselves. The Thirty Years' War marked a break in German development which even three centuries has not been able to heal. Before 1618 Germany looked largely to the West; the happenings in the regions beyond the Elbe touched little the main current of German life. It is not generally realized that the so-called Holy Roman Empire of the German nation which by the sixteenth century had nothing of the Roman left except the name, or to quote Carlyle was neither Holy nor Roman nor an Empire, included at that time Switzerland and the Lowlands (Belgium and Holland) and writs of the supreme court of that Empire ran in Switzerland and the Lowlands during some of the sixteenth century, which implies that those regions were regarded then as a part of the German Empire. This almost purely German realm was ruled over from 1519 to 1556 by Charles V, a native of Flanders, *i.e.*, modern Belgium. The old Germany consisted of a curious crazy-quilt patchwork of principalities, bishoprics, duchies, and the like. The economic power of the country and much of its culture reposed in the cities which were to a large extent city-states and members of a great urban-league—the Hansa.

Return to the West

If we had been living in the sixteenth century and had been speculating as to which was likely to be the great democratic area of the future—if such a conception could have existed at that time—Germany or England—the probabilities are that we should have cast our vote in favor of Germany with its powerful city-states rather than for England completely dominated by the Tudor autocracy of which Henry VIII and his masterful daughter, Queen Elizabeth, were the outstanding examples.

This march of progress was halted by the Thirty Years' War and the rise of the House of Brandenburg with its outlook so largely toward the East so that when the royal title was assumed by the grandfather of Frederick the Great it was that of King in Prussia. The point is that the Germans west of the Elbe River have always tended toward a western orientation, so now that the so-called Iron Curtain, for the time being at any rate, separates the Germans who have most in common with western Europe from those Germans who are probably predominantly of Slavic race or what we are apt to think of as typically Prussian. After all, the eastern provinces of Germany were always more Slavic than Germanic.

Consequently, for Germany to be interested primarily in western Europe is a revival of a former trend, not something new; it is a return to the most promising period of German development and it may turn out to be the best even for Germany to

have her progressive western part separated politically for the time being from her former eastern provinces. But these western provinces should not be allowed to hang in the air, as it were. It is important that they be considered an integral part of a reconstituted Europe. Belgium and the Netherlands, and especially the latter, are dependent upon Germany. Germany is the chief market for their produce and Germany in turn has supplied these countries in the past with many manufactured goods, with coal and with steel. The so-called Benelux is a customs union of Belgium, the Netherlands, and Luxemburg with which France and the Scandinavian countries are seeking closer economic relations. France, in turn, is trying to establish close economic ties with Italy. My belief is that if we required as the price of our assistance to the European nations that they seek to form a customs union and that especially the American, British, and French zones of Germany be included in the Benelux union that we shall then have taken an important step toward a United Western Europe. It is generally admitted today that in 1919 one of the great mistakes made was the failure to insist that the so-called succession states growing out of the former Austro-Hungarian Empire form a customs union to include the whole of the area which once had been part of Austria and Hungary. After the independence of the various countries had been recognized such a move was too late, selfish interests predominated, and Austria became a permanent recipient of charity just as Germany is in danger of becoming now. As early as 1924 I stated in a public address in Omaha that what was being done was to Balkanize most of Europe; I now say that we are in danger of Balkan-

izing the whole of Europe. Let us be realistic: in any visible time there is no danger of Germany becoming an aggressor power.

If western Germany within the next decade or so became an integral part of a western European customs union, we should probably find it a simple matter to withdraw from Germany and divest ourselves of responsibility in that quarter of the globe. Even the bitterness engendered by the recent war would tend to evaporate and this would be from all points of view desirable for, obviously, however justifiable the present feeling toward Germany may be, we cannot expect to have satisfactory conditions in Europe if an important segment of the population of that continent is to be regarded permanently as pariahs. It might also be pointed out that a belief that the Germans are inherently vicious and in that respect differ from other Europeans smacks a little bit of Hitlerian doctrine in the reverse. Also I cannot refrain from remarking here that in these matters fashions change and anyone who has read the British pamphlet literature of the period of the French Revolution and Napoleonic Wars may be struck with the similarity of attitude of the British toward the French at that time, and the British feeling about the Germans of the Hitler era. As in so many other problems of our day, Mr. Churchill again proves himself a great Englishman and a great statesman. Since the end of the war he, almost more than any other European, has consistently pointed out that, whether other nations like it or not, they will have to continue to live side by side with Germans and that after all there have been in the past great Germans who have done much for the human race.

Douglas MacArthur's Mind

AMERICAN policy in Japan had been attacked in the Senate on the evidence of a State Department document designated as FEC 230, marked *confidential*. Senator Knowland got a copy of it from a "non government source" and read it to the Senate. The subject was "Elimination of Excessive Concentration of Economic Power" (in Japan), and the way to eliminate it was indicated as follows:

"All individuals who have exercised controlling power in or over any excessive concentration of economic power, whether as creditors, stockholders managers, or in any other capacity should be:

"a. Divested of all corporate security holdings, liquid assets, and business properties;

"b. Ejected from all positions of business or governmental responsibility;

"c. Forbidden from purchasing corporate security holdings or from acquiring positions of business or governmental responsibility at any time during the next ten years."

All this, Senator Knowland noted, was proposed to be done without the accusation or trial of anybody for anything. The people to be dispossessed were not named as war criminals nor had they violated any existing law. Moreover, compensation for the owners was not important. It might be something nominal. Indeed, it was proposed that the properties might be sold "at a fraction of their real value," and that "the purchaser's ability to pay rather than the real value of the holdings should affect the fixing of prices and the terms of payment." The purchasers whose bids would be preferred, "however low they may be," were small and

medium enterprisers and investors, agricultural and consumer cooperatives and labor unions.

