

American Affairs

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SUPPLEMENT

Now the Fiscal Crisis

BY SENATOR HARRY F. BYRD

An American Affairs Pamphlet

By the Year \$2.50

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Notes on the Contents

Monster Government, by the Editor. This is a very long article on the report of the Hoover Commission—too long perhaps; but if we will not take the time to read the facts about government we shall never be better governed.

Return to the Middle Ages, by M. J. Bonn. Dr. Bonn is already known to the readers of AMERICAN AFFAIRS. He now lives in England and observes the British experiment with a kind of melancholy wisdom. A review of his latest book, "The Wandering Scholar," will be found on page 186.

How It Happened to the Farmer, by our Washington Correspondent, is the story of how subsidies to American agriculture began and how and why they grew. Without this history it is difficult to comprehend the Administration's new plan, which is to guarantee the farmer the highest income he ever knew by charging his losses to the U. S. Treasury.

Can Government Kill Depression? by Harold G. Moulton. This is a devastating analysis of the fondest economic delusion now current. Dr. Moulton is president of the Brookings Institution.

Thus the Suicide of Liberty is from a bitterly dissenting opinion by Mr. Justice Jackson in a case involving the freedom of speech, and makes a façade for the essay by Edward Jerome, entitled, *What Is Happening to Our Bill of Rights*. Mr. Jerome is the author of "Governments and Money," and "The Problem of the Constitution." He was formerly in the law department of the General Electric Company and now is engaged in private practice in New York. Few lawyers take the trouble to write about law for the layman.

The supplement to this number is an *American Affairs Pamphlet*, entitled, *Now the Fiscal Crisis*, by Senator Harry F. Byrd. It is very important and ought to be popular reading; but people hate to read figures, and that is why they know so little about the pain they feel in the pocket. Either before or after, one should read also Dr. Walter E. Spahr's essay, page 181, on *Why People Are Numb in the Money Nerve*, and why they are not more aroused by what Senator Byrd is trying to tell them.

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*

JULY, 1949

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Comment

By the Editor

SPEAKING for the Socialist Government of Great Britain, Mr. Herbert S. Morrison said to the British Labor Party:

"We believe a socialist democratic country can make a greater contribution to the peace of the world than a capitalist competitive country can do."

If only a certain capitalist competitive country will go on providing the dollars.

IT had been running in the news for some time that Senator Byrd was predicting a fiscal crisis and that many members of Congress were in a state of acute anxiety about the solvency of the government, when the papers printed a small routine Associated Press dispatch from Washington saying:

"The government counted up a budget surplus of \$1,048,000,000 at the close of the three-quarter mark of the current fiscal year, the Treasury reported today."

Several letters from bewildered taxpayers brought the clipping in, with questions on it. Was it not a rich government that could show a budget surplus of a billion dollars in nine months? Where was the crisis? What did it mean? In the first place, a budget surplus is not wealth. These figures mean only that on March 31 the government had in its hands claims to a billion dollars' worth of wealth which it had not yet exercised. How does the govern-

ment get these claims to wealth? In one or both of two ways, namely, by taxation and by printing the money. If it gets them by taxation, the taxpayers have already surrendered their own claims to the equivalent amount of wealth; if the government prints the money it goes into the market with a prior claim on all the things the taxpayers might wish to buy with what money they have left when the federal tax collector gets through with them. It follows that government of itself cannot be rich. It has no wealth of its own; it can only lay claim to the wealth produced by the people.

WHAT remains to be answered is another question. Since the end of the war the amount of wealth we have loaned and given away to other people, plus commitments for the next twelve months, is represented by the astonishing figure of approximately \$35 billion. If such a figure is too vast to be comprehended in terms of things, you may scale it to reality by supposing that what we shall lend and give away during the current year alone will be the total production of more than 3 million American wage earners. To this you add a defense program for the year of \$15 billion, which from an economic point of view is pure waste, contributing actually nothing to the sum of things we need or wear as consumers. But for all that, the satisfaction of our daily wants is not diminished; it is in fact increased. For a while there was scarcity and rationing, and we did without many things. Now supply is overtaking demand in all directions. In many things already there is a surplus or the fear of surplus,

especially food. Prices are beginning to fall. What is the answer to this? Is it that the more we give away the more we have left for ourselves? Or is it, as the Europeans generally think, that a capitalistic economy like ours must somehow get rid of its surplus, if necessary give it away, in order to keep its productive machine running in high gear?—that if we turn our surplus upon ourselves, or try to give it to our own people, we shall be ruined by it? That cannot make sense. There is no such thing as a people being unable to consume the total product of their own labor, short of complete satiety; and, if happily, they ever came to surfeit, the simple remedy would be to work less, that is, to consume more leisure.

THERE is no single simple answer. It is certainly true that we underestimated our power of production. In fact, we have always done that and so has the world. It happened in World War I, again between wars, a third time in World War II, and now once more, to our own amazement. The resources of technology and know-how have seemed to be inexhaustible. At the end of World War I, we had perhaps 100 research laboratories. Now we have thousands. The physicists, chemists, inventors, engineers and technicians who work in them go to bed at night and come awake in the morning with but one intention, and that is to increase man's power over nature. From this single intention come the discoveries and all the ways and means by which raw material is coerced and transformed. First comes the thing that has been imagined—a machine, a weapon, an automatism or a new blade of grass, and, secondly, the way to produce it in a prodigious manner, more and more of it, with less and less labor, faster and faster. In the first phase it is science against nature; in the second it is technology against time, for in the final equation time is cost, and it is cost that governs the distribution of our satisfactions. It is wonderful to be able to say that our power of production, happily at this time for the welfare of the world, was still greater than we knew. That is visible. It is

nevertheless a delusion to suppose that we can share our wealth with other people in this very free measure and be at the same time richer and more prosperous than before—that actually it costs us nothing.

WEALTH may take any form. The wealth we give away takes the forms that are wished for by those who receive it. For Great Britain it may take the form of an oil refinery or a new textile mill, for France the form of a modern machine or new railroad equipment, whereas for this country, if we were shaping it to our own needs, it might take the form of a schoolhouse or a concrete highway. It is true that the satisfaction of our daily wants is undiminished. But that is not to say that we deprive ourselves of nothing. The fullness of today may be borrowed from tomorrow. Day by day you do not notice that your house decays or that a machine wears out. We know for example that our educational plant is increasingly obsolete and inadequate. Yet it may not be perceptibly worse today than it was yesterday. We know that we are in arrears with low-cost housing. Everyone knows of slums that ought to be cleared away. Everyone knows that in many places traffic is strangled for want of more and wider highways. We know that unless very costly measures are taken to conserve it we shall presently be in great trouble about water. Such are some of the ways in which we might be using the wealth we give away. Or we might be using it to reduce the national debt. Would that be desirable? Under the European Recovery Program both Great Britain and France have been permitted to use Marshall Plan money to reduce their national debts, on the ground that it is good for their credit. If it is good for them it might be good for us, notwithstanding the idea prevailing in Washington that American credit is infinite and indestructible. Lastly, no one can say how much higher our standard of living might be. It is as if we had deliberately resolved to arrest the rise of our own standard of living in order to help other people to improve theirs. For this

unique and magnificent policy there is very wide popular support, and indeed we may never regret it. But let us not beguile ourselves with the thought that we shall never feel it or that we are actually richer for doing it.



A COMPLETE revelation of that world of planned economic happiness in which everything you sell will be dear and everything you buy will be cheap might be too dazzling. It could be again, as Bagehot said, that when people are about to advance, having seen the light, they make the mistake of looking back and then forget to go on. So we get only previews of it, one at a time, and become gradually conditioned. The latest preview will be found in the plan just proposed by the Department of Agriculture for a further solution of the perpetual farm problem. For a long time the Department of Agriculture has been supporting farm prices with public funds, according to a parity formula, the idea being to hold farm prices fairly level with industrial prices, so that the farmer will not have to sell cheap and buy dear. The faults of that system have been mainly three: First, that the consumer is gouged twice, once as a taxpayer obliged to pay the cost of supporting farm prices and again as buyer of the commodities that are thereby made dear, notably in the case of potatoes; secondly, that in one great area of the economy it destroys the free market, and this to the lookers-back is a serious matter in principle; and, thirdly, it has failed to solve the agricultural problem. Even on fewer acres farmers have produced more and more by the use of machines, better methods and chemical fertilizers, and surplus is a great liability still. Under the plan now proposed the farmer would be guaranteed not a parity price but roughly his present income, which happens to be the highest income he has ever enjoyed; and at the same time there would be a free market for farm products. On that free market prices could fall for the benefit of consumers, yet without hurting the farmer at all. How would it work? In the simplest way imaginable. The farmer

would be free to produce up to a certain predetermined maximum and then sell his crops for whatever they would bring in a free competitive market. In that case prices would be expected to fall for the consumer's benefit, but if prices should fall to a point at which the farmer's income was less than the income guaranteed to him by the government the Treasury would mail him a check for the difference. But why should it stop there? If it is possible for the government to guarantee one fifth of the population a high income, why shouldn't it in the same way guarantee everybody's income? That would be the planned world in full. And think what a world it would be! The loaf of bread might go to a penny and no baker, no miller, no farmer would mind, because it would be necessary for him only to certify his loss and receive a check from the government. A motor car might sell for a few hundred dollars, and yet the motor car industry could go on paying high wages just the same because the government would take care of its loss. Here the backward-looking mind begins to ask questions. What will be the cost? Where will the money come from? What will happen to the taxpayer? And so on. By the penny loaf and the cheap motor car the taxpayer's cost of living will be greatly reduced. That is one answer. Another is that one must assume the planners to be logical and willing to go all the way. Therefore, the taxpayer's income too will be guaranteed. He would have only to write a letter, saying:

"Dear U. S. Treasury:

"What your tax collector left of my income is less than the income to which I am entitled. Please send me a check for the difference."

In that planned world nothing more could happen to anybody.



IN a statement of policy issued by the British Labor Party this statement occurs:

"We believe that capitalism, through inefficiency and unemployment, has wasted the capacity to produce that the machine has put in our hands."

That naive way of thinking about the machine is from the Marxian fairy books. People see the

machine. It is already there. Once they get control of it they will make it produce for use only, not for profit, and everybody will be rich and happy. But there is a law of the machine that Socialists apparently cannot learn. Even the British capitalist does not understand it well, for if he did he would not have let England's equipment grow old. The machine does not fall out of the sky; nor is it there once for all. The people's capacity to produce does not begin with the machine. First the machine itself has to be produced, and then from the manifold wealth that falls from it enough must be saved to reproduce it endlessly. Nor is it enough to reproduce it as it was, for it is different already today and will be very different tomorrow, always evolving by an ascending scale. A machine wears out. Everybody can see that. But besides wearing out it must be always dying of obsolescence. In a competitive world one new and better machine kills many old ones. If the machine is worked either for use alone or for profit alone its end may be foretold. A kind of rust, which is economic loss, will presently eat it up. That is the law and that is why so many machines in England are now a capital liability. They were worked too much for profit only, and lived too long. Working for use alone they would have starved long ago. Few know how much the machine itself devours in a machine economy.



MAY the Constitution of the United States be by-passed by an international treaty? That question was raised in a definite manner during the preliminary debate on the Atlantic Pact. Article VI, paragraph 2, of the Constitution reads:

"This Constitution and the laws of the United States which shall be made in pursuance thereof, and all treaties made or which shall be made under the authority of the United States shall be the supreme law of the land."

Thus an international treaty, once we have signed it, becomes the supreme law of the land. So it would have to be. When a sovereign na-

tion gives its word it must be prepared to keep it; and if keeping our word upsets some of our laws that is something we ought to have thought of in the first place. None of this really mattered so long as treaties with foreign nations were of the ordinary kind, touching boundaries, reciprocities and the exchange of amenities. Now, however, as we enter a new world of collective treaties that may deeply affect our internal affairs, even in the extreme case our standard of living, our civil rights or the right to do as we like with our own wealth, the question whether or not the Constitution is a complete safeguard becomes very important. The Constitution says that only the Congress may declare war, whereas the Atlantic Pact may be construed to mean that this country could be automatically involved in war by something that might happen between two foreign powers, leaving it for Congress only to confirm the fact afterward. On that ground would the Atlantic Pact be unconstitutional? Senator Ferguson took the position that there could be no such thing as an unconstitutional treaty because there is no way to challenge its constitutionality. The Supreme Court cannot touch it or review it. Senator Watkins said in that case it followed that the President, exercising the treaty-making power with the advice and consent of the Senate, could in fact amend the Constitution. Senator Ferguson said that was true. He continued:

"My reason for saying that we cannot have an unconstitutional treaty is that under the *Curtiss-Wright* case (299 U. S. 304) it was stated that international sovereignty is over and above and outside the Constitution. The broad statement that the Federal Government can exercise no powers except those specifically enumerated in the Constitution, and such implied powers as are necessary and proper to carry into effect the enumerated powers, is categorically true only in respect of our internal affairs. The *Curtiss-Wright* and *Holland against Missouri* decisions make it clear that it is impossible to have an unconstitutional treaty, because there is no way by which the court can review a treaty."

Senator Taft then said that "the limitation of treaties was not in the Constitution but in the authority of the United States." That phrase,

authority of the United States, is found in Article VI of the Constitution; and this suggests the strange possibility that the United States has a kind sovereignty above the Constitution. The Supreme Court has already held that since the several states never did possess international powers, the Federal Government could not have derived them from the states. "Such powers," it said, "could not have been carved from the mass of state powers, but obviously were transmitted to the United States from some other source." From what other source? The answer to that may be metaphysical. But what will the answer to the first question be?



IN its propaganda for the ITO the State Department has steadily maintained that what is proposed to be created is nothing like a superstate or a supergovernment. This denial is repeated again in the February 20, 1949, number of *The Department of State Bulletin*, page 219, in these words:

"The ITO will not be a supergovernment; national governments will make the decisions."

But in the same article, on the preceding page, it says this:

"A country may use either export subsidies for primary products or direct producer subsidies, but not in such a way as to capture more than its 'equitable share' of the world export market. The country itself decides, in the first instance, what

it considers an 'equitable share' of the export market. If another member complains, the ITO decides the 'equitable share.'"

This means that the United States would be perfectly free to say what it would consider its "equitable share" of the export market, but if any other nation complained, the ITO would decide. If the power to decide what this country's "equitable share" in the export market shall be is not the attribute of supergovernment how shall a supergovernment be defined, or how shall we know one when we see it? In the same article, page 219, this statement occurs:

"If a country dislikes a decision of the ITO, after appropriate appeal and 60 days' advance notice, it may withdraw from the ITO."