Senator Knowland said:

"I call to the attention of the Senate that this is not a proposal of the Kremlin, as you might suspect, but is the official American proposal to the Far Eastern Commission.

"When FEC 230 is examined, not alone but in conjunction with other policies, a pattern develops which is disturbing to me, and I think it will be disturbing to the Congress.

"Either originating among doctrinary New Dealers who found their activities limited in Washington and signed up for overseas occupation service, or finding its fountainhead in the Far Eastern Commission, which initiates some policies for transmission to General MacArthur, certain activities are open to serious question by both the Congress and the people."

The following colloquy then occurred:

SENATOR HICKENLOOPER. I understand that if anyone in Japan has a historical background of success and interest in a business, it is now to be taken away from him. Is that substantially correct, or have I overstated it?

SENATOR KNOWLAND. I think the general policy as enunciated in FEC 230 goes that far.

SENATOR HICKENLOOPER. Somebody in the State Department or somebody in the administrative government then undertakes to take that property and parcel it out to such persons as they want to give it to without any sound program for the repayment, based upon the value of the property, or even upon the ability, if you please, of the person receiving it to operate the business successfully within a free economy?

SENATOR KNOWLAND. I would say the general policy of breaking up the cartels, the trusts, the so-called zaibatsu interests is a sound policy for us to follow in Japan, as it is in Germany. But the point I wanted to make is that they apparently have a very sound anti-trust law which is now on the statute books of Japan. This goes far beyond the breaking up of monopolies, the breaking up of businesses in restraint of trade.

Here Senator McMahon interrupted to suggest that the one who would know all about it was General MacArthur. Why not write to him? So Senator McMahon did write to General MacArthur and received the following reply:

GENERAL HEADQUARTERS,
SUPREME COMMANDER
FOR THE ALLIED POWERS,

Tokyo, Japan, February 1, 1948.

SENATOR BRIEN MCMAHON,
*United States Senate,
Washington, D. C.*

DEAR SENATOR MCMAHON: I have your letter of January 22 and the pages from the CONGRESSIONAL

RECORD subsequently received under separate cover, for which I thank you.

The discussion of Senator Knowland covers a policy paper of the United States formulated by the State, War, and Navy Departments and referred to the Far Eastern Commission for consideration by the other ten governments represented on that body and to the Supreme Commander for the Allied Powers for guidance. As the sources of origin, authorship, and authority are all in Washington and my responsibility limited to the executive implementation of basic decisions formulated there, I am hardly in a position 10,000 miles away to participate in the debate. . . .

In any evaluation of the economic potential here in Japan it must be understood that the tearing down of the traditional pyramid of economic power which has given only a few Japanese families direct or indirect control over all commerce and industry, all raw materials, all transportation, internal and external, and all coal and other power resources, is the first essential step to the establishment here of an economic system based upon free private competitive enterprise which Japan has never before known. Even more it is indispensable to the growth of democratic government and life, as the abnormal economic system heretofore in existence can only thrive if the people are held in poverty and slavery.

The Japanese people, you may be sure, fully understand the nature of the forces which have so ruthlessly exploited them in the past. They understand that this economic concentration not only furnished the sinews for mounting the violence of war but that its leaders, in partnership with the military, shaped the national will in the direction of war and conquest. And they understand no less fully that the material wealth comprising this vast concentration at war's start increased as war progressed, at the forfeiture of millions of Japanese lives, as resources of Japan theretofore only indirectly controlled came under direct control and ownership. These things are so well understood by the Japanese people that apart from our desire to reshape Japanese life toward a capitalistic economy, if this concentration of economic power is not torn down and redistributed peacefully and in due order under the occupation, there is no slightest doubt that its cleansing will eventually occur through a blood bath of revolutionary violence. For the Japanese people have tasted freedom under the American concept and they will not willingly return to the shackles of an authoritarian government and economy or resubmit otherwise to their discredited master.

Faithfully yours,
DOUGLAS MACARTHUR.

In that letter General MacArthur enclosed a copy of his New Year's Day message to the Japanese people. It reveals more than has been hitherto known of his political and social philosophy, and is all the more interesting for having been made to an Asiatic people over whom he ruled, 10,000 miles from home, with perhaps no thought that it would

be examined later by his own countrymen when they began to think of him as a presidential candidate.

MacArthur to the Japanese

"To the People of Japan:

THE design of a remodeled and reconstructed Japan is nearing completion. The pattern has been etched, the path has been laid. The development now lies largely in your own hands. Success or failure will depend upon your ability to practice the simple, yet transcendental, principles which modern civilization demands.

"No occupation, however benevolent and beneficial, can substitute for the spiritual uplift which alone can lead to an invincible determination to build a future based upon the immutable concepts of human freedom.

"Individual hardship is inevitable. Your economy, due to the disastrous war decisions of your past leaders, is now impoverished. This can only be relieved by employment to the maximum of the energies of your people, by wisdom and determination on the part of your leaders, and by the restoration of peace with its removal of existing limitations upon international trade. So long as your needs continue to be greater than your productive capacity, controls upon your internal economy will be essential lest the weaker segments of your population perish. Such controls must, however, only be temporary and subject to ultimate removal in favor of free enterprise.

"Economically

"Allied policy has required the breaking up of that system which in the past has permitted the major part of the commerce and industry and natural resources of your country to be owned and controlled by a minority of feudal families and exploited for their exclusive benefit. The world has probably never seen a counterpart to so abnormal an economic system. It permitted exploitation of the many for the sole benefit of the few. The integration of these few with government was complete and their influence upon governmental policies inordinate, and set the course which ultimately led to war and destruction. It was, indeed, so complete a monopoly as to be in effect a form of socialism in private hands. Only through its dissolution could the way be cleared for the emergence of an economy conducive to the well-being of all the people—an economy embodying the principle of private capitalism, based upon free competitive enterprise—an economy which long experience has demonstrated alone provides the maximum incentive to the development of those fundamental requirements to

human progress—individual initiative and individual energy.