Here one must choose between the improbability that the State Department deliberately misrepresents the text of the Charter or the probability that Mr. Norman Burns, of the Office of International Trade Policy, who wrote this article, never himself read the Charter. Article 102 of the Charter says:

"Any member may withdraw from the organization at any time after 3 years from the date of the entry into force of the Charter," and "withdrawal shall become effective upon the expiration of 6 months from the date on which written notice of such withdrawal is received by the Director General."

Thus no charter member, however much it may dislike a decision of ITO, can get out under three and one-half years.

Unfit for Empire

IT is true that taxes levied by consent of the estate do abate men's courage less: as it hath been seen notably in the excises of the Low Countries; and, in some degree, in the subsidies of England. For you must note that we speak now of the heart and not of the purse. So that although the same tribute and tax, laid by consent or by imposing, be all one to the purse, yet it works diversely upon the courage. So that you may conclude, that no people overcharged with tribute is fit for empire.—
From "Essays Civil and Moral," by Sir Francis Bacon.

Winds of Opinion

Millions seem to fear that individual freedom is leading us toward social chaos; that individual opportunity has forever disappeared; that no person can have rightful title to property; that we have reached the point where the individual is far too small to cope with his circumstances; that his lifelong physical security against every risk is all that matters. More than this, we hear that such security must be attained by surrendering to centralized control the management of our society. In short, to these fearful men, the free human individual is a social anachronism. On every count the fearful men are wrong.—*General Dwight D. Eisenhower.*

Civilization is not threatened by atomic bombs and biological warfare today. It is threatened by ourselves. If civilization goes down, man will be his own undoing. The instruments and tools that he uses will not be the source of the trouble.—*Professor Roger J. Williams, Texas University.*

Man, not nature, is the great problem today. These vast new powers in the hands of selfish or arrogant men simply increase their power to dominate their fellows.—*Dr. Edmund W. Sinnott, of Yale University.*

The problem of public knowledge and responsibility versus the degree of secrecy necessary to our national security is a fundamental one; so fundamental as to raise the question of the adaptability of democratic institutions to an age of scientific barbarism.—*From a forthcoming book entitled "National Security, Atomic Secrecy and the Dissemination of Information," by Kenneth H. Myers, Jr.*

We have separated education and manners until children are proud to show there is no connection.—*Dr. Houston Peterson, Rutgers University.*

American capitalism, British socialism and Soviet communism are the three competitors in a race to capture the mind and imagination of the world. What a race that is! If the Olympian gods had arranged it as a sporting event one might understand the conditions, for they were a whimsical lot

and had the power to impose delusions on the human mind. One of the conditions is that in order to win the capitalist runner must share his strength with the socialist; another is that as he runs he must hear from his own bleachers jeers for himself and cheers for the other two.—*W. H. Chamberlain.*

One of the clear roads to state socialism is the creation of an environment unfavorable to venture capital. If venture capital is not forthcoming privately in adequate volume, sooner or later, the state will step in and take the place of the common stockholder. We have been moving strongly in that direction for some years.—*Professor William A. Paton, University of Michigan.*

In all the cities it is the government that should do away with slums, it is the government that should build public housing, it is the government that should supply parking space, it is the government that should supply all the services for the sick with a national system of hospitalization and medical care. As our minds adjust to one of these things it puts us in shape to adjust ourselves to the next, and after that it is still another, which yesterday would have seemed impossible, yet which tomorrow will be done—and it is the day after tomorrow that we should keep in mind, because that is when statism—having progressed through socialism—breaks down.—*Martin W. Clement, President of the Pennsylvania Railroad.*

We are not blameless for some of the world's monetary and exchange confusion. Our government broke its promise with its creditors by going off gold. In doing so, many people contend it contributed to upset the only sound currency history has known and that indirectly it gave impetus to the unrealistic values of managed currencies.—*Henry H. Heimann, Executive Manager of the National Association of Credit Men.*

I do not presently foresee any prospect of death by violence for our free economic, social, and political institutions. Such events are rare in the history of men. But I do see the threat of a creeping paralysis which sets in upon those institutions to strangle them and eventually to bring certain death.

That suffocation comes readily at the hands of an expanding state. I fear that process of slow but sure death, and I intend to fight it wherever it is cloaked in an authority which does not exist.—*Senator Homer Ferguson.*

I don't know how much longer the United States can stand the pace of public spending without collapse. That is anybody's guess. I should guess that we have very definitely reached the breaking point. If citizens do not now rise against increased taxation, if they do not now effectively demand that their government live within its present enormous income, then those same citizens will have only themselves to blame if their cherished personal liberties are swept into oblivion with the economic freedom that alone makes them possible.—*Representative Frederic R. Coudert, Jr., of New York.*

In other words, we raise our taxes to send money to Washington, then we raise some more taxes to match the amount we have already sent to Washington, in order to get back the amount we originally sent. That is what is known as Federal Aid.—*Arch W. McFarlane.*

Geographically, many of these member nations are already in positions where any aggression into western Europe would be a conquest of their homelands. I assure you that our frontiers of collective defense lie in common with theirs in the heart of Europe.—*General Omar N. Bradley, Chief of Staff, on the Atlantic Pact.*

It seems unfortunate that the United States no longer has a free hand, which is all that isolationism has ever meant. The eight volumes of Moore's Digest of International Law are a standing refutation that there ever existed isolationism in the Hull sense of that word. To follow up our intervention by a treaty of alliance with five countries or more is to place American intervention in the hands of other people, a policy that can hardly be regarded as useful to us.—*Dr. Edwin Borchard.*

Full employment is a very poor end for the activities of society. Is it not a better end that people work as *little* as possible, rather than as *much* as possible?—*Chr. Gandil, Danish political economist.*

The successful producer of an article sells it for more than it costs him to make, and that's his

profit. But the customer buys it only because it is worth *more* to him than he pays for it, and that's his profit. No one can long make a profit *producing* anything unless the customer makes a profit *using* it.—*Samuel B. Pettengill.*

There are clear indications that the abnormal demand for steel products, which came into being largely as a by-product of World War II, is fast becoming a thing of the past.—*Irving S. Olds, Chairman of the United States Steel Corporation.*

Marshall Plan Steel Mills Rising in Europe

From *Record and Statistics*, Supplement to *The Economist*, London, April 2

IT was announced in Paris on March 27th that the ECA has accepted a plan for the coordinated development of western Europe's steel industry which has been approved by the Executive Committee of the Organization for European Economic Cooperation. The first phase of the program covers twenty projects in eight countries—Austria, Belgium, France, Luxemburg, Italy, Norway, Turkey and the United Kingdom. It proposes the expenditure of \$100 million from ECA funds to buy modern ore-mining and rolling-mill equipment. In the United Kingdom it is planned to grant \$26 million to the South Wales project, and \$4.5 million to Stewarts and Lloyds, the Scottish steel tube manufacturers.

Reducing England's National Debt with Marshall Plan Aid

From a speech by Sir Stafford Cripps in the House of Commons

THE total of the National Debt outstanding on 31st March, 1949, is £25,168 million, a fall of £453 million since 31st March, 1948. That happy result arises from two causes; first, the over-all Budget surplus which has been realized, and, second, the sterling proceeds of the Marshall Aid Special Account, of which £107 million has been applied, with the consent of the government of the United States of America, to the redemption of short-term debt.

Debt has never before been redeemed on anything like such a scale, and the operation has, therefore, naturally aroused a great deal of interest during the year.

Monster Government

Notes on the Report of the Hoover Commission

By Gareth Garrett

When all government, in little as in great things, shall be drawn to Washington as the center of all power, it will render powerless the checks provided by one branch of government on another, and will become as venal and oppressive as the government from which we separated.—Thomas Jefferson.

I.

In Half a Lifetime

THERE was a time when a citizen's normal way with his government was free and rugged. When he went to Washington on an errand he knew what he was about. If any big bureaucrat tried to high-hat him he said to the bureaucrat: "You only work for this government. I support it." While that was true, except for the principle of the matter, it was nothing to boast of, because the cost of government then was less than two cents in each dollar of the national income, and everybody could afford it.

But now, with government taking one fourth of each dollar of the national income, it is different. The citizen who goes to Washington to do business with the government is first bewildered by the difficulty of finding it. It is everywhere and nowhere. The size of it intimidates him. His Congressman may have to lead him around by the hand, but it is not unknown for Congressmen themselves to get lost in the maze. No individual can still have the feeling that he acts upon government. There is, on the contrary, the feeling that it acts upon him, and he is helpless to do anything about it. Statistically he is a consuming unit. Socially he is either a taxpayer or a taxeater, and if he is a taxpayer he seems to have changed places with the tax-

eater, who now has political influence. The government may act upon him according to his status, and his status is a hole punched in a card that is run through an automatic sorting machine; or it may act upon him directly through a bureaucrat who never had to meet a pay roll and yet may tell him how to price and sell his goods, how to keep his books, how to manage his labor relations. If he is old enough to remember when it was not like this he leaves Washington in a kind of daze saying:

"Certainly the people have lost control of government. How are these vast powers derived?"

*

Formerly it was that Congress knew all about government and if it didn't it could very easily find out. It wrote the laws, formulated public policy, and held the public purse. Control of the public purse gave it the last word upon everything.

Now it is that many Representatives and Senators do not have time to read the *Congressional Record*. They are too busy trying to overtake government, merely to find out what it is doing; and more than that, Congress now bitterly complains of secret government, which withholds information about itself on the ground that to release it would be a breach of confidence or contrary to public policy. A lawyer representing one of the executive departments appears before a committee of the

Senate and refuses to answer certain questions, saying that the department is his client and that the information he possesses is confidential. As a lawyer he cannot divulge it. Some years ago Congress delegated to the President the power to make tariffs. Now a departmental committee takes testimony from businessmen on tariffs and when the Finance Committee of the Senate wants to see that testimony it is withheld as confidential. The Senate Finance Committee, although it has a legislative decision to make, cannot see this information even confidentially. Many instances of this kind moved Senator Ferguson to say:

“Congress is rapidly being pushed into the intolerable position of having either to legislate through a blind spot or compel the President to answer for his conduct in impeachment proceedings.”

*

Much more law than Congress enacts now is written by executive agencies of government and printed daily in the *Federal Register*, but if members of Congress haven't time to read their own *Congressional Record* they are certainly not going to read the *Federal Register*, which means simply that citizens in their everyday existence are touched by a great deal of law which members of Congress never saw. And as for control of the public purse, Congress surrendered that in the first year of the New Deal and never got it back.

The government's demands for money now are so large and so urgent that they cannot possibly be analyzed. The result of this is that Congress makes enormous appropriations without knowing but in the most general way what the money is for and is reduced to the unintelligent expedient of threatening from time to time to cut all appropriations in a horizontal manner by something like 3% or 5%, on the ground that the demands are perhaps all alike excessive and padded.

You may say to a member of Congress, “What all of this means is Congress has lost control of government. The legislative branch is breaking down.” But if you expect to startle him by this observation you will be disap-

pointed. He says: “Anybody can see that. Who sees what we can do about it?”

*

This aggrandizement of government in half a lifetime from a budget of \$1 billion to a budget of more than \$40 billion, rising toward \$50 billion, has taken place on the executive side. The executive head of government is the President. Does the President therefore control executive governments?

It is true that the powers of the President have enormously increased in both form and substance. Senator Ferguson made a very clear picture of that when he said:

“The President had already acquired many new powers during the depression years. The addition of the special war powers and the constitutional power of the Commander in Chief sufficed to turn the White House into the GHQ of the world. The enormous economic resources of the United States and the President's power to control them made his decisions practically final in a great war of the Allied World.

“The war and the necessary drive for victory provided the centripetal force that kept the power firmly centered, however widespread the delegation of the power had to be.

“The result was that a sort of political-military hierarchy was built up, an entirely new bureaucracy that tended to by-pass many of the executive agencies and center itself in the White House, the State Department and Military Establishment. The Bureau of the Budget was taken from the Treasury in 1939 and attached to the White House. It became a master planner of new types of executive machinery. The State-War-Navy Coordinating Committee served to bind foreign policy and the military ever more closely to the President and an ever-increasing number of confidential agents and functionaries, of whom Mr. Harry Hopkins was the chief, made their headquarters and did their daily work in the White House. What these people said and did was secret, to be revealed to Congress, the press, and the people only if it seemed expedient.”

That is a fair description of how the powers of the President have increased, and still it does not follow that the President controls executive government. In fact he does not. No fewer than 65 executive agencies of government report to him. If to each one of these he gave one hour a week that would mean six ten-hour

days and five hours over for Sunday, supposing he had nothing whatever else to do.

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The truth is that the executive business of government passes before the eyes of the President as a film moving at very high speed, which causes everything to be blurred. Nevertheless he has to make decisions, and since it is impossible for him to have firsthand information about more than a few things, if of anything really, he must accept the facts that are brought to him, or he must choose between two representations of fact without being himself able to verify either one. The Constitution makes the President directly responsible for the conduct of foreign affairs. Yet everyone who has recently followed the news must know that from some of his lone adventures with foreign policy the President has emerged with a redness of face that was not owing to muscular exertion. Besides the State Department, which itself is torn by conflict of ideas, the Army with its occupation forces abroad, the Treasury, the Department of Commerce, the National Security Council, the Administrator of the European Recovery Program, and altogether thirty interdepartmental committees are concerned with American foreign policy in some or all of its economic and social aspects.

II.

How This Giant Grew

GOVERNMENT, as it was created by the Constitution, is a trinity of coequal powers, no one of them supreme, each one intended to limit the other two. There is first the lawmaking power, which is Congress; then the executive power to be exercised by the President, whose chief constitutional function is to enforce the laws; and, thirdly, the judicial power, which is the Supreme Court, its function being to settle all disputes about the law. This coequality of three powers is sound in theory. It is at the base of the American system of checks and balances. In fact, however, it is never quite true. A strong Congress advances the legislative power against a weak President;

a strong President sometimes overcomes a weak Congress and has his own way; and it has happened that a strong Supreme Court, as for example when John Marshall was Chief Justice, could intimidate both Congress and the President.