"Politically

"Progress toward reform has been equally encouraging. Your new constitution is now in full effect, and there is increasing evidence of a growing understanding of the great human ideals which it is designed to serve. Implementing laws have re-oriented the entire fabric of your way of life to give emphasis to the increased responsibility, dignity, and opportunity which the individual now holds and enjoys. Government has ceased to be totalitarian and has become representative, with its functions decentralized to permit and encourage a maximum of individual thought and initiative and judgment in the management of community affairs. Control of every political segment has been shifted to permit the selection of a new leadership of your free choice capable of advancing democratic growth.

"Socially

"Many of the shackles which traditionally have restricted individual thought and action have been severed and action has been taken to render the exercise of police power a matter for individual and community, rather than national, responsibility. The judicial system has been freed from executive and legislative controls, and laws have been enacted to temper inordinate bureaucratic power by requiring all public officials to justify the trust of public responsibility and answer for their acts directly to the people.

"Every Japanese citizen can now for the first time do what he wants, and go where he wants, and say what he wants, within the liberal laws of his land. This means that you can select your own work, and when you have completed it you can choose your own method of relaxation and enjoyment, and on your day of rest you can worship as you please, and always you can criticize and express your views on the actions of your government. This is liberty. Yet inherent in it are its obligations to act with decorum and self-restraint, and become acutely conscious of the responsibilities which a free society imposes upon its every segment.

"The future therefore lies in your hands. If you remain true to the great spiritual revolution which you have undergone, your nation will emerge and go on—if you accept only its benefits without its obligations, it will wither and go under. The line of demarcation is a simple one, understandable to all men—the line between those things which are right and those things which are wrong. The way is long and hard and beset with difficulties and dangers, but it is my hope and belief and prayer this New Year's Day that you will not falter.

"DOUGLAS MACARTHUR."

Laying Hands on the Farmer

**By Tom Linder*

Georgia's Commissioner of Agriculture

IF your farm is in a Soil Conservation District the Soil Conservation Authorities already have power under Georgia law to dictate exactly how you must farm.

Under the Soil Conservation Act the authorities can direct you absolutely as to building terraces, building fish ponds, setting out or cutting down trees. They can tell you what crops you can plant, how much of each crop and where it can be planted.

But, listen! Under the Soil Conservation Act of Georgia, they can direct and compel you in every particular—not advise, mind you—but direct you what you must do. If you fail to comply with any order from the Soil Conservation Committee they are authorized to have the work done by contract or otherwise. The cost for the work becomes a lien against your land. They can sell your land to pay for the work that they have had done without your consent and against your wishes.

The proposed Long Range Agricultural Act of Secretary Anderson is designed to make the federal laws fit in with the state law so that all of this can be done from Washington without your consent and against your will.

The State Conservation Act, taken with the proposed plan of Mr. Anderson, will sovietize the farmers of this country as completely as those in Russia are already sovietized.

When you get this article go to town and get your lawyer friend to read the Soil Conservation Act of 1937, pages 377 to 404, then you will see where you will stand if Mr. Anderson succeeds in getting his Long Range Program that he is now proposing through the Congress.

Under the Soil Conservation Act of Georgia, if this proposed law is put into effect, a deed to secure debt or a mortgage on a farm would become simply a scrap of paper. It would be subject to the whims of the agencies of the United States Department of Agriculture.

The present Soil Conservation Law of Georgia and the proposed long-term program of the Secretary of Agriculture taken together would give absolute power over every farmer in the state.

Any man would be foolish to buy a farm or lend money on a farm under the circumstances.

This would mean ultimately that the government

itself would be forced to take over all of the farms and finance them.

If you want to Russianize your farm, then answer yes to the questions asked you. If you are opposed to Russianizing your farm, then answer no to the questions asked.

If this proposal becomes law, the following would be some of the conditions it would impose on you, as a farmer, a producer of timber and agriculture generally:

1. All Agriculture would be regimentized and directed by a centralized Federal Agency from Washington.

2. All laws, rules and regulations governing farm acreage, production of crops, distribution and prices would be administered by the United States Department of Agriculture in Washington.

3. No farmer or grower of timber could cut, sell or distribute his private timber without permission of a Federal Agent.

4. Acreage allotments and Marketing Quotas would originate from the Department of Agriculture in Washington.

5. The whole program would be administered similar to that of the AAA Program, where the County Committee followed directions or were asked to resign. The farmers would have little or no voice in carrying out the program.

6. Your farming program would be made by the Soil Conservation Service. You would plant crops as directed and on locations selected by the SCS, or you would fail to get any soil building payments, subsidies or other benefits.

7. Vocational teachers would have to get permission from the SCS representative for his FFA boys to plant crops or execute a pasture program.

8. Farm Veteran Supervisors would have to get permission from the SCS to plant crops that he recommended on Veterans' farms.

9. A County Agent would have to get permission from the SCS for a 4-H Club member to plant corn or other crops.

10. You would be told the acres of each crop you could plant, where it could be planted and the amount of each crop you could sell, free of a penalty.

11. Labor costs would be added to parity only on farms having hired labor. No labor costs would be added to parity on family-operated farms.

12. A farmer would only have the privilege of buying and paying for his farm. A government Agent would direct him how to farm, what to plant and how to sell his crop.

* This editorial, entitled "Did You Know?" appeared in the January 28 number of *Georgia Farmer's Market Bulletin*, published by the Georgia Department of Agriculture.

Struggle for the Public Purse

By Senator Styles Bridges

From a speech on the floor of the Senate

The Constitution says that Congress shall control the public purse: "All bills for raising revenue shall originate in the House of Representatives." And again: "No money shall be drawn from the Treasury but in consequence of appropriations made by law."

On February 19, at the Jefferson-Jackson dinner in Washington, the President said: "Conditions are too grave in the world at this time to put a Congress in control of the purse strings of this country, a Congress that does not and cares not to understand what the facts are."

In this speech Senator Bridges tells how the Congress is defeated in its efforts to control the expenditures of government. For example, in a given fiscal year its expenditures may be one fifth more than the money appropriated by Congress for that year. The explanation is that it may have in its hands at one time as much as \$17 billions of unspent money from previous appropriations; and it has besides many ways of forcing Congress to make appropriations. The curious fact is that the people's interest in this struggle for control of the public purse is generally apathetic.—Editor.

IT is obvious to all that as long as the departments and agencies of the Federal Government have vast sums of money appropriated in previous years to use for current expenditures, then the present action of the Congress in limiting appropriations will not have as salutary an effect on government spending as might be desirable. In recent years, the record shows expenditures are outrunning appropriations by about 20%.

This condition, unless checked, will continue so long as the agencies of the government have these vast reservoirs of unexpended balances to tap for their present uses. Since, as of November 1, 1947, there was almost \$17 billion available to the agencies in unexpended balances, it is evident that reductions in appropriations will not for some years vitally affect the total expenditure picture. . . .

We were faced with the arrogant refusal of many of the federal agencies to cooperate with the Congress in effecting an efficient and economical government. In their struggle to maintain their swollen size, they used every lawful and many unlawful methods of attempting to coerce the Congress into appropriating larger sums of public funds than the

Congress, after careful investigation, believed either necessary or desirable.

These efforts have been so outrageous that the agencies have had the temerity not only to seek higher appropriations than were approved by the Bureau of the Budget, but have so mismanaged their apportionments of funds as to place the Congress in a position either of giving the agencies what they want or of refusing additional appropriations toward the end of a year and thus curtailing necessary functions to the detriment of the American people. One agency, in fact, has had the effrontery to tell the Congress that it had no right to limit its appropriations.

Turning on the Heat

Various methods were employed during the appropriations hearings to coerce the Congress through public pressure to accept agency estimates of proposed appropriations. Federal employees were in some instances organized in groups as soon as House cuts were announced. Each group was given specific objectives designed geographically to exert the maximum pressure on the Congress. Newspaper aid was sought, not only through news channels but through importuned editorials, which, through no fault of the press, but because government officials deliberately exaggerated effects of curtailment of services, alarmed the public. Not content with this, attempts were made to elicit support of civic groups, state and local officials, chambers of commerce, labor organizations, business houses, veterans' organizations, brokers, farmers, and railroad executives.

One favorite method was to announce in the press that House cuts necessitated the firing of a large number of employees. Dismissal notices were then sent to employees—preferably veterans—in a number far in excess of the number actually to be released. This was done knowingly and deliberately by the agency, which subsequently rehired large numbers of these employees without publicity.

The most audacious of these propaganda stunts was that perpetrated by a group of public officials—in widely scattered parts of the country and all at approximately the same time—blaming the Congress in press releases for employee layoffs which were not occasioned by appropriation cuts but by administrative financial errors within the department over which the Congress had no control or knowledge.

These attempts to pressure the Congress into submission to departmental dictates were not the work of a few disgruntled employees. In most instances they were instigated with the full connivance or knowledge of highly placed officials with a full comprehension and an utter disregard of their

responsibilities. Furthermore, they were carried on at government expense, on government time, using government vehicles and government equipment, including the use of the government free-mailing privilege. At no time in our history has federal money been so widely used to circumvent the will of the elected representatives of the people.

I believe that this is an appropriate occasion to call again to the attention of the Senate one other condition which has limited our economy efforts in the past, and which undoubtedly will adversely affect our plans this year. I refer to the continued refusal of certain departments and agencies to live within their appropriations as granted by the Congress.

Most Americans who are unfamiliar with the appropriations process believe that when the appropriations bills are passed for the ensuing fiscal year, that is the end of it. Unfortunately, this is by no means the case. Instead, a steady stream of deficiency and supplemental measures comes to the Congress while it is in session, swelling the total appropriation, except when the Congress refuses the requests.

Since 1931, 488 of these measures, involving 4,426 items, and costing the taxpayers more than \$150 billion, have been sent to the Congress. During the sessions of the present Eightieth Congress, 11 measures, involving 777 items and costing in excess of \$6 billion, have been sent to the Congress. Many of these measures, particularly those submitted during the war, have been the result of emergencies growing out of the conflict. At other times new legislation, such as pay raises, has necessitated additional appropriations. These instances are no fault of the departments and agencies.

But on many other occasions deficiency and supplemental appropriation requests are the direct result of the failure or refusal of federal establishments to apportion their appropriations properly, as required by the antideficiency law. Such agencies, instead of dividing their appropriations properly over the four quarters of the year, have, with and without the approval of the Bureau of the Budget, arbitrarily decided that they, and not the Congress, are the best judges of how much should be spent. Having once taken this illegal step, they apportion their funds so that they inevitably find themselves without sufficient funds to complete the fiscal year. That is a favorite trick.

The Congress cannot effect economies as far-reaching as would otherwise be the case if the establishments of the executive branch adamantly refuse to cooperate, if they are allowed to continue their propaganda on the effects of reductions in appropriations, if they are allowed deficiency appropriations after wilfully refusing to heed the limitations set by the Congress.

Money Takes Its Revenge

By Joseph M. Dodge

Joseph M. Dodge, president of The Detroit Bank, is president also of the American Bankers Association. He organized a caravan of anxious ABA officials to move through the country with an evangel of sound, self-responsible banking in a time of inflationary crisis. He spoke in thirteen cities, saying over and over the same things. If bankers fail now to restrain inflation they will be unable to modify the consequences when deflation comes, and the sequel may be complete government control, the signs of which are visible.