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In this historic struggle, however, there was a kind of rhythm and alternation. And the theory of three coequal powers, limiting one another, had been fairly well satisfied until the advent of the New Deal. Since then the crucial fact about government has been the uncontrollable rise of the executive power against the other two, until now the White House is the supreme seat of authority. Partly this was the work of Franklin Delano Roosevelt, who at first had a Congress that would rubber stamp anything he wanted and surrendered control of the public purse for the first time in history. Control of the public purse constitutionally belongs to the lawmaking power, which is Congress.

The principal explanation is, however, that since the beginning of the New Deal executive government has been redistributing the national income downward through the social pyramid, in benefit of the weak against the strong, according to ideas of a welfare state that were never before accepted in this country. This redistribution of the national income is accomplished by enormous expenditures out of the public purse for the general welfare, for ameliorations of debtor hardships, social security, health, housing, subsidies to the farmer on the ground that he is not getting his fair share in a competitive world, and so on—all of which requires, of course, a bigger and bigger public purse to be replenished by higher and higher taxation on profits and the income of the few.

The simple secret of the rise of the executive government is that it spends the money. If the total expenditures of all Federal Government for a year are taken at \$40 billion, the cost of Congress and the Supreme Court together will be approximately \$1 billion. Executive government spends the rest and it is very anxious to spend it for what people want.

Executive government now employs more than two million people. Its profusion is incredible. There are 9 regular departments, more than 100 bureaus, 25 administrative agencies, 60 boards and commissions, 19 corporations, regional authorities, innumerable services, branches, sections and subsections, scattered all over the country in every city and county seat. Its business is listed in every telephone directory in the country. In the Manhattan telephone directory it has nearly two pages.

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And at the head of all of it is the President. He is obliged to act upon it and make decisions about it, but to say that he controls it is absurd. Whether it is humanly possible for one man to comprehend a miscellany of activities so vast and so various is a question that cannot be answered until it has once been attempted under a scheme of scientific organization such as does not now exist and never did. As it now is there are no clearly defined lines of authority or responsibility. The parts are disjunctive, overlapping, duplicating and competitive; some are autonomous and some are not; some report to the President and some report to Congress; the TVA is a world of its own and the Atomic Energy Commission is a totalitarian government in itself.

Where there are parts there is a whole but the whole may be a kind of chaos. Every President of recent time has said this. At the beginning of his second term Franklin D. Roosevelt, who by increasing the functions of executive government contributed more than his share to the chaos, nevertheless said:

"The Executive structure of the government is sadly out of date. I am not the first President to report to the Congress that antiquated machinery stands in the way of effective administration and of adequate control by the Congress. Theodore Roosevelt, William H. Taft, Woodrow Wilson, and Herbert Hoover made repeated but not wholly successful efforts to deal with the problem. . . .

"Neither the President nor the Congress can exercise effective supervision and direction over such a chaos of establishments, nor can overlapping, duplication, and contradictory policies be avoided. . . .

"(It) has been common knowledge for twenty years that the President cannot adequately handle his responsibilities; that he is overworked; that it is humanly impossible, under the system which we have, for him fully to carry out his constitutional duty as Chief Executive because he is overwhelmed with minor details and needless contacts arising directly from the bad organization and equipment of the government."

The difficulty that has been arriving now appears. How do we define what we are talking about? Chaos though it may be, here is executive government acting powerfully. Directly or indirectly it touches every activity of our daily life, and yet nobody controls it. The citizen long ago lost the illusion of controlling it. Congress is very conscious that it no longer controls it. Congress is defeated by the fact that so many of the works of executive government are irreversible; its beneficiaries are too many and cannot be cut off. Lastly, the President, who is the head of executive government, cannot control it. Therefore, what is it?

Is it but an aggregate of agencies and instrumentalities acting in a confusion they did not create, each trying to obey the law of its own being and to do what it was meant to do? In that case the fault is with the law. Or, strangely, is an instrumentality of government like a living organism, with resources of offense and defense, a kind of biological urge to grow and proliferate, the instinct to ramify itself in its environment and the instinct of self preservation? It is well known that you cannot reduce a bureau by cutting off its tentacles. When you come to look at it again it has more and longer tentacles than before.

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Whatever it is, the Congress either created or authorized it, one piece at a time, with no general design in mind. Each successive instrumentality was invented to solve a certain problem, with no reference to any other problem. One of the first, a long time ago, was the Interstate Commerce Commission to regulate the railroads. The number of them increased as the economic life became more and more complex and seemed to require more regulation, but in each case it was a matter to be long

debated and when the law finally passed everybody knew why, and what it was intended to do.

That was so until the coming of the New Deal. Then to meet the demand for social legislation new instrumentalities of executive government were created so fast and with so little debate that people could hardly keep track of them, so fast that by accident two might have the same alphabetical symbols until one of them got renamed. There were at one time, for example, two designated as CCC.

And then, more than ever before, Congress began to endow these new instrumentalities with extraordinary powers, such as the power to make their own laws, the power to enforce their own laws in the dual capacity of prosecutor and judge, and the power to create and dispense credit, or to borrow money on the general credit of the government, notably in the case of the RFC.

Recently, Congress has come to be very uneasy about the consequences. It has created more government than it can comprehend, and every part of it keeps growing as if by a law of its own necessity. There is no order in it. It is an unmanageable and unmanaged power, notoriously inefficient in all it does, always doing things in the most wasteful manner as if money were no object.

There probably never was in the whole world an efficient government. Nobody really expected a government to be efficient and nobody was much worried about it when the total cost was \$1 billion a year. But when government begins to cost \$40 billion a year and when inefficiency and waste so multiply, it becomes a matter of extreme concern.

III.

What To Do

THE idea of a structural reorganization of executive government is perennial. Every recent President has talked about it; every recent Congress has debated it; every attempt to do anything about it has failed. No President alone could do it because he would need special

legislation to give him a free hand, whereas any reorganization bill Congress was willing to pass had strings to it. President Hoover offered eleven reorganization plans, and Congress rejected all of them. In 1939, Congress passed a reorganization bill for President Roosevelt. He made use of it to create the Federal Security Agency, the Federal Works Agency, the Federal Loan Agency, and the Executive Office of the President, and at the same time he shifted some agencies about. But even in that law Congress named twenty-one things the President could not touch, and in another reorganization bill in 1945 it named nine things President Truman could not touch. Those were the strings.

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Two years ago the Congress was at last resolved to do what was necessary. The first problem was to be able to see the thing that was going to be reorganized. How could you reorganize anything without being able to see it? Nobody yet had been able to see executive government as a whole. Congress was ready to pass a bill creating a bipartisan commission, first to visualize executive government and then to say how it should be organized—provided a man could be found to undertake the job whose qualifications would satisfy both Republicans and Democrats and then the President. They thought of Hoover. Everybody could agree upon him. By long-distance telephone they found him underground in a mine, where he was looking at one of his bread-and-butter properties, and they said to him:

“If you will take the job we can pass the law. If you won’t we can’t.”

Mr. Hoover said he would take it, thinking of it as possibly the last public service he could perform. His genius for organization is perhaps unequalled in the world. His work as administrator of European relief in World War I, which began when he put himself at the head of the Belgian relief as a volunteer and ended with his having his own ships, his own flag, his own passports and running his trains across all the frontiers of Europe, was an historic feat of organization. Yet as President of the United States he was unable to bring about a struc-

tural reorganization of executive government. Its interior resources of resistance were too great.

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When Mr. Hoover said he would do it, Congress passed the law, and that was the origin of the Hoover Commission on Organization of the Executive Branch of the Government. The Commission was made up as follows:

Herbert Hoover, Chairman, President of the United States, 1929-33
 Dean Acheson, Vice Chairman, Secretary of State, 1949-
 Arthur S. Flemming, Civil Service Commissioner, 1939-48
 James Forrestal, Secretary of Defense, 1947-49
 George H. Mead, Board Chairman, The Mead Corp.
 George D. Aiken, U. S. Senator from Vermont, 1940-
 Joseph P. Kennedy, Ambassador to Great Britain, 1937-40
 John L. McClellan, U. S. Senator from Arkansas, 1942
 James K. Pollock, Prof. of Political Science, Univ. of Michigan
 Clarence J. Brown, U. S. Representative from Ohio, 1939
 Carter Manasco, U. S. Representative from Alabama, 1941-48
 James H. Rowe, Jr., Assistant to the President, 1939-41

It was a bipartisan commission, six Democrats and six Republicans, with divergent and sometimes irreconcilable views on the social and economic responsibilities of government in modern circumstances; but they could all agree that government ought to be rationally organized, efficient and un wasteful, and that clearly defined lines of command should run through it vertically. The members of the Commission all served without pay.

IV.

Hoover at Work

MR. HOOVER organized 24 Task Forces to search the government down to the ground. Each Task Force had a certain field to

cover and each one was made up of men having special knowledge of that field. These Task Forces made their reports to the Commission, and their work was the raw material on which the Commission based its reports to Congress.

The Task Forces were entirely free. The Commission, on the other hand, had to compose many conflicts of view in order to arrive at conclusions and make unanimous recommendations.

For example, the question of bigness as such, that is, whether or not executive government was too big, did not lie within the Commission's mandate. It could not discuss whether or not the government ought to be doing all that it now does, for that would involve political convictions; it could consider only the ways and means for doing these things better, more efficiently, more intelligently, and with less waste.

It could note the fact that "approximately 40% of all funds expended by local governments and approximately 15% of all funds expended by state governments are derived from grants in aid" by the Federal Government—that is to say, money out of the United States Treasury. It could recommend that "the grant-in-aid program be clarified and simplified"; it could not take a solid position either for or against using the power of executive government to redistribute the national income as between rich and poor states, or to subsidize the social welfare of cities out of the national purse. That is a controversial matter.

On the subject of welfare activities and social security it was obliged to say: "It is not the province of this Commission to pass upon the policies that have been evolved in these matters. We are concerned with the efficient and economical organization of the federal agencies as we find them."

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The total record compiled by what will hereafter be called the Hoover Commission is a document of two and a half million words. If it were all printed it would fill about twelve heavy books. To read it attentively would take at least ten days, doing nothing else. Therefore, it was only a digest that could be printed with any hope of getting people to read it; the rest

went to the archives. It is there for anybody to see who will take the trouble. The digest was still too long and had to be abridged. Publication was handled in the following manner.

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As the reports of the Commission were delivered serially to Congress a summary of each one was released to the press, and it was already in print as a public document. At the same time summaries of the Task Force reports were published by the public printer and put on sale at 25¢ a copy, so that anyone could see the original material on which the Commission based its suggestions for streamlining executive government. Here then you had nineteen reports from the Commission and nineteen Task Force reports—a total of 38 separate documents to be read. Who would take the trouble? Probably not very many common taxpayers, all very busy trying to earn their taxes and something over, and these were the people Mr. Hoover was most anxious to reach with the largest and most complete body of facts about the government that was ever put together.

At about this point Mr. Hoover said he was reminded of the little girl who expressed to an elderly friend an interest in penguins. The elderly friend immediately sent her a book about them. She acknowledged it, saying: "Thank you for the book. It tells me more than I want to know about penguins."

The newspapers did a fairly good job of reporting the gaudy facts, especially those on what Mr. Hoover calls the housekeeping side of executive government—such for example as:

The fact that with approximately \$27 billion worth of goods and material in storage the government has no proper way of accounting for this vast amount of public property and sometimes does not know where it is or what it is; or

The fact that in the District of Columbia alone the government has 125 purchasing offices, besides many field offices, and that they are often "competing against each other in the purchase of identical items at the same time, and frequently from the same source of supply at varying prices," and when the same goods

might already exist somewhere in the government's warehouses; or

The fact that many agencies are overstocked with supplies, sometimes for fifty years ahead, and this is owing largely to the customary end-of-the-year spending spree, "disregarding stocks on hand and actual needs," the purpose being to have no money left over from last year's appropriation, for if money is left over and turned back to the Treasury that may hurt next year's appropriation; or

The fact that a great deal of government property has vanished, nobody knows how; or

The fact that one half of the buying orders placed by the government are for less than \$10 each, and the paper work to process such an order costs more than the value of the thing bought; or

The fact that although what the government spends for freight transportation is nearly one tenth of the total annual revenue of all carriers, the government has no traffic manager; or

The fact that it costs the government 2½¢ to provide a penny postcard; or

The fact that 47 federal agents, representing seven different agencies of the Department of Agriculture, are employed to mind 1,500 farmers in one county in Georgia; or

Facts in general to support the assertion of one Task Force that no large corporation could long survive if it practiced the waste and extravagance condoned in the Federal Government, nor could the government if it were a private enterprise.

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This might go on and on until again you had too many facts. Nor would all the facts of this kind put together enable you either to see executive government as a whole or to realize why the structural reorganization of it, for reasons far beyond any cost of waste, is now an extreme necessity. How to make people conscious of that necessity is still a problem.

One difficulty is that the exposition makes hard reading and requires close attention; moreover, much of it is technical, such as the difference between a "performance budget" and a "requirements budget."

Many have been helping to overcome the inertia that afflicts the human mind when confronted with a subject that demands hard and purposeful thinking. There have been popular and simplified summaries of the official summaries. The one in the May, 1949, number of *Fortune* was good. The United States Chamber of Commerce did one. The McGraw-Hill Book Company published a book entitled, "The Hoover Commission Report," giving the essence of the findings, but this book of essence only runs to more than 500 pages and the publisher says in the preface:

"The reader may wisely bear in mind two factors which distinguish this book. First, few government reports are best sellers. Secondly, few attempts to reorganize the Federal Government have created widespread interest."

Mr. Hoover himself went on the air for five evenings to be interrogated in the vernacular.

There is a Citizens' Committee for Reorganization of the Executive Branch of the Government, to conduct a nationwide speaking campaign. The chairman of it is Dr. Robert L. Johnson, president of Temple University, whose own speeches have been well reported and serve to set the pattern.

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Unless public opinion can be aroused there is the danger that Congress will weaken any program of reorganization by putting upon it what Mr. Hoover calls "grasshopper bites," which means to exempt first one thing and then another as untouchable, thereby limiting the power of the President to do a complete job.

The feeling in Congress is divided. Everybody is for reorganization, and yet there is a hard core of obstinate unwillingness to give the President more power. What the President wants, as he said in a message to Congress on May 9, is authority to conduct reorganization step by step in his own way, unhampered by "numerous detailed statutory regulations." That is also what the Hoover Commission recommends, on the ground that there is no other way to do it.