WE have alarming symptoms of the same inflationary disease which so seriously affects the economies of the rest of the world. We are suffering from eleven consecutive years of peacetime government deficit financing before the war, the unavoidable deficits during the war, and deficit financing and enormous government expenditures since the war. Too many people have acquired the false notion that we can borrow and spend and tax, and that this process is good for the economy, and brings with it no penalties. Now we begin to see the penalties. Both money and debt are having their revenge.

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For fourteen years there has been no test of borrowers. Everyone, including the banks, has been riding on a manufactured prosperity. Just how fictitious and dangerous it is, is only now becoming apparent. This is a time for caution. We cannot assume the present level of activity will be maintained indefinitely; the odds are piling up against it. High costs plus even a modest decrease in sales volume will throw many businesses below the break-even point. *Losses will occur with a level of sales still much higher than in any prewar peacetime year.*

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Two years ago we faced the problem of conversion from war to peace. In the not too distant future we may face the problem of conversion from an extremely high and abnormal condition of business activity to a more normal level, but probably one that we would ordinarily call prosperity. Our level of national income is so high that even if we were to lose 15% to 20% of it, we would still have an

income nearly one third more than our best prewar year. But even that change would bring problems to bankers and borrowers alike.

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We cannot repeat the mistakes of former periods when banks contributed substantially to the inflation itself, in the amount and nature of the credit granted and then, when a depression followed, made the situation worse by calling loans and being unable or unwilling to extend credit. Just as we must now exert ourselves to modify inflation on the upside, so we must be prepared to step in and modify deflation on the downside with ample reserves of available credit. This is what credit control means. That is the difference between banking and mere moneylending. *It can be voluntary and cooperative, or it will be imposed.* You have an opportunity now to make your choice.

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We must not forget that the sum of what the banks do and its effect is subject to constant statistical measurement and interpretation. Also, that it is being increasingly used, publicly and privately, to further demands for additional controls over bank lending and investment.

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I have my own expression for what I believe is required under these circumstances. I call it—“*The need for selective and effective inaction.*” Selective inaction emphasizes the limiting of credit which adds to the consumption demand for goods, while granting credit for purposes which add to the immediate supply of goods. It is just as necessary for banks to have credit freely available to maintain a high level of production as it is to restrain the use of credit which has an inflationary impact on the economy.

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Today every loan should be required to meet two tests instead of one; not merely the traditional test of whether the loan is good, but also a test as to whether the proceeds of the loan will be used to contribute to already existing inflationary pressures.

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If this inflationary situation is allowed to acquire velocity and run its course to any extreme, the inevitable result will be completely fictitious dollar values, the substantially depreciated purchasing power of money, and the possibility of a disastrous

depression which can bring on unwanted social and economic changes.

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Fortunately for the banking business, banks are not responsible for the inflationary situation. The real source of inflation and present high prices is in the years of government spending in excess of revenues, continued large government expenditures, government subsidies, and government financing of large exports not offset by imports. These sources of inflation cannot be corrected by limiting bank loans.

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There is nothing in the increase in bank loans which has brought about this situation. Nevertheless there is much talk about creating more credit controls. The latest report of the President's Economic Advisers recommends “enlargement and aggressive use of the power to control the expansion of credit.” In considering that recommendation or any like it, there are other factors to be taken into account.

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A large part of the credit expansion has been the result of the activity of government-sponsored credit enterprises. GI loans, FHA loans, and other loans by government agencies have encouraged borrowing. This easy credit is primarily based on political decisions and normally would not be extended by the banks. But the public is encouraged to demand it and the banks are used as the principal instrument of supply.

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Everyone knows that credit sponsored by the government is the most freely granted credit available, because cheapness is its principal feature. Also, if there are any credit abuses, government-sponsored credit or lending projects will at least carry their full share of them. Nevertheless, I hear of no proposals to curtail these government guarantees, or the activities of government lending agencies. I suggest that if the government intends to establish new controls over credit expansion, it had better begin by reviewing and restricting the government-subsidized credit which has contributed so largely to the present amount of private debt.

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We are in an election year and politics will hold the stage. A government which over the past fourteen years has contributed so largely and definitely to the present inflationary condition, by actions not

related to the war, will be busily engaged in making others responsible and proposing remedies.

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There are too many cases today where banks have made every loan that could be technically qualified under a government guarantee. This contributes to careless bank lending, to overborrowing, and puts extreme emphasis on short-term gain without any regard for possible later consequences.

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If banks have to foreclose on borrowers to get the benefit of the guarantees, it certainly is not a means of promoting constructive relationships between borrowers and banks. And, if the time should ever come that the guarantor is called upon to protect the banks by the wholesale redemption of bad risks, no one knows what will happen. We may find that we have assumed the guarantee is more of a protection than it actually turns out to be.

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Today you are urged to get under the umbrella of a government guarantee for otherwise unbankable risks, and it is made easy and attractive to do so. You are urged to do it, and the public is urged to demand it. But, if you do this, with so little judgment that a large part of the risks guaranteed must be paid by some agency other than the borrower, what then? Who will be blamed for the large losses? The blame will be shifted from the borrowers and the guarantors to the banks.