Given this sweep of authority, the President

would still be required to submit his plans to Congress, not for amendment but for yes or no. The Congress could not tell the President how to do it, but if it very much disliked his plans it could veto them. That would be in the general case. In various specific cases special legislation will be needed to put the recommendations of the Hoover Commission into effect. It is, as the President says, a difficult and complicated business to reorganize the government.

Meanwhile, the two most important subjects dealt with by the Hoover Commission have not commanded the interest they deserve. One is the problem of how to keep civilian control of the military establishment; the other is how to rationalize the conduct of foreign policy.

Here the matter of waste, however shocking that may be, is relatively incidental.

V.

The Military Establishment

IN April, Mr. Hoover appeared before the Armed Services Committee of the Senate to discuss a bill designed to put definite control of the Military Establishment in the hands of the Secretary of Defense, who of course will be a civilian. Although this bill was in accord with most of the Hoover Commission's recommendations it had two important defects—first, that it failed to impose proper budgeting and accounting procedures, and second, it did not, in fact establish civilian control of the Military Establishment. On the contrary, said Mr. Hoover, "It would lessen civilian control of the military arm."

With that he released for the first time the report of the Task Force on the Military Establishment and read from it as follows:

"Our military budget system has broken down. Congress allocates billions without accurate knowledge as to why they are necessary or what they are going to be used for."

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The report of the Task Force on the military budget begins by calling attention to the fact

that the cost of the national defense this current year will be \$500 per family. Then it says:

"A review of the budgetary activities of the armed services during the current year gives rise to the distressing thought that in many segments of the services, budgets are prepared with little regard for the economic health of the nation or for making as thrifty use as possible of the money available."

Then follows a review of the recent game of pigs-in-the-clover, between the President and the Military Establishment, for a stake of \$15 billion. On July 16, 1948, the Director of the Bureau of the Budget notified the Secretary of Defense that the President had determined that the military budget for the next fiscal year should not exceed \$15 billion. One month later the Military Establishment submitted a budget of \$30 billion, and said that was the minimum. After some rough wrestling, the Military Establishment cut its budget to \$23½ billion, and said that was the *very* minimum. Then the wrestling got very rough, and it was found that after all \$15 billion would do.

What did the Military Establishment intend to do with \$30 billion if it got it? Mr. Hoover's Task Force said:

Money

"An examination of the estimates for 1950 as presented to the Secretary of Defense on August 16 does not inspire confidence in the budgetary procedures of the three departments. The figures do not reflect a reasonable restraint in the circumstances and contain a multitude of questionable and low-priority projects.

"For example, the three departments together requested \$2,337,000,000 for construction, this being exclusive of any procurement of equipment or war material. The breakdown of this item was: Army \$600,000,000; Navy \$936,000,000, and Air Force \$800,000,000; and the percentage increases over 1949 were: Army 720%, Navy 826%, and Air Force 837%.

"The estimates presented to the Secretary of Defense on August 16 included an item of \$1,098,000,000 for research and development. This compares with an appropriation of \$646,300,000 for fiscal year 1949. Testimony has been presented that more funds are currently available for research and development than can be spent properly.

"Also included in the estimates submitted by the Army on August 16 were \$1,298,000,000 for the National Guard, which compares with \$197,000,000 for fiscal year 1949. These funds included \$529,000,000 for the purchase of 1,567 M46 tanks at an average cost of \$337,500 a tank. Investigation of this item showed that a major part of the money was wanted for retooling the industry to produce tanks, this despite the fact that the Ordnance Department secured permission from Congress in 1946 to retain the Detroit Tank Arsenal, which cost \$48,000,000 to build during the war, and, in addition, a large allotment for tools.

Ordnance

"The Army Ordnance Department, oddly enough, while desiring to buy new tanks for the National Guard, requested an appropriation of \$100,000 per tank to modernize 1,215 existing M26 tanks into the equivalent of M46 tanks for the regular Army. This followed an appropriation in fiscal 1949 of a similar amount to modernize 800 of these tanks.

"Meanwhile it appears that the Marine Corps has obtained 102 M26 tanks from the Army on which it plans to spend \$5,000 apiece before use, having found that modernizing by the Army would require from one to two years. This transaction reduced the number of M26 tanks available to an actual 1,113 as against the 1,215 for which modernization funds were requested. Ordnance had failed to report this transaction to the Army Budget Office, with the result that the Army was asking for funds to modernize 102 more tanks than it possessed.

"Further to confuse this issue, it appears that the Ordnance Department has on order six light tanks and ten M46 tanks 'for research and development and extensive service testing'; and that no modernization of M26 tanks or procurement of M46 tanks was to be undertaken until the ten M46 tanks on order have undergone extensive service testing.

Missing Property

"Investigation of the tank situation raised the questions of how many tanks the Army has in its possession and of what became of the tanks produced during the war—for which a figure of 86,000 has been stated. After some delay, Army Ordnance produced an inventory statement showing 15,960 tanks on hand—most of which were described as obsolescent. Three weeks later Ordnance stated: "The best data this office can assemble indicates that 25,045 gun tanks of all

calibers, all chassis types, and all conditions were in the possession of the Army at the close of the war.'

"The question of what became of the tanks is only a part of the broader question of what became of the vast quantities of war material on hand at the end of hostilities. The Army has stated that it has material sufficient to equip only 18 divisions, although at the end of the war it had some 89 fully equipped divisions and great additional quantities of material in the pipe line. Disposition of easily replaceable material is readily understood; but loss of complicated, difficult-to-produce military equipment is another matter, especially as the military were put on notice six months after the end of the war as to the seriousness of the international situation.

"Another item in the requested National Guard appropriation was for 69 155-millimeter howitzers, which, at a cost of \$9,000,000 average some \$130,000 apiece. During our investigation, the cost of these guns was first stated to be \$39,000,000, but this proved to be a clerical error; the figure 3 had been added, causing an error of some \$30,000,000. An item of \$110,000,000 for 773 armored vehicles for the National Guard brought the unit cost of those to \$143,000.

"The Army's original budgetary requests for 1950 also included an item of \$108,290,859 for 'Tropical Worsted Uniforms,' which would purchase 838,000 uniforms at \$129 apiece, enough for all the enlisted men in the Army and then some! There was also an item of \$213,519,000 for stockpiling of clothing and personal equipage, which would seem in part unnecessary unless vast amounts of the surplus army clothing accumulated during the war have been lost or dissipated.

Prodigality

"Items of this nature, which indicate a prodigal approach to the whole question of cost, and an almost complete lack in the armed services of cost consciousness, are not peculiar to the Army alone. The services ask for much more than they think they can get. The Navy for instance, has requested, in some cases, funds to build two or more of admittedly new-type and experimental vessels, when the wiser course would have been to build one vessel first and test it before committing more dollars to what might be an unsound development. The terribly high cost of modern defense—the Air Force, for instance, has proposed the procurement in the 1950 fiscal year of 4,096 planes at an average cost of \$713,000 per plane—provides graphic warning that cost consciousness and better budgetary and fiscal practices are vital."

VI.

Acting on the World

NOW that the United States has "assumed its responsibilities toward the world" as the paramount nation in it; now that it has frontiers in Europe, Asia and Africa, and is not always sure where they are today or where they will be tomorrow; and now that any line of foreign policy is bound to react upon the domestic economy, it is startling to read the following statement in the report of the Task Force on Foreign Affairs:

"There is no administrative machinery now in existence which enables the President and his top officials systematically to:

"a. Formulate national objectives that are based upon an integrated articulation of the foreign and domestic requirements and policies of the nation;

"b. Coordinate the operation of foreign programs with one another and with domestic programs."

Historically, American foreign policy has been handled by the President and his Secretary of State, through the State Department. This is no longer feasible for the reason that the old line of demarcation between foreign and domestic problems has practically disappeared. Nearly every foreign problem has a domestic aspect and there are few domestic problems that do not have, or might not have, a foreign aspect. Such a thing as a price support program for American agriculture has repercussions in other countries. It follows that foreign policy is the business of the entire executive branch of government, since any foreign program or policy will have ramifications in domestic affairs, touching agriculture, labor, commerce, health, transportation, even civil rights. For illustration the Task Force remembers the origin of the European Recovery Program.

"When Secretary of State Marshall made his address on European Recovery in June, 1947, he, in effect, proposed a program of United States economic assistance. Whatever discussions within the executive branch preceded his announcement, it is clear that they were not geared into any interdepartmental mechanism which would as-

sure systematic consideration of all the major pros and cons. That such consideration would have been desirable is apparent if one takes cognizance of the possible effects of the policy on security or military plans and policies, on federal fiscal and budgetary policies, and on domestic economic policies. That the Secretary of State alone could not be expected to pass judgment on all these matters needs no argument. Events of this kind dramatize the administrative inadequacies in the determination of foreign policies and programs."

The burden that has fallen on the Secretary of State, says the Task Force, is appalling. No human being could discharge properly the duties that have been laid upon him, and at the same time:

"There has been growing distrust of the State Department and its operations by members of the Congress, and to some extent also by the public. This produces serious, and in some cases disastrous, effects upon the maintenance of the continuous operation of sound foreign policies, with the ever present danger of withdrawal of vital congressional approval and financial support."

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Then it adds this picture of confusion:

"The activities of departments and agencies other than the State Department affect to an extraordinary degree the conduct of foreign affairs, and these other departments and agencies show an increasing tendency to establish policies or make policy interpretations in the foreign affairs area which are not coordinated with the foreign policies or interpretations of the State Department. The policies or interpretations of the State Department, in turn, are not always coordinated with over-all United States national policies. . . .

"Since the establishment of the State Department in 1789, the Congress has created numerous other agencies and endowed many of them with powers which take them into the sphere of foreign affairs. There appears to be no workable concept now current in the executive branch which at least establishes with broad strokes the role of the State Department in contradistinction to the role of the other agencies and departments. Of the several ineffective efforts to delimit the two roles, the chief one, which still persists, describes the role of the State Department as 'policy making' and that of the other agencies as 'operations.' This distinction is defective and illusory, not only because it oversimplifies a complex situation but because it ignores the obvious. The operation

alone of any given program involves policy decisions of sundry kinds. Some are of the highest importance, others less so, and still others of very minor importance."

Here may be light for those who, reading the news of American foreign policy in the papers, have been trying to make logic of it. The parts do not fit. There is no grand design.

If there is a symbol of immeasurable power revolving at terrific speed with no center or axis it belongs by right to executive government. Nevertheless it acts upon the affairs of the whole astonished world. What has saved it from worse embarrassment, if not catastrophe, is the almightiness of the American dollar, which so far has absorbed all error.

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The Hoover Commission does not propose any reduction of executive government. If all its recommendations are adopted, the power will remain, only it will be streamlined, it will work with less wild motion, it will have order in it and it will become intelligible for the first time. The saving has been estimated at \$3 billion to \$4 billion a year. Not only will the taxpayer get more government for his money, or the same amount of government as before for less money, but he may be able to see what happens to it.

VII.

Conclusion

THE conclusion the Hoover Commission comes out with at last is one that Congress has hitherto been unwilling to accept. Taking the functions of the executive government to be what they are, since nobody is proposing to discontinue any of them, the Commission finds that the authority of the President is not equal to his responsibilities. Therefore, it recommends that it be increased; it follows that the authority of Congress over executive government shall be diminished.

Following are excerpts from the Commission's Concluding Report:

"The Commission focused its attention mainly on how efficiently present services were being

performed, rather than on the question of whether they should or should not be performed.

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"While we recognize that efficiency in itself is no guarantee of democratic government, the sobering fact remains that the highest aims and ideals of democracy can be thwarted through excessive administrative costs and through waste, disunity, apathy, irresponsibility, and other by-products of inefficient government.

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"It is almost impossible to comprehend the organization and management problems of the Federal Government unless one has some concept of its hugeness and complexity. The sheer size, complexity and geographical dispersion of its operations almost stagger the imagination. As a result of depression, war, new needs for defense, and our greater responsibilities abroad, the Federal Government has become the largest enterprise on earth.

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"In less than 20 years its civil employment has increased from 570,000 to over 2,000,000. Its bureaus, sections, and units have increased fourfold to over 1,800. Annual expenditures have soared from \$3 billion to over \$42 billion. It now costs more each year to pay the interest on the national debt than it did to pay the total cost of the Federal Government 16 years ago.

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"Only 10 per cent of the over 2,000,000 federal employees are located in Washington; the balance are in the field service. In September, 1948, more federal civilian employees were working outside the continental limits of the United States than in the city of Washington.

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"It was a frequent finding of our various Task Forces that the President and his department heads do not have authority commensurate with the responsibility they must assume. In many instances authority is either lacking or is so diffused that it is almost impossible to hold anyone completely accountable for a particular program or operation. This tendency is dangerous and can, if extended far enough, lead to irresponsible government.

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"At the present time the President lacks authority to organize the agencies of the executive branch for the most effective discharge of his executive duties. While powers to reorganize have been granted to Presidents in the past, they have

been intermittent and subject to many limitations and exclusions, thus seriously diminishing their effectiveness.

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"Likewise, the recent tendency to create by statute interdepartmental committees with specific duties and memberships has limited the President's authority to choose his advisors. Examples of such agencies are the National Security Council and the National Security Resources Board.

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"Similarly, statutory powers have often been granted directly to subordinate officers in such a way as to deny authority in certain areas to the President or to a department head. A case in point is the statutory authority of the Army Corps of Engineers to prepare river development plans—authority completely outside of the control of either the Secretary of the Army or the President. Further examples of conditions in the field of foreign affairs which weaken executive authority, are the independent powers assigned to the Civil Aeronautics Administration and the semi-independent status given to the Foreign Service by the Foreign Service Act of 1946.

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"In the critical area of national security, the Secretary of Defense has only a coordinating relation to the Army, Navy, and Air Force. He cannot hire and fire subordinates except on his immediate staff. Almost all appointive power not in the President's hands is vested in the subordinate service secretaries. The Defense Secretary has inadequate powers over the budget and expenditures and he possesses no authority to reorganize the Military Establishment, whose machinery is rigidly prescribed by statute.

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"Furthermore, where executive duties are assigned to the independent regulatory commissions the President's authority is also weakened. An example of this is the power of the Maritime Commission to operate and charter ships without regard to the views of the President.

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"Finally, the enormous amount of detailed substantive legislation is still another feature of present practices which is not conducive to the most effective administration of the public business. There are, for example, 199 statutes affecting personnel management alone in the Department of Agriculture. Disposition of surplus property is governed by over 369 separate laws. The Bureau of Indian Affairs is required to administer

over 5,000 statutes and 370 treaties; and the laws which govern the operations of the Reclamation Bureau run to no less than 803 pages.