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While Federal Deposit Insurance is a protection for the depositor, it does not protect the banker himself, except to help eliminate fear withdrawals. Deposit insurance is like fire insurance. It is only of use after the fire, after the damage has been done. It protects depositors after the bank has been weakened by bad loans or investments, and after the banker has failed in the successful conduct of his business. The banker who wants to keep his job and stay in business does not depend on Federal Deposit Insurance because when it becomes necessary for the FDIC to step in, he steps out. *The safety of himself, his business, and the Federal Deposit Insurance Fund itself depends upon banks being operated as though there were no deposit insurance.*

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In boom times bankers are always charged with *not* being constructive when they fail to do everything borrowers may want them to do. This is a common complaint against any banker who fails to be as generous with his depositors' funds as the bor-

rower who wants to use them thinks he should be. Actually, the fact that bankers do not accept every borrower's proposal for the use of bank credit may be the specific proof that they *are* being "constructive" in the fundamentally correct sense of the word. They may be doing a much needed job of protecting borrowers against unwise commitments, as well as protecting the funds of the bank depositors which the borrowers want to use without any responsibility for meeting depositors' demands.

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Constant talking to many eager borrowers, who press their needs and projects, and not to so many depositors, who always assume the safety and availability of their deposits and do not talk about it, furthers a general tendency for bankers to more and more readily accept the borrowers' viewpoints. That has happened before. If it had not happened, we could have avoided or modified some serious general banking problems of the past, which penalized banks and bankers, and borrowers and depositors alike.

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The borrowers are important customers of the banking business but, on the other side of the bank ledger, are many times their number who are depositors. Most of these depositors are not borrowers but they are the backbone of the banking business. In the final analysis, the real job of bankers is to be "constructive" for them—that means "safe."

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No matter what the immediate situation may be, the banker is always charged with the final responsibility of producing cash on demand for his depositors. The number of times this has to be done under adverse conditions are so few and separated by so many years as to be easily forgotten. But make no mistake, the requirement is as much a part of the business, and more important to the life of it, than anything else. The fact that there is no weekly, monthly, or yearly testing of banks, by unusual depositor demands, is no sure sign this will never occur again.

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It never has been possible to satisfy a depositor who wants his money and cannot get it, with a statement that the reason for the delay is the "constructive" use the banker has been making of the depositors' funds for the benefit of borrowers who cannot pay. No one ever heard of depositors accepting, in lieu of payment, excuses in terms of the helpful things bankers have done for builders, or home owners, or businesses, that failed to pay their borrowings as agreed.

Prodigious Increase of Mankind

A Paper by the Department of State

Division of International and Functional Intelligence

The Census Bureau finds that the population of the U. S. during the last ten years increased 13,700,000. The increase in the year 1947 alone was 2,667,000. That was the largest one year's growth in the country's history and the total January 1, 1948, was 145,340,000.—Editor.

APPROXIMATELY 2,250,000,000 human beings now inhabit the world. In spite of recent natural and man-made catastrophes, about 17,000,000 additional inhabitants were added each year during the past decade. The world's present rate of population growth (about 0.9 per cent) is probably the highest in history.

If the present rate of growth is maintained, the twenty-first century will see the world with a total population about half again as large as it now is. However, prospects for the immediate future suggest even larger annual population increments. The estimates developed in the present study, for example, indicate a world population total at the end of 1955 of some 2,438,000,000 people, an annual increment of almost 21,000,000 from now until then.

From the point of view of population development, the world can be divided into three more or less comparable groups of countries:

1. About a fifth of mankind, mainly the inhabitants of western Europe, North America, and Australia-New Zealand, now has either stable or slowly increasing populations. In general, they rank as the most urbanized, most industrialized, most literate, and wealthiest of the world's peoples. Birth rates are very low, with death rates even lower, in most cases. These people devote a much smaller proportion of their time and energy to reproductive and subsistence activities than the rest of mankind, and they have more time and energy to produce other forms of wealth, to advance themselves culturally, and to engage in other activities.

2. Another fifth of the world's population, mainly that of eastern and southern Europe, the Soviet Union, and Japan (plus certain classes of the population in some Asiatic, African, and Latin American countries) has declining birth and death rates. The latter are declining more rapidly, so these areas probably face a longer period of population growth than the people in group 1.

3. The remaining three fifths of mankind, mainly the inhabitants of Asia, Africa, and Latin America,

have not yet experienced a decline in birth rates, and the introduction of the cheaper and more easily applied mass mortality controls has lowered the death rates sufficiently to result in a large measure of population growth. However, these controls are generally fragile and easily disrupted in period of stress. In general, the bulk of this portion of the world's population consists of poor, illiterate agriculturalists.

With such different growth rates and potentials, the percentile distribution of the world's population among the various countries will differ at the end of the century from the present distribution. The world will have, even in the present century, significantly larger percentages of its expanded population in the areas which are now relatively undeveloped economically.

Europe

In spite of war losses, Europe (within its present boundaries) increased in population by about 14,000,000 during the past decade to its present size of about 385,000,000. Europe now has about 17 per cent of the world's population. Europe accounted for about the same proportion of the estimated world's population increase during 1946, but the increase was due to unusual demographic factors (*e.g.*, bunching of births that would normally have taken place during the war years). The end of Europe's period of rapid population growth is near at hand. In another decade, the continent's annual rate of growth may well be little more than half of the world's annual rate.

Within Europe, regional differences in growth potential signify the prospect of an eastward drift in the weight of population, unless counterbalanced by a very large migration to northwestern and central Europe. It is still too early to assess fully how much this tendency has been retarded by the proportionately greater wartime population losses of some of the eastern European countries and the postwar policies of expulsion of German-speaking and other minorities.

The Americas

There are approximately 304,000,000 inhabitants in the Western Hemisphere. Now, as for the past three hundred years, it is relatively the fastest growing of the major world regions, with an annual rate of growth half again as large as the world's average annual rate of increase. The 1945-46 absolute increment of some 5,000,000 was about a quarter of the estimated world increment, al-

though the population of the Americas is only 14 per cent of the world's total population. Within this century, there may well be a slight decrease in the region's annual growth rate. Considered as a whole, the Americas may maintain their present proportion of the total population of the world, but the United States and Canada will furnish a gradually decreasing share of the increase, while Latin America's share will become larger.