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"It is not any one of these factors alone but, like the Lilliputian threads that bound Gulliver, it is the total complex of these restrictions—lack of organization authority; grants of independent executive powers to subordinate officials; restrictive controls over personnel; divided controls over accounting and preaudit of expenditures; diffusion of the spending power of appropriations; overly detailed legislation—that weakens the powers of management in the executive branch and makes it difficult if not impossible to fix responsibility.

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"The reforms required must provide that sufficient authority be delegated to the President and to his department heads to permit them to carry out responsibilities that have been assigned to them by the Constitution and the Congress.

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"The President should be granted continuing authority to submit reorganization plans covering all agencies of the executive branch, without exception; such plans to be presented to Congress, and to become effective unless disapproved within 60 days by concurrent resolution of both houses. This authority is necessary if the machinery of government is to be made adaptable to the ever-changing requirements of administration.

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"The department heads must be free, with presidential approval, to reorganize their departments in the ways that, in their judgment, best suit the requirements of efficiency and economy. This means that the internal organization structure of executive agencies should not be prescribed by legislation.

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"The related practice of determining the precise functions and membership of coordinating and advisory bodies by statute should be discon-

tinued in favor of more general enabling legislation which would provide a flexible framework within which the President can act.

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"Detailed legislation, including rigid itemized appropriation language which unnecessarily limits executive discretion and initiative, should also be avoided.

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"In the further interest of responsible management, independent grants of executive authority not subject to the control of the Chief Executive should not be made to department heads and subordinate officials.

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"The purely executive functions of quasi-legislative and quasi-judicial agencies, too, should be brought within the regular executive departments, thus placing these responsibilities within the ambit of executive control.

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"Finally, the President must have more authority to determine the kind of fiscal reporting he needs to obtain reliable information and to maintain sound fiscal controls.

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"There is no formal accounting plan for the government as a whole. As a consequence there is no place where the complete financial picture of our government can be seen. We have not had, to this day, a system of accounting that shows the government's true revenues and expenses for any year, that provides for property or cost accounting, or for a positive control of assets, liabilities, and appropriations."

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The Hoover Commission did not draw this portrait. The facts do that; and of all the facts, those about waste may be the least important. It is the portrait of a government with no principle of order in it—a government that cannot govern itself and yet shakes the whole world.

IT is a curious fact that when we get sick, we want an uncommon doctor. If we have a construction job, we want an uncommon engineer. When we get into war, we dreadfully want an uncommon admiral and an uncommon general. Only when we get into politics are we content with the common man.—*Herbert Hoover.*

This Employee Society

By Virgil Jordan

Chancellor of the National Industrial Conference Board

FIFTEEN years ago it could be said that the fundamental issues were fairly clear cut and the basic problems pretty well defined for business, so that organizations concerned with them could know where they stood and what they were doing in dealing with them. You could choose your side in the great debate about economic freedom that began then. Though there was even then a sprinkling of support for New Deal ideas among the business community, it was fairly uniformly aware in a general way of their significance and consequences for a free economy and ultimately for a free American society, and it could think and act more effectively in concert in relation to them, though its strategy and weapons and organization were inadequate to meet the deeper problem of public opinion involved.

Today the situation is very different.

Business in many respects is in a much stronger position than it was, in resources, organization, weapons and techniques, to cope with the world-wide anticapitalist movement and the socialist trend of our time; and it is even possible that a tendency toward a more tolerant way of thinking about business may have set in here and abroad, by way of reaction against the extreme manifestations of communist collectivism that have been revealed in recent years. For the first time in history socialism is something more than a Utopian fantasy or an academic dream; it has begun all over the world to roll up a record which can be read, appraised and compared in terms of real accomplishment with other economic and social systems.

BUT despite this, the intellectual front, the philosophical foundation, of business seems to have dissolved or collapsed. It appears to have lost or loosened its grip on most of the basic ideas and fundamental philosophy which

held it together and gave it confidence in the struggle against collectivism during the fifteen years that have passed. Either business is no longer as sure as it was then what the facts that affect the prosperity and security of the American people really are—or it is much more divided in its understanding and confused in its view of them. So the organization and strategy through which it tries to act upon the facts or present them to the public are largely ineffective or futile and sometimes probably harmful to its cause.

Even in America, which is now the only place on earth where much of it has survived the past fifteen years of collectivism, private enterprise no longer has any clear and consistent philosophy or system of ideas about itself which business management generally accepts and acts upon in relation to problems of public policy; and this confusion, division and compromise of thought and policy on such problems has been the most serious handicap upon organized effort to deal with them. What seems to have happened in these years is that for business as well as other groups, ideas, values, standards and distinctions in this field of public policy, formerly definite, have gradually become blurred, confused and compromised, until the differences between a governmentalized or planned economy and a free market economy have no longer seemed so vital or fundamental, their implications for civil and personal liberty so important as they once did. This reshuffling of ideas and values, for which the Marxian philosophers have a fancy name, has been steady, silent and unseen, but since the war it has reshaped the intellectual attitude of American business and brought a major change in its position and relationship to government.

Few of us realize how far business attitudes and ideas on economic problems have moved toward what we used to think of as “the

left," by this process of confusing opposites and treating contradictions as identicals, which has been promoted as one of the deliberate techniques of collectivist strategy, applied in the educational system, the business press, and even through business organizations, as well as in the political field. The process by which the principles and policies of the Republican Party have been made to appear essentially the same as those of the New Deal, has been persistently applied or spontaneously at work in the field of business thought and organized effort.

In recent years business has set up and poured substantial amounts of money into the support of organizations which have had the essential purpose or effect of fostering this confusion in the business and the public mind, acting as intellectual conveyor belts to promote acceptance and support of more governmentalization and political planning of the economy, and to cultivate the feeling that the differences between the various socialisms and free-economy capitalism are merely ones of degree, or matters of taste, manners or customs, rather than ones of fundamental moral or economic principle. By emphasizing the desirability and possibility of government planning for stability and security and promoting economic development through appropriate policies of federal spending, borrowing and taxation, and without direct and specific controls of business, they have stimulated American business management to adapt itself to the *public-money* economy under which this country has lived for most of the past fifteen years, and upon which it has come to depend almost wholly since the war.

So far as one can interpret the view of the future which the philosophy of these organizations implies, it would appear that private enterprise can be saved and kept well fed and fairly free only so long as it serves as a sort of fiscal agent handling the consumer purchasing power manufactured and distributed by the Federal Government to underwrite the market for business. "Dynamic" is the currently fashionable word used to describe this kind of economy whose motive power and governor is public money, and to distinguish it from the

static, stick-in-the-mud economy which is supposed to have existed in this country before the New Deal and under which the consumer had to produce his own purchasing power and business find its own customers at home or abroad.

DURING the past year, since the Spence Bill, or the so-called Employment Stabilization Act, was put forward, some of the business community who have seemed well pleased or at least content with the permanent prospect of this sort of *public-money* prosperity have been disturbed and disappointed to discover that in exercising their responsibility for planning economic stability and security the planners were not going to limit themselves to underwriting market demand with public money, but were proposing to use the same Aladdin's lamp to underwrite the market supply, in steel, other metals, electric power, and farm products, when necessary. This was perhaps the first time we realized that the dynamic economy was a two-sided affair, affecting both the demand and the supply side of the market, and involving the going as well as the feeding of industrial oxen. But few take the Spence Bill seriously as yet, or realize that it is only the other half of the Full Employment Act which few took seriously in 1945, so the disillusionment with the dynamic economy is so far slight and not very widespread.

The fact is that a decade and a half of almost continuously favorable experience under a progressively more expansive and expensive *government-issue* prosperity has probably made most of the American business community willing to believe that it may work, or at least be open-minded about its merits and its permanence. After all, fifteen years is half a generation, and a long time as business history goes. The catastrophes or other calamitous consequences that so many of us melancholy economists forecast have not occurred so far, or if they have threatened, we have overcome or averted them by using more of the same kind of medicine. We have had to take more and more government controls with it, but we have been able to live comfortably with them. The public-money medicine has always been pleas-

ant, and business has been pretty good most of the time, with a rising price level, which usually makes financial statements look good and management feel cheerful. This has not been the sort of experience to confirm skepticism or encourage conservatism or clear thinking among any group in the community, and so it is not surprising that in business, as elsewhere, there is less realistic understanding and concern about what is happening to our economy than at any time in the past fifteen years.

FEW of us realize the extent or the depth to which both our economy and our thinking about it have become governmentalized and internationalized during the past decade and a half by the use of public money to provide social welfare, to sustain employment, maintain prices and underwrite the market for business at home and abroad. Few understand the degree to which the existing economic structure is shaped by this process and dependent upon it, or what its implications are for the future. Of course it means that socialism is already here. When a large part of the income of individuals is taken to be spent by government for public purposes, and unlimited liens are laid on that income to cover commitments for welfare purposes for the indefinite future, it is self-evident that socialization has already occurred, whether any industries are nationalized or not.

In most countries today it resembles an iceberg—two thirds of it is below the surface. We see only the part which has been frozen by outright nationalization; but the larger part of it is no less frozen into the economic structure by social insurance, welfare and other subsidy systems, designed to support consumer purchasing power, whose cost seems to be hidden or borne by few, though the benefits seem to be obvious and universal. In every country, and here, too, instead of the free competition of the open market, the State is now the dominant single economic factor in determining supply and demand. The idea that government must and can assume responsibility for maintaining, stabilizing or expanding supply and demand is universally accepted, and innumerable devices

and mechanisms for using the public money to this end are built into the economic structure beyond any possibility of removal or liquidation.

THE socialization that has occurred in this country is in the first instance and so far a socialization of income more than of property; but the latter is there, too, for there is no more relentless and complete confiscation and redistribution of wealth than that involved in the inflation which is implied by the process I have been describing, or the direct physical controls of production and consumption in which it ultimately ends, when it is carried so far as to threaten the value of all money.

It is not merely that the *government-issue* economy tends to socialize income and wealth by taxation or confiscation. This *public-money* economy in America today operates in an employee society, in which employees (private and public) rather than investors or managers determine the policies that control its operation. Those policies are shaped toward continuous inflation, not only because employees as well as management have been accustomed to support public spending to underwrite the market for labor and business, but also for a more important reason.

An employee society demands a continuously rising standard of living and a larger share of the national product as a matter of public policy and prefers to take it today in the form of higher wages and welfare benefits rather than in lower prices. This is possible without constantly rising prices and costs if productivity increases along with wages, but it has become very doubtful if that is happening now, or in fact can happen in the future, as it did during the first century of our industrial history. What is happening as a result of the policies under which our employee society operates our *public-money* economy, is a persistently rising price level, a chronic depreciation of the purchasing power of the currency, with a continued confiscation or loss of savings and steady dissipation of capital—including that which employees themselves accumulate. This is the fundamental anticapitalist process that is working under the surface of our econ-

omy much more effectively and powerfully than anything Communist propaganda does. Some of its symptoms are apparent in the pernicious anemia of the capital market for risk investment despite the immense volume of money savings produced during and since the war; but it is slow and its final effects may not be seen for years.

Implicit in the process I have sketched there are profound and difficult problems of human relations that face business, both in the workplace and in the market-place, which have emerged with the development of the employee society and the *public-money* economy in the past fifteen years, and which require much more realistic understanding of their sources and more effective techniques of treatment than they are getting if we are to escape steady deterioration of productivity and morale in our economy and increasing harassment by political intervention, which will speed the processes I have described.

THE "hog-calling" conception of political policy which accompanied the development of the *public-money* economy in the past fifteen years has been paralleled (in fact, it is another form of the same thing) in the field of personnel and public relations by the "happiness" school of human relations, which is the fashion today, and which rests on the theory that the main responsibility or purpose of modern industry is not to produce goods and services, but to make employees and the public happy. Though philosophers since the beginning of history have never known even as much about the sources of human happiness as economists have about the causes of prosperity, the popular current recipe is to take polls on what people think they want from government or business and to promise, pretend or try to give it to them. The methods used to this end, based mainly on a rudimentary rehash of Freudian ideas about human behavior, are as popular as the idea of *public-money* prosperity, and involve a process of psychological inflation which resembles and parallels the financial inflation of the period, and is probably quite as destructive in its effects.

What does this sort of society mean for the future? What will it demand of us? Whether we desire merely to adapt ourselves to it or aspire to remold it as it develops, we shall need a firmer and deeper foundation of knowledge than we now have. We shall need especially to know much more in an organized way about the nature, significance and interrelationships of the economic and social changes during these past fifteen years. We shall have to measure and appraise more accurately and completely than anybody has so far attempted the implications of the financial burdens, obligations and commitments which have been frozen or built into our economic structure during this period by the growth of our global welfare state, with its domestic social security and business and labor subsidy systems, its world-wide handout economy and its planetary military mobilization and implementation program.

The Cancer of Docility

Editorial from *The Financial Post*, Toronto

IN Britain, the peril of dissent against Socialist rule soon becomes apparent to any visitor. "Keeping in well" with the bureaucrats who can do so much to help or hinder business processes becomes an important part of company policy. Being careful not to antagonize the masters, hence prolong or invite new regimentation and restriction, easily becomes the businessman's habit.

And this docility and servility grows like a cancer.

It will have struck many Canadians that some British businessmen who have spoken publicly here sounded much like apologists for the Socialist government. They seemed frantically eager to say nothing which could by any remote accident be interpreted by their Socialist masters at home as critical or hostile.

And is it very much wonder? In the totalitarian state, everyone is dependent in a thousand ways on the will and the whim of the totalitarians.

That is only one of the perils of socialism. One way and another, it inevitably suppresses and silences opposition and criticism and that is the direct path to the permanence of dictatorship; the end of all individual freedom. It is indeed the road to serfdom.

No More Social Fat in England

On presenting his bitter new budget proposals to the House of Commons, April 6 last, Sir Stafford Cripps, Chancellor of the Exchequer, notified the British people that the happy Socialist interlude of something for nothing had come to an end. All the fat had been used up. Hereafter the people will have to pay for their own welfare. That part of his speech is reproduced below.

By Sir Stafford Cripps

WHEN I hear people speaking of reducing taxation, and, at the same time, see the costs of the Social Services rising rapidly, in response very often to the demands of the same people, I sometimes rather wonder whether they appreciate to the full the old adage that "we cannot have our cake and eat it." This last year the people of this country have enjoyed an unexampled national dividend in the form of a free Health Service, at the cost, for the nine months of its operation, of £208 million.

Interruption: A satirical voice said, "Free?" Sir Stafford continued.

Free to the individual. Next year, for twelve months, it is estimated to cost £260 million. It is not possible to get increases of benefits of such an order at the cost of the Budget, and, at the same time, to experience decreases in taxation.

We must, therefore, make adequate provision to meet this government expenditure. It is recurrent expenditure, and forms part of the current standard of life, which, as a community, we have chosen for ourselves. Such expenditure must be paid for out of the current income of the community, by taxation. If we do not do this unflinchingly, we shall face inflation. Inflation is not an evil that, once checked, disappears; the threat remains, and we must be on our guard against it.

The Social Services are a permanent and continuing obligation, and that obligation is one which automatically increases as those services inevitably develop. Let me remind you of some of the bigger Social Services Estimates for 1949: The two Education services (England and Wales and Scotland) £208 million; the two Health Services (England and

Wales and Scotland) £260 million. National Insurance (the contribution of the Exchequer to the Insurance Fund, and the cost of family allowances) £208 million, and National Assistance £87 million. Here, in four blocks of services alone, we have benefits amounting to £763 million.

A great part of this expenditure relieves the individual, or his or her friends and relations, from charges which would otherwise fall upon them. There is a true compensating saving in private and personal expenditure which must be reckoned a real saving to the individual, and this is additional to the benefit of the better services which are made available.

How the Cost Will Yet Rise

But the cost in 1949 is not the end. Education must become more costly as more of the promised reforms come into operation. In addition, the increase in the birth rate, and the lower death rate among young children which all of us delight in mean that there will be one million more children to be educated, and 33,000 more teachers required, for this reason alone.

The same is true of the Health Services—the more and the better the services given, the more must be the cost. If, for instance, the 60,000 beds at present closed for want of staff are brought into operation, as we all hope they will be, then another £15 to £20 million will be added to the cost of the Health Services. The cost of social insurances will

increase in the same way, particularly pensions, and the cost of them to the Exchequer will increase proportionately still more.

These Social Service expenditures will, therefore, inevitably increase over the next five or ten years. In 1946, it was actuarially calculated that the cost of National Insurance benefits would rise from £452 million in 1948 to £545 million in 1958, of which the Exchequer share would rise from £118 million to £190 million. Nothing can stop this, except the cutting down of the Social Services themselves, and that I do not believe anyone is prepared to recommend, because we all know their immense value to the people of this country.

We must, therefore, recognize the unpleasant fact that these services must be paid for, and they must be paid for by taxation, direct or indirect.

Nothing More To Level Down

When considering this matter, we must bear in mind the very great and highly desirable redistribution of wealth that has already taken place over the last few years within our community. To a large extent, this has resulted from the provision of these extended Social Services—services for the less well to do at the cost of the more well to do—thereby making more equal the shares of the national income enjoyed. This has been a purposeful policy, I think most successfully carried through.

But there is not much further immediate possibility of the redistribution of national income by way of taxation in this country; for the future, we must rely rather upon the creation of more distributable wealth than upon the redistribution of the income that exists. Total taxation, local and national, is now more than 40 per cent of the national income, and at that level the redistribution of income entailed in the payment for Social Services already falls, to a considerable extent, upon those who are the recipients of these services.

We must, therefore, moderate the speed of our advance in the extended application of the existing Social Services to our progressive ability to pay for them by an increase in our national income. Otherwise, we shall not be able to avoid entrenching, to an intolerable extent, upon the liberty of spending by the private individual for his own purposes.

Hon. Members will recall that their traditional role is to be the defenders of the taxpayer against the rapacity of the Executive. Over many years now, the widening of the franchise and the introduction of services of immediate personal benefit to the people have naturally led Members on all sides of the House to take a keen interest in services of such

benefit to their constituents and to press for their extension.

The roles of the private Member and the Executive in relation to expenditure have thus tended to become reversed. But do not let us forget that the House of Commons' responsibility for finance still remains, and cannot be abrogated, and that while Members may press for all-around increases of expenditure, the time comes, as it has come today, when they have the responsibility of finding that money and meeting their own demands. I would venture to hope that, when demanding future increases for the services in which they are interested Hon. Members will keep fully in their minds the other side of their responsibilities.

From Now On the People Must Pay

We have chosen, quite deliberately—and in this all parties have participated—to have our benefits in the form of extended Social Services extended on the widest scale, and bringing untold benefits to the people by way of increased comfort and easement of their conditions.

This has been accomplished partly by increased production, and partly by a redistribution of our national wealth; and we must face up to the consequences of this deliberate choice. Each year, and year after year, we must provide, out of taxation, the money required for these services and for our defense; while, at the same time, we must maintain our overseas trade, invest sufficient moneys to restore and enlarge our capital equipment, both social and industrial, and provide ourselves with the best possible supply of consumption goods.

We are thus faced with a choice as to how we should distribute the national product. There are many who suggest that we should allow the individual, the wage earner, the salary earner, and the profit earner, more to spend for himself by reducing the charge upon him by way of taxation. But that can only be done at the expense of the Social Services or of our defense. The need, in the existing circumstances, for an adequate defense cannot be doubted, and we are therefore thrown back upon the question of how much we should spend upon the Social Services.

Redistributing Wealth by Social Services

It has always been the policy of the Labor Party to expand the Social Services, as the best and most certain means of redistributing the national wealth, and it is unthinkable that we should go back upon

that policy. Nor must those who support it allow themselves to be drawn into demanding remissions of taxation, if those remissions leave an inadequate sum available to provide the Social Services to which we are all so fully pledged.

From a financial point of view, this means a large Budget, and high taxation. From an economic point of view, it means that we must create an ever greater national wealth, so that the individual load of taxation may be diminished in proportion as our national wealth grows. We must, therefore, regulate the speed of the development of our Social Services by the rate at which we can increase our national wealth. It is by a better organized productive effort that we shall provide ourselves with the means to meet and discharge these new social obligations, which we have willingly assumed as a community, not temporarily, but for all time.

Limit to the Cheapening of Food

I now turn to deal with the very important matter of food subsidies. Let me first state the bald facts of the situation. During the war, these subsidies were introduced to stabilize the cost of living, and so prevent inflationary wage movements. The amounts paid out by the government by way of subsidies were in the first year, 1940–41, £63 million. In 1945–46 they had risen to £265 million.

Since that time the same policy has been pursued, but the costs, especially of imported foods, have soared upwards. Our own farmers' costs have also increased owing, among other things, to better wages for the farm workers and larger profits for the farmers—and the greater part of our subsidies continues to be paid on home products. Thus, the amount required annually to stabilize prices has grown and grown beyond anything that was ever contemplated when that policy was initiated.

In last year's Budget debate I stated that it was our object to prevent subsidies rising, in total, above £400 million. But we had, just at that time, launched a campaign to stabilize wages, prices and profits. It would not have been a very helpful gesture had we just then increased the prices of subsidized foodstuffs, and so it was decided to let the prices remain stable and to let the subsidies rise.

Breaking the News to the Consumer

As a result, the rate of subsidy has now risen to about £485 million, and it is estimated that, if the present prices are maintained and there is a very moderate increase in supplies, as we hope there may be this year, the total subsidies payable would amount to no less than £568 million, all of which

must be found by taxation, on the top of the other prospective increases that I have already mentioned.

Now that just cannot go on. We must call a halt, or else we shall find ourselves in the ridiculous position of having to refuse to import much-needed food, because we cannot afford to pay the subsidy out of our Budget. Besides which, prices have got out of all relationship with realities, and the longer that state of affairs persists the more impossible it becomes to bring about an adjustment. We propose, therefore, to put an effective and firm limit on subsidies so that if there is a further rise in cost it will have to be added on to the price.

We must also make immediate provision to prevent the prospective rise in subsidies this year which would inevitably take place if we were merely to leave prices where they are.

Now Food Prices Must Be Increased

The major part of the adjustment must be by increased prices. It is immensely difficult to decide what changes in price are least objectionable. Individual views will differ, but, after full consideration, and, of course, after consultation with my right Hon. Friend the Minister of Food, I have come to the conclusion that regard should be had to the relationship of the present subsidized price to the prewar price, with a preference for raising those prices that are low compared to prewar prices in the light of the general price increase that has taken place.

I propose, therefore, that, as from an early date to be arranged by my right Hon. Friend the Minister of Food, the following increases in prices charged retail should be made: cheese, 4d. a lb.; meat, 4d. a lb.; margarine, 1d. a lb., and butter, 2d. a lb. Of these, cheese is actually at less than its prewar price at present, and butter is the same price as prewar. These changes in price, together with the change in import duties for tea and sugar, will mean that the subsidies should not exceed £465 million in the current year, and whatever happens to prices, we must not allow them to rise above that level.

All the people of this country should somehow be made to realize that the trend is against us and that our relatively easy prosperity has gone forever. It is most important that that should be realized, so that we should all get rid of the idea that our troubles are due to the wrong distribution of the wealth of the country.—*Lord Beveridge, author of the Beveridge Plan, speaking in the House of Lords on the state of England.*

Great Britain's American Target

By Harold Wilson

President of the British Board of Trade

WHAT steps the Socialist government of Great Britain will take to exploit the American market for British goods were set forth in a speech to the House of Commons, as follows:

I SHOULD like to set out the program of what the government intends to do and is prepared to do, in the following eight points:

First, and this is constantly being done, to see that industry and trade get, and never forget, a clear lead as to the paramount and permanent importance of the Canadian and United States markets.

Secondly, to let industry know the export objective. As I have said, the target is to sell £180 million worth of goods to Canada and the United States combined in 1950.

Thirdly, we shall give every help, and where necessary, open favoritism, to exporters to Canada and the U.S.A. in their production difficulties. This is a clear and overriding direction to departments and in appropriate cases it will mean outright discrimination between firm and firm.

Fourthly, we shall aim to provide the best possible government service to exporters. To this end, we are taking a number of steps both at home and abroad. It has been decided to divide the United States, for our administrative purposes, into four regions, each covered by a superintending trade consul, based respectively in New York, New Orleans, Chicago and San Francisco. It is intended to give these superintending trade consuls additional support by appointing an experienced businessman in each region as trade adviser to the trade consul.

Fifthly, it is necessary to clarify the position of the supply of dollars for sales promotion purposes. No exporter need have any hesitation in asking the Exchange Control for reasonable allocation of dollars where these can be shown to be legitimately needed for purposes of effective and businesslike promotion of our exports to Canada and the U.S.A.

Sixthly, it will be necessary to provide special help for the special difficulties of the North American markets. This special help will take the form of additional assistance by the Export Credits Guarantee Department. Therefore, we encourage all exporters—all exporters who are out to promote sales to North America—who are faced with special difficulties of this nature, to approach the Export

Credits Guarantee Department for appropriate facilities—even if their special needs require a less conventional conception of “commercial risk” than might apply in the case of other markets.

Seventhly, I want to come briefly to government assistance for market research. The exports of this country to the United States must strike out beyond the traditional business outlets of the eastern seaboard, and can no longer consist only of the traditional lines of expensive consumer or even luxury goods. There is a virtually untapped market, particularly in the west and south, if only we go out and attack it in a determined way. There is also a very considerable market in many parts of the United States and Canada for lower-priced goods of good quality—goods which can be bought by a much wider section of the population than those who have hitherto been buying the high-priced and high-quality consumer and luxury goods which have made up such a high proportion of our trade. The government is already supporting the British Export and Trade Research Organization financially, and is ready to provide further assistance for useful market surveys.

The eighth point is that we propose to undertake a special and energetic publicity campaign.

The Giant Dollar People

By Ronald William Gordon

*Managing Director of Tarran Industries, Ltd.,
addressing the House of Commons, April 11*

IF we think that within a few years we can solve the dollar crisis we are making a mistake. I suggest that the dollar scarcity has come to the world for good, or at any rate for the whole of this century, and we have to think entirely differently from the past. The President of the Board of Trade made it clear that we are trying to sell more goods in American and Canadian markets. I would suggest that this is really quite impossible.

America today, with 140 million people, is producing more than are all the other people in the world put together. America today has a national income as high as that of all the other peoples in the world put together. At the same time, from the point of view of savings, in 1948 savings in the United States were as great as those of every other country in the world put together, including Russia, the whole of Europe, India and China. Yet we are saying that we can get together and, by multilateral trading, by changing the basis of our economy or making things which the American and Canadian markets will take, hope to be able to right this position within a few years. I would ask the government to think out this one again.

Return to the Middle Ages

What Could a Conservative Government Do About It in Great Britain?

By M. J. Bonn

I.

London

IN a year or so at latest, the first British Parliament dominated by Labor must be dissolved. At the election of 1945, only 25 of Britain's 32 million voters went to the poll, and not quite 12 million voters voted Labor. Quite possibly the Conservatives will return to power, and the question arises: what would they do with it?

They would no doubt cancel some acts which Labor has put on the Statute Book. The act which reduced the power of the House of Lords to hold up legislation passed by the Commons would be repealed; the long overdue transformation of the House of Lords into a modern senate would be carried out, and the British system would once more become bicameral. The parliamentary representation of the universities would be restored. When democracy has become vocational, and when members of Parliament are delegates of trade unions, a separate representation of numerically weak, but qualitatively important vocational groups, is justified. These changes however would be relatively unimportant. For in the four years of Labor Government, profound structural modifications in British society have taken place.

II.

The British Empire has been profoundly altered. India has recovered her independence; she has been cut into two sovereign states, both of which remain within the British Commonwealth of Free Nations. Burma has left it. Ceylon has been made a dominion. Ireland has perpetrated a supreme Irish Bull by running out of the Commonwealth as a member and coming back as a paying guest, provided she is permitted to swallow Ulster. The Labor Government has carried out a policy which the great British liberals had advocated for over a century; whether the haste with which it was done and which involved a terrific loss of human life and private property, was, or was not, justified, the future alone can show. There will be no change in this field, nor will the attention which Labor is suddenly giving to African development vanish under a Conservative

government. Very likely such a government would favor the less spectacular methods of private enterprise in place of the grandiose-naïve experiments in which Labor's recently awakened colonial enthusiasts are dabbling.

III.