Demographically, North America has much more in common with Europe (especially western Europe) than with Middle America or South America. Although actual population stability or decline is probably less imminent than in western Europe, the trends of future population may be expected to be somewhat similar.

The 1946 population of about 155,000,000 in North America represents a 2,000,000 increase over the 1945 population, an unusually large increment compared with most prewar years; it was mainly due to deferred births which normally would have taken place several years ago. Unless the postwar leap in birth surplus should be maintained longer than anticipated, or there should be unusually large net immigration, the next decade may possibly see a decline of the annual North American growth rate to about two thirds of the prewar annual rate.

The two largest sources of growth in the North American population are probably among the French Canadians and the American southerners, but their fertility is falling as their way of life becomes more urban-industrial, and they probably will not long withstand the general trend among the bulk of the American and Canadian populations.

Latin America

As far as can be determined, the present population of Latin America is approximately 150,000,000, or slightly less than that of North America. Since its annual growth rate is much larger than that of North America, and double the annual world growth rate, the time is close at hand when Latin America will have a larger population than its northern neighbor continent. Most of the Latin American countries have declining death rates coupled with high birth rates and are in the heavy growth stage. It is possible that the population of the temperate portion may be gaining some control over its birth rates as well, although lack of adequate vital rates registration makes it difficult to be certain. At present, South America (with a much smaller population) has an annual increment as large as that of North America, while Middle America (with less than a third of the North American population) has an annual increment half as large. Unless there should be unusually large net immigration into North America in the near future,

or a continuation of the present large birth surplus, by 1955 South America may furnish half of the Americas' total annual increment, and Middle America may furnish as large an absolute increase as North America.

The U. S. S. R.

The demographic cost of the Second World War to the Soviet Union (just as that of the First World War and its following period of disorder) amounted to about a decade's growth of population. Consequently, the present population of approximately 190,000,000 is little more than the same area had a decade ago. The population is relatively young (*e.g.*, a large proportion of its total is in the reproductive age groups), and it will probably increase at a relatively rapid rate for at least another generation. Since about a third of the prewar population was already urban, and postwar plans stress accelerated industrialization, it seems plausible to assume that most of the population will live in an urban-industrial type of environment before another generation is past. There seems little reason to doubt that such a transfer will eventually result in the same population control that it induced in other peoples in Europe and North America. By the end of the century, the population may approach stability or a stage of slow growth.

Asia, Oceania, and Africa

A large proportion of the Asiatic population has yet to experience a lowering of mortality rates through the inauguration of the more simple and cheaper mass public health controls. The annual growth rate for the continent is, therefore, probably somewhat less than the annual world growth rate. Even so, Asia accounts for nearly half of the world's population increment.

Oceania's present population of some 11,500,000 is only one half of one per cent of the world's total population, and there seems little likelihood of the region looming much more important in the continental population balance of the foreseeable future.

There are approximately 173,000,000 Africans. While most African growth rates are extremely speculative, there is apparently an annual growth rate of something over 1.0 per cent. The population of much of the temperate and subtropical portions of the continent has already entered the era of rapid increase, although the population of the tropical rain forest areas is still stable or increasing very slowly. It is possible that the next few generations will see greater population increments, both from an absolute and a relative sense, than ever before.

American Affairs Index

VOLUME IX

No. 1—Winter, 1947

	Page		Page
Review and Comment.....	<i>By the Editor</i> 1	Verities of Money.....	<i>Bradford B. Smith</i> 32
Winds of Opinion.....	5	Reflections on Real Estate.....	<i>Raymond Rodgers</i> 34
The American Proposals for a Col-		Housing Upside Down.....	<i>Arthur W. Binns</i> 37
lectivist World System.....	<i>Garet Garrett</i> 7	Crude Translation of the Keynes Theory....	<i>C.I.O.</i> 38
Strategy of the World Planners.....	<i>J. Howard Pew</i> 16	The Closed Shop.....	<i>Compilation</i> 39
Snags for the British-Canadian		The Municipal Strike.....	<i>Administration Clearing House</i> 40
Wheat Deal.....	<i>Correspondence</i> 18	Free Speech.....	<i>Court Decision</i> 40
Villain: American Capitalism.....	<i>The Economist</i> 20	The Disputed Paragraphs....	<i>United Mine Workers</i> 41
The Anglo-American Com-		Some Myths of Labor Unionism.....	<i>Dr. Walter Sulzbach</i> 42
plex.....	<i>British Prime Minister</i> 21	Books: <i>The Servile State</i>	<i>G. G.</i> 47
When I Am on My Own.....	<i>Sir Ernest Benn</i> 23	English Boys Look at America....	<i>A Collective Article</i> 50
The New Economic Weather Bureau.....	<i>Edna Lonigan</i> 24	For a Free and Varied Society....	<i>Winston Churchill</i> 52
Dispassionate Forecast.....	<i>B.I.S.</i> 28	Tarnished Freedom.....	<i>John Foster Dulles</i> 53
One Repetitive Postwar		Reactionary Liberals.....	<i>Towner Phelan</i> 54
Pattern.....	<i>James Truslow Adams</i> 30	Seizure of the Word....	<i>Washington Correspondence</i> 57
Taming of the Stock Market....	<i>Marriner S. Eccles</i> 31		