The Labor Government has nationalized the Bank of England, coal mining, transport, airlines, railways and road transport, gas and electricity. They are now preparing to nationalize steel. The results have not been successful. The nationalization of the Bank of England, of course, was really a more or less formal act. Once the government had decided to regulate the price level, and to monetize its bonds through a central banking mechanism, the Bank of England, to a certain degree also the commercial banks, were bound to become agents of the British Treasury. And as the Bank's shareholders were fully compensated, nobody really minded it very much.

The main objection to the nationalization of the railways was the terms of compensation, which were deliberately depressed by the artificial cheap money policy of the government. Notwithstanding this reduction of their burdens, by the issue of 3% transport stock, British railways now do not pay their way. They can only become self-supporting either by raising their rates, or by repressing the competition of road traffic; for this reason, the main road traffic is being nationalized.

Before the war, coal mining had been cartelized in a clumsy way; inefficient mines were kept alive by subsidies from better producers. The business as a whole was badly run and labor was permanently disgruntled, yet it had produced 240 million tons a year. After the war nationalization of this cumbersome private monopoly had become inevitable. It has not paid. What is even worse, output has not increased. Notwithstanding a great deal of mechanization, the target for 1948 of 200 million tons from deep coal mines was not reached (total output was 196.7 millions); quality in thermic units has been reduced. The loss on coal mining has been met by raising prices, i.e., at the cost of domestic and industrial consumers, and at the expense of the taxpayer.

A profit of £2 million was made in 1948; that reduced the loss of the previous year to £26 million.

Socialists expect to abolish profits altogether, once a Socialist society has been established; but they do not mean to do so in the nationalized enterprises within an otherwise capitalist society. They imagine that nationalization automatically produces rationalization. Competition in their eyes is wasteful; the conversion of a hitherto competitive industry into a state-owned monopoly would eliminate waste and allow concentrating productivity in the most favored plants.

In railway transportation, little of that sort remained to be done, for the railways had been adequately amalgamated. In coal mining, rationalization is held up. The Coal Board has been unable to close exhausted mines because the miners do not want to move. They look upon the nationalized industry as their private property, the income of which has to serve their own welfare and nothing else. They fear nothing more than increased output; to them it spells unemployment. They seem intent on proving that nationalization undertaken by Socialists can abolish profits—at the expense of consumers and taxpayers. For the present, it has merely shifted the power of monopoly from operators to miners, and given the government a chance to fill a number of posts with its adherents.

An incoming nonsocialist government would not be able to denationalize fuel, transportation and power. The workers in these by now sheltered industries would make their return to private hands next to impossible. The utmost a new government could do would be to reorganize nationalized industries on a business basis and to check up on their accounts by independent accountants. They would face a difficult job. So far £1,675 million have been spent on compensations, saddling the exchequer (at 3%) with about £50 million a year. This £50 million must be earned before the slightest profit can be made. It is most unlikely that the European coal shortage will continue very long; developments in Germany and Poland can hardly be held up. Conservatives would have to deal with a nationalized industry in a falling market. Being "capitalists," they would have to be more concerned about unemployment than Socialists.

They have announced their intention of repealing the nationalization of steel. This would be technically easy; the bill for nationalizing steel will become law next year, but its terms can hardly have been carried out at that time. The British steel industry has no desire whatever to return to free competition. Its ideal is probably a European cartel dominated by it, in which the other partners get very small shares. It would take courage to transform a state monopoly into a private monopoly, and it certainly could not be done easily after steel prices

had begun to break. Both the Labor Government and British industrialists have timed themselves badly. They have managed to hold back German competition—and indirectly French competition, which was depending on German coal—at a time when every additional ton of coal and steel would have speeded up British recovery, and they will have to face it when markets become redundant.

IV.

The structure of British socialism is owing to the war, during which rationing and price control evolved. These wartime controls were plotted and executed very efficiently by nonsocialist businessmen—and then continued after the war. They provided for the equal distribution of scarce goods; the ration card, not price and income, were the distributing agents. They did not eliminate profits; they stabilized them by fixing prices and by tying customers to particular shops. Shopkeepers had no longer any need to strive for profit. They had to buy goods at a fixed price, and sell them at a fixed price; they were allowed a controlled margin and no more; competition was almost killed. One could not open a new shop without license, nor start a new business, nor extend an old business without a permit. Fixed quotas of raw materials were allocated to producers, usually on the level of their 1939 consumption, and newcomers got no quota, except when they could prove the need for another establishment.

This was unadulterated medievalism—a return to the monopolist control of the guilds and to the "just price." It was attractive to Socialists because it necessitated central coercive direction. It was dressed up as egalitarianism. Measured by United States standards, it was austere, yet the Labor Government rightly prides itself on having raised the standard of living of the broad masses by reducing the comforts of the well-to-do, who no longer can get servants. In a country where few even luxurious houses have adequate domestic labor-saving appliances, this depression of the upper classes was acutely felt; it helped to make "austerity" popular. Working-class wives mind queues very much less when they realize that most of their "betters" have to undergo the same wasteful process.

From the Socialists' point of view relative scarcity is not an unmixed evil, for it justifies planning; its passing would sweep away many controls. Planning for planning's sake is dear to them, since it gives them power to order their fellow citizens about their jobs. It prepares the way for permanent regimentation. When people are once accustomed to rationing they will not clamor for "consumers choice." Since the great depression, moreover, the

working class instinctively fears plenty. From a bricklayer's point of view, it is much better to have a continuing housing shortage than to satisfy the wants of the underhoused, and, when the demand tapers off, to have to search for work, or to be unemployed.

Again this is not genuine socialism; it is stark medievalism, but modern British trade unionism is the spiritual heir of medieval labor guilds. While it had to face competitive working conditions, its medieval features were blurred; in the present non-competitive period they have once again come to the surface. The Labor Government is not merely an administration, standing for the interests of labor; it gets its instructions from the trade unions. It is a government of

*butcher and baker,
and candlestick maker,*

with a sprinkling of intellectuals.

V.

In the past few months, a good many controls have been loosened, mainly because supplies have become redundant—partly thanks to Marshall aid. Consumers were getting restive, and as elections are approaching it was wise to conciliate them. Before the Conservatives can come in, many of the more irritating restrictions will have disappeared. But the Conservatives might have to reimpose them if Marshall aid were to taper off before recovery had been completed.

The business community moreover has been deeply affected by the "new medievalism." Fixed prices, allocations, quotas, priorities combined with a sellers' market have eliminated competition, and the risks involved in it. Even the imposition of stability of profits firmly suggested by the government was by no means unacceptable.

A "just" price and a "stable" income are features of medievalism. So is the commercial policy based at present on bilateral trade agreements. It is a streamlined version of the "balance of bargain" policies by which medieval governments regulated the exchange of definite quantities of export goods for corresponding quantities of (more essential) import goods.

Thanks to exchange control modern policy is far more efficient. It has put an instrument in the hands of governments by which they can direct almost arbitrarily the flow of goods across their frontiers. The Labor Government would hardly give up this power for manipulating both production and distribution even if sterling no longer needed safeguarding. But it is by no means certain that a Conservative government would proclaim the free convertibility of sterling. The deep-seated protectionist

instincts of the bulk of the party would not allow the scrapping of a weapon far more powerful than a tariff.

VI.

The social revolution which has taken place in Great Britain is mainly the result of war taxation. A tax which leaves the owner of a £1,000 investment income with barely £657, and one of £2,000 with a little over £1,200 would have borne heavily on taxpayers even if the value of money had not been diminished by at least 60%. As the rate of interest on gilt-edged securities has been reduced by about twenty per cent through an artificial cheap money policy, a large number of formerly comfortable middle class people are left in very straitened circumstances. The upper brackets who have to pay surtax fare worse. Over one half of a £5,000 income goes to the Chancellor. Those in the upper strata can dip into their capital. There has been a good deal of capital appreciation, so that they may temporarily maintain their standards by realizing their profits.

His Majesty's tax collectors, not Socialist theories, were responsible for the great leveling during the war. But the Labor Government has tried to continue it and to prevent the reconstitution of capital by very heavy taxes on profits, and it uses part of the tax revenue not for collective but for class purposes, such as housing subsidies, food subsidies, and health subsidies.

The Welfare State has come into its own. It is an open question whether such a state is really desirable. It presupposes a society so organized that the majority of its members do not draw income enough for a decent standard of life, and must be subsidized by their more-favored fellow citizens. These "almoners" must earn enough to be able to go on keeping the majority of citizens on the dole, or they must eat up their capital. And what then?

It must be accepted as a fact, however, that the Welfare State is here for keeps. The Conservatives will not even denounce it. Budgets therefore will be high, about £3.3 billion, against less than £900 million in the years before the war.

The budget does not merely provide for current expense. Its surplus is the main weapon to hold up inflation. Prices have not stopped rising, but the rise is no longer the direct result of new money or credit issue, but mainly of the upward trend of imported materials. By very heavy taxation the budget is draining excess money from the consumer. Were the proceeds used for repaying debts on a large scale the price structure would be completely shaken. But nobody dares to propose a policy of genuine deflation, which would lead to unemployment, and thaw the frozen social structure. The

surplus is used to a considerable degree for financing government ventures at home and overseas that are not directly productive. The total amount of capital investment needed at home, after £120 million have been covered by borrowing abroad, was estimated at £2,232 million, of which £525 million were to be met by the government out of taxation.

This policy of taxing for investment has held back inflation. It perpetuates overtaxation, a state of affairs in which taxation affects output. It does so in three ways. It makes the workers hold back, so as to avoid getting into the income-taxpaying brackets. It prevents adequate writing off; the amount which firms are permitted to write off their gross income before paying income tax is no longer adequate for replacements, taking into account the greatly increased costs of re-equipment; the treasury has been unwilling to release really adequate sums from its grasp. It deters venture capital. The owner of £100,000 safely invested gets £3,000 a year, of which the Chancellor will take about £1,300. By risking it in a venturesome enterprise he may make £10,000, but the Chancellor will leave him less than £3,500, and he may lose it all. Quite apart from the difficulties of getting permits and allocations for a new venture, the chances are not good enough. One cannot successfully operate a capitalist system by sitting on the springs of enterprise.

VII.

A Conservative government could do little to reduce social expenditure. It may have been unwise to raise benefits at a time when the country was poorer than ever before. One could only reduce them by convincing the workers that they cannot afford them, and by making it clear to them that they, not the idle rich, really pay for them. They, not the upper class, provide most of nearly £1,300 million collected from beer, tobacco, tea, sugar, entertainment and purchase taxes, quite apart from their direct contributions to the health and social security services. Conservatives could probably administer more cheaply; they have more experienced men; they hate waste and have some respect for other people's money, and they have not the insane desire to expand administration. The civil service numbered about 300,000 members twenty years ago; it is now over 700,000; altogether 2 million people are employed by central and local governments.

One item which is a challenge to all sound economy is the food subsidies, amounting to over £485 million a year. In the early days of the inflation they were justified; without them the cost of living and with it wages would have gone up by leaps and bounds. There was, moreover, a hope that food

prices abroad would fall again. Even if this is going to happen now, Great Britain is bound by longish contracts; the agrarian interests overseas may be strong enough to avert any appreciable decline.

In the long run, the subsidies will have to go. They conflict with the principles laid down in the draft of the Trade Charter. But Labor just now is adamant. Sir Stafford Cripps has very courageously fixed the total of this year's subsidies at the sum actually paid last year. He has raised a storm in the ranks of his supporters, though he has offset their potential burden by tax reductions on tea, sugar, and beer, amounting to £53.5 million. The disappearance of the subsidies would raise food prices by 12%. This burden would fall heavily on old-age pensioners and the numerous decaying groups of gentleman and lady derelicts, in which Labor is not particularly interested. They ought to receive an equivalent which would be at least as justified as the partial tax exemption of old-age pensioners from increased tobacco taxation. Even £100 million set apart for this purpose, cutting off food subsidies would save £300 million. A reduction of about 10% in the budget, or about 25% of the income tax might follow. In a declining labor market, a Conservative government might carry this measure; in a stable or rising labor market, it could not hold down the demand for a corresponding wage rise, even though this wage rise would ultimately result in higher cost of living for those clamoring for it. A leader with Winston Churchill's moral courage might fight an election on such an unpopular issue, but his party would hardly like him to do it.

The masses believe in spending. They have been taught that as long as the capitalist system continues, the pool of wealth owned by the rich is inexhaustible, however ruthlessly one drains it. Their leaders are intoxicated with their power to spend, and imagine that higher standards of spending involve automatically higher standards of output—the shadow of Keynes' multiplier flits across the stage. For the time being, the masses are better off than they have ever been. Since August, 1939, weekly wages have risen between 84 and 88 per cent, and the working week for men has gone down from 47.7 to 46.5 hours, and for women from 43.5 to 41.6. Retail prices for a working family have risen by 75 per cent; were the food subsidies abolished, twelve per cent would have to be added; the rise in combined family income is of course greater than the rise in costs. There is little unemployment. The progress of inflation has been stopped. The price level of late has been fairly stable—thanks is partly due to the subsidies. Wages have been held down with great difficulties; yet they have risen by about 4% within the last year, and in order to secure this modest achievement, dividends had to be kept stable at the behest of the unions—a purely dema-

gogic move, since dividends are neither an element of production costs nor, given the modest amount of a potential increase, stimulants to inflation.

How much the improved situation is due to Marshall Plan aid is hard to guess. The masses are barely aware of it. They are grateful for individual parcels, but do not realize that Britain, as a nation, has been on the dole since 1946.

VIII.

Exports by now almost cover imports; yet a considerable percentage is "unrequited." They are part payments on the £3 billion frozen war debts. Without these instalments, creditors would have been unable to buy British goods. Or they are capital investments overseas from which income is expected later on. Both production and productivity per head are rising; the former may be 25 per cent above the 1935 level; the latter may be two per cent above that of last year. This would be quite adequate had population not increased, had the standard of living of the masses not gone up, had the huge war damages not to be repaired, and the foreign debts not to be repaid. When all these items are taken into account, Great Britain's economy is still a deficit economy. She will become self-supporting only when her exports (taking full account of invisible income and expenditure) suffice to pay without foreign help for imports, for foreign debts and for all necessary capital expenditure abroad. Even with Marshall Plan aid, Great Britain is a long way from these goals.

Could a Conservative government change this situation? It could reduce government expenditure by more businesslike administration; it could spend less on money subsidies if foodstuffs fell in price and if the disappearance of the sellers' market made labor less intent on wage rises. It could reduce taxation in the hope of freeing the springs of capital, and would encourage private investors to undertake ventures at home and abroad, on which the present government is losing the taxpayers' earnings.