SUPPLEMENT: Is an International Society Possible?—Isaiah Bowman

No. 2—Spring, 1947

Review and Comment.....	<i>By the Editor</i> 65	The Greek Burden.....	<i>British Information Service</i> 98
Status for the Poor.....	<i>An Editorial</i> 69	Senator Bailey's Testament	
The Government Nobody Knows		<i>Senator Josiah W. Bailey</i> 100	
<i>Senator Henry Cabot Lodge, Jr.</i> 71		Shall We Take the Road to Empire?..	<i>Felix Morley</i> 102
Winds of Opinion.....	73	Economics in Disgrace.....	<i>Walter E. Spahr</i> 105
More About the World Trade Charter.....	<i>Garet Garrett</i> 75	The Marxian Virus in American	
A World Fund to Stabilize Employment.....	<i>Jacob Viner</i> 84	Thought.....	<i>Towner Phelan</i> 108
Our Illusory Labor Force.....	<i>L. C. Walker</i> 87	Books: <i>About Freedom</i>	<i>G. G.</i> 112
Idea of the Guaranteed Life in Maine		<i>By Vote of the People</i>	
<i>Edward E. Chase</i> 90		<i>Enemy Ally</i>	
A Dreary Revolution.....	<i>Dr. M. J. Bonn</i> 91	What We Have Bought With Our Billions	
The Winter of British Socialism.....	<i>Various</i> 94	<i>Representative Alvin E. O'Konski</i> 118	
Nevertheless.....	<i>British White Paper</i> 96	The Closed Shop.....	<i>Cecil B. De Mille</i> 119
Too Little Too Soon.....	<i>London Times Editorial</i> 96	Senator Wagner on the Wagner Act.....	124
England's Creditors.....	<i>House of Commons</i> 97	Now Back to Banking.....	<i>Joseph M. Dodge</i> 127

SUPPLEMENT: The Money Torrent—W. Homer Turner

No. 3—Summer, 1947

Review and Comment.....	<i>By the Editor</i> 129	The Last Chance for Free Enterprise	
Winds of Opinion.....	133	<i>Edwin G. Nourse</i> 164	
Life or Death of the Free Economy....	<i>Virgil Jordan</i> 135	Betrayal of the Free Market.....	<i>Robert E. Freer</i> 166
Blindness on the Left.....	<i>Sir Norman Angell</i> 142	No More Henry Fords.....	<i>Joseph P. Kennedy</i> 167
Winston Churchill's England Now.....	143	The Land and Its Price.....	<i>R. I. Nowell</i> 169
The Year Three.....	<i>Garet Garrett</i> 145	Books: <i>Progress Reconsidered</i>	174
How the Money Was Found for the Bomb		<i>Tail of the Bear</i>	
<i>Senator McKellar</i> 153		Mythology of Economic Power....	<i>Walter Sulzbach</i> 178
Who Now Will Control Science?		What To Do With The American Mind	
<i>Reverend A. Powell Davies</i> 154		<i>Dr. W. Norwood Brigance</i> 181	
Hearings on the ITO... ..	<i>Washington Correspondence</i> 155	The Life Line of Three Worlds.....	<i>Dr. O. E. Baker</i> 185
Curiosities of Our Trade Policy.....	<i>Arthur Besse</i> 161	The Asian Resurgence....	<i>The Rockefeller Foundation</i> 188
Report from France.....	<i>Franz Robert Ingram</i> 162	Conscience Downstream... ..	<i>Senator Elbert D. Thomas</i> 191
The Greek Queen Could Take It... ..	<i>Senator Brewster</i> 163		

SUPPLEMENT: Bugaboo of Dollar Scarcity—Walter Sulzbach

No. 4—Autumn, 1947

Review and Comment.....	<i>By the Editor</i> 193	Fate of the Bata Shoe Enterprise.....	<i>Jan A. Bata</i> 229
Winds of Opinion.....	198	The Course of Government.....	<i>President Truman</i> 230
The Leaning Tower of Dollars.....	<i>Warren F. Hickernell</i> 200	The Taft-Hartley Act.....	<i>Murray T. Quigg</i> 231
False Thinking About Exports.....	<i>Leverett Lyon</i> 205	The Liquidation of War.....	<i>Arch W. Shaw</i> 234
Profile of a Labor Government.....	<i>Garet Garrett</i> 207	What Technology Has Done to Us.....	<i>Roland P. Soule</i> 237
Statistical Picture of the British		Books: <i>Pearl Harbor</i>	241
Consumer.....	<i>Compiled</i> 214	<i>Keynesian Error</i>	
Canada, Too, Has a Dollar Crisis....	<i>Correspondence</i> 215	Communism as a Religion.....	<i>Arnold J. Toynbee</i> 245
Our Sugar Cartel.....	<i>Washington Correspondence</i> 217	How the Red Minority Does It....	<i>Ralph Chaplin</i> 247
Report on Germany.....	<i>Lewis H. Brown</i> 219	The Pallid Ghost of Adam Smith.....	<i>John G. Schneider</i> 248
Moscow's American Forecast.....	<i>W. A. Jansen</i> 224	The Socialization of French Industry.....	<i>Belgian Report</i> 250
The Inoperable Cancer of the United		The Rise of a Singing Cowboy.....	<i>Senator Glen Taylor</i> 251
Nations.....	<i>Felix Morley</i> 228	The Price of Freedom.....	<i>H. W. Prentiss, Jr.</i> 253

SUPPLEMENT: Shall Government Subsidize Our Public Schools?—Robert A. Millikan

American Affairs Pamphlets

Federal Thought Control
A Study in Government by Propaganda

By FOREST A. HARNESS
Member of Congress from Indiana
(*Supplement to the Spring Number, 1948*)

—Nor Can Government
Analysis of S. 984

By DONALD R. RICHBERG
(*Supplement to the Winter Number, 1948*)

Shall Government Subsidize
Our Public Schools?

By ROBERT A. MILLIKAN
(*Supplement to the Autumn Number, 1947*)

The Bugaboo of Dollar Scarcity

By WALTER SULZBACH
(*Supplement to the Summer Number, 1947*)

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