IX.

But the central question is a psychological one. Can it teach the working classes that they must either consume less or produce more if the country's economy is to be properly balanced when foreign aid has come to an end?

It is not desirable to reduce standards of living—

they are not high. But there is overconsumption of one commodity, the most expensive one in a deficit economy: leisure. In a surplus economy, leisure is a dividend, resulting from the success of the production process; in a deficit economy it is a cost element, especially if it includes leisurly production processes and not merely shorter working hours.

This is the weakest spot of British economy. The habit of "doing without" due to war scarcity and government-directed austerity is blended with natural tiredness after a tremendous effort, and a deep-seated conviction that labor is safer under a regime of relative scarcity than under plenty.

Labor by now has become monopolist, and monopolists dislike plenty, the essence of monopoly being scarcity. Its control of the government obviates the political pressure, which otherwise could be applied against monopoly. Britain's real recovery will not be assured before the working classes have grasped the true rhythm of economics, and understand that one must work harder in periods of scarcity, and that one can only relax when plenty has been achieved.

Labor attempted to distort this rhythm, in the naive belief that socialism was heir to untold wealth; all it had to do was to distribute it intelligently and both high standards of living and increasing additional production would be automatically secured. It is hard to believe that a Conservative victory at the polls would sufficiently shake Labor's complacency.

The problem of Britain is how to raise production to such a degree that her people can maintain or even improve their standard of living. The Labor Government has not solved it. Will the Conservatives do better? They are not tied by the ideologies which have forced Socialists into deep ruts. But they will be called to solve Britain's problems at a time when outside competitive forces will play havoc with blueprints whose authors identified planning with execution. They will have to lead the British workingman from the pleasant land of "nowhere," where he hoped to get all his comforts by taxing the rich, into a world of hard, competitive efforts. Many Conservatives are themselves planners—though they, perhaps rightly—pride themselves on greater realism. Can they persuade the workers not only to believe that their plans are better, but to make a tremendous effort to let them materialize? Even if Conservatives were single minded it would not be easy to restore the use of its limbs to a tightly trussed body politic.



How It Happened to the Farmer

Washington Correspondence

The farther I travel the more intensive does the cultivation appear, and the more autocratic is man in relation to nature. His plowed field does not bear what it may but what it should; his cows give more milk than nature intended, and the lack of human hands is replaced by machinery. This performance is regarded merely as one industry among others; if agriculture means nothing more than, than that money can be earned by it, then earning money exhausts its significance. Therefore, the American farmer does not stand on a higher human level than the industrialist. This means that as a type he is completely superficial.—Count Hermann Keyserling in "The Travel Diary of a Philosopher."

SO wrote this German philosopher on seeing American agriculture for the first time in the middle of the 1920's. He came to it from his travels in the Orient, with his mind full of mystical thoughts on the farmer's immemorial place in the plan of life—"a being rooted in the superindividual cohesion of nature," and for that reason "more profound and more genuine" than any other man. But here was farming conducted as a business for money profit. The American farmer had forgotten, if he ever knew, how to cajole and importune nature with rites and devotions; his one idea was to coerce and conquer it, employing to that end no prayer at all but machines, chemical fertilizers and knowledge of plant biology. That made American agriculture unlike any that he had ever seen or imagined. Spiritually it offended him, and yet he was moved to say:

"And strange: these vast farms which are nothing but organizations for the purpose of making money often present more beautiful landscapes than those of northern Europe, to which so much love has been devoted. This is due to the fact that profitableness is not only the highest practical, but also the highest esthetic principle of agriculture, and for this reason unpractical embellishments often seem ugly."

Thus he found himself hopelessly involved in the American contradiction between farming as a busi-

ness and agriculture as a way of life, and was unable to do anything with it.

Every civilized country has a farm problem. But the American problem is unique both for the reasons indicated and for still others. For fifty years the government has been acting upon it, with never any exact definition of what it was, but with this political result—that what was once the freest and still is the richest agriculture in the world, in the richest and best-nourished country in the world, now has to be subsidized with public funds and tends to become wholly regimented under the authority of the Secretary of Agriculture in Washington.

It is a long story.

American farming was first distorted and thrown out of balance by the settlement of millions of acres of free virgin land in the west. When President Buchanan vetoed the first "free soil bill" he said, quite logically, that it was unfair to eastern agriculture, which had developed slowly over many years and represented an enormous investment of sweat and capital, suddenly to throw it into competition with all that new and very fertile western land that could be had for the taking. Nevertheless the "free soilers" prevailed and what Buchanan predicted came to pass.

As eastern farmers sold out and went west to take up the free land, eastern land values fell, and one dramatic consequence was that the old wheat fields of the east disappeared. That began before the Civil War. After the war the tide of western migration rose mightily. One way of taking care of the demobilized army was to send the soldiers west, where for every man who would stake it out there was a farm for nothing. It was sustenance farming at first and heroic, but the railroads followed the Conestoga wagons across the Mississippi to the prairies and plains, and in a little while a flood of grain and beef was coming back.

THE effect of this flood on the money value of food was, from the farmer's point of view, disastrous. For thirty years American agriculture was in a state

of woeful depression. All that saved it from total bankruptcy was the gradual rise in land values, but even this was only the difference between the virgin acre that was free and the same acre when it had once been cultivated. Year after year the produce of the soil sold for less than enough to reward the labor it represented. Why was there no profit in the farmer's toil—for the farmer? What devoured it? He sometimes thought the railroads got it, and therefore demanded lower freight rates; then he thought it was the speculator in Chicago, who bought cheap and sold dear, and again he was sure it was the power of gold acting against him, and his demand for cheap money became an angry political issue. These three ideas ran through all the bitter "granger movements" of the 80's and 90's.

But if anybody got the farmer's profit it was the consumer. Nobody could help it, because the food supply was increasing faster than the population. It was a situation that was bound in time to correct itself by the play of competitive forces. While it lasted people in the cities and industrial regions had the economic advantage. It was cheaper to buy food than to produce it. So what would you expect? That part of the population which was urban and industrially employed began to increase much faster than the farm population.

By 1900 natural forces were already bringing things into balance. The consuming population began to overtake the food supply. For that reason the exchange value of what the farmer produced began to rise. He could live better and buy more. Not far from his fine new house you would often see the sod hut he started with, now surrounded by victorious flowers and treated as a family shrine. In the next 10 or 12 years his rise in prosperity, which was very obviously owing to a diminishing supply of cheap food, began to cause uneasiness in the cities. The city dweller's image of the farmer changed. He no longer walked in the furrow but rode his plow, smoking a cigar. If he went on taking his ease like that what would the cities do for food? This fattened farmer could in fact starve the cities. That was before the mechanization of agriculture. The only power on the farm was horsepower.

Anxiety about the future food supply threatened to become a national obsession. Exports of food to Europe were falling rapidly; industrial exports at the same time were rising in a prodigious manner. The fear was that before long we should be producing less than enough food for ourselves. We should become a food-importing nation, like England, and that, for Americans, was a prospect full of economic and social evil.

Now for the first time the government began to act upon agriculture, with evangel, propaganda, intensive educational activities, and great reclamation works, all with these ends in view—first, to

increase the rural population by keeping young people on the farm; second, to make farm life in every way more desirable; third, to make farming still more profitable as a money-making business, and fourth, to increase production by scientific methods.

THEN came World War I. Before we got into it Europe's demand for American wheat caused the price to go above \$3 a bushel, and this was bonanza. Every farmer who could do so stretched his wheat acreage. After this country got into war the government exhorted the farmers to stretch it still more as a patriotic duty. The slogan was: "Food will win the war."

After the war came the collapse. European agriculture was soon restored and the demand for American wheat returned to normal, and then the bottom fell out of the wheat market.

If the decade preceding the war had been the most prosperous ten normal years the American farmer ever knew, the decade following the war was perhaps in every way his worst. The terms of exchange went disastrously against him, because agricultural prices fell much further than other prices. So again he was selling cheap and buying dear, and this was much worse than ever before because, going now to mechanical power to increase his production, he had to buy costly machinery and then the gas and oil to run it, whereas in the prosperous time that preceded the war he used only animal power, which he grew on the farm. Moreover, as he increased his production, hoping thereby to keep up his gross income, the result was more and more surplus, which caused prices to go lower still. That was a race he could not win. Cotton fell to five cents a pound. Wheat sold at the lowest price since the time of Queen Elizabeth. Land was a liability.

During the 1920's the economic disadvantage of the farmer became a matter of general concern, on the ground that the economy as a whole could not flourish, or at least not for long, unless agriculture was prosperous too; and it came to be an accepted idea that the problem of restoring to the farmer a larger part of the national income ought to be dealt with on the level of public policy. But how?

The floor of Congress was littered with plans for the aid of agriculture and all of them had the same weakness, which was that all alike they were designed to make farming more profitable. But if unprofitable farming had produced a surplus—and surplus was the trouble—how could you hope to reduce the surplus by making farming more profitable? You couldn't of course. You would only attract more people to it, and thereby increase the

surplus, unless you went all the way and controlled production; and everybody, the farmer included, was loath to do that. Only the government could control production and the government could do it only by regimenting agriculture.

Down to the end of the Coolidge administration Congress would go only so far as to pass laws intending to help the farmer to help himself, as by co-operative marketing agreements, which were made exempt from the antitrust laws, and other voluntary arrangements, to which the government would give encouragement, advice, and perhaps temporary financial support. In his 1927 annual message to Congress, President Coolidge said:

"It should be the aim to assist the farmer to work out his own salvation, socially and economically. The main problem is one of dealing with surplus production. It is useless to propose a temporary expedient. Government price fixing is known to be unsound and bound to result in disaster. Government subsidy would work out in the same way. It cannot be sound for all of the people to hire some of the people to produce a crop which neither the producers nor the rest of the people want. Price fixing and subsidy will both increase the surplus instead of diminishing it. The most effective means of dealing with surplus crops is to reduce the surplus acreage. While this cannot be done by the individual farmer, it can be done through organizations already in existence, through the information published by the Department of Agriculture, and especially through banks and others who supply credit refusing to finance an acreage manifestly too large. It is impossible to provide by law for an assured success and prosperity for all those engaged in farming."

One of the famous inventions of the 1920's was a plan to dump the surplus abroad at any price, leaving for domestic consumption only just enough. Then of course the domestic price could rise to some predetermined level and the difference between the high home price and the low foreign price would be called a loss. This loss would be met by a tax called the "equalization fee" which the farmer himself would pay, the idea being that if he could raise the price to the American consumer he could well afford to take the loss on that part of his crop which was sacrificed abroad. A complicated plan but one very popular at that time. President Coolidge killed it by veto, and in doing so he said:

"Government price fixing, once started, has alike no justice and no end. It is an economic folly from which this country has every right to be spared.

"This legislation proposes, in effect, that Congress shall delegate to a Federal Farm Board, nominated by farmers, the power to fix and collect a tax, called an equalization fee, on certain products produced by those farmers. That certainly contemplates a remarkable delegation of the taxing power. The purpose of that tax, it may be repeated, is to pay the losses incurred in the disposition of the surplus products in order to raise

the price on that portion of the products consumed by our own people.

"I do not believe that upon serious consideration the farmers of America would tolerate the precedent of a body of men chosen solely by one industry who, acting in the name of the government, shall arrange for contracts which determine prices, secure the buying and selling of commodities, the levying of taxes on that industry, and pay losses on foreign dumping of any surplus. There is no reason why other industries—copper, coal, lumber, textiles, and others—in every occasional difficulty should not receive the same treatment by the government. Such action would establish bureaucracy on such a scale as to dominate not only the economic life but the moral, social, and political future of our people.

"The main policy of this bill runs counter to the well-considered principle that a healthy economic condition is best maintained through a free play of competition by undertaking to permit a legalized restraint of trade in these commodities and establish a species of monopoly under government protection, supported by the unlimited power of the farm board to levy fees and enter into contracts. For many generations such practices have been denounced by law as repugnant to the public welfare. It cannot be that they would now be found to be beneficial to agriculture."

BUT the resistance ended with Coolidge. Almost the first act of the Hoover administration was a farm relief bill which represented much more what the farmers thought they wanted than anything the government itself had proposed as a solution of their problems. This law created the Federal Farm Board, charged with the responsibility to support agricultural prices. Then for the first time public credit was directly invoked to save the farmer from selling cheap and buying dear; for the first time agents of the Federal Government appeared in the wheat pit in Chicago buying grain to uphold the price. This adventure was swamped, partly by its own unsoundness and partly by the great depression which immediately followed, in which the prosperity of both industry and agriculture was swallowed up. Nevertheless a precedent had been set. Once the farmer had crashed the United States Treasury it was not probable that ever again would the claim of American agriculture to be subsidized by public credit be seriously resisted—this merely is a fact of political reality.

That was the last law the farmers ever wrote for themselves. Farm relief programs thereafter originated in the Department of Agriculture.

Came then in 1933 the New Deal, and with it the idea that the way to deal with the surplus was to kill it once for all, and thereafter to control production by a system of acreage allotments, together with compensatory payments, under which farmers who submitted to control were paid so much an acre

for the land they held out of production. First of all, ten million acres of cotton were plowed under and baby pigs were slaughtered to keep the hog population down. Then there was a hog-corn program calling for birth control of pigs to reduce the production 25% and at the same time a 20% reduction in corn acres. Upon wheat and cotton there was imposed what was called a processing tax (4.2¢ a pound on cotton spinning and 30¢ a bushel on wheat at the mill), the proceeds of this tax to be distributed among farmers who embraced the curtailment program. Also there was created the Commodity Credit Corporation to make "loans without recourse" on the crops of farmers who would accept control. A loan without recourse was of this nature: If a farmer borrowed from the government ten cents a pound on his cotton, which was a fair price then, and the price of cotton declined, the farmer could say to the government, "You keep the cotton." The government took the loss. But if the price of cotton went up, the farmer could sell it, repay the government, and keep the profit.

Such in outline was the famous AAA program. While it was in force it was forbidden, for example, for a cotton farmer to appear on the highway on his way to the cotton gin with a bale of cotton not bearing the permissive tag of the Secretary of Agriculture at Washington.

MANY who thought they knew the American farmer as an incorrigible individualist said he would not stand to be so controlled. He not only did stand for it; he liked it. He embraced the program, and for anything it did to his individualism he was reconciled by the check he received from the United States Treasury. He said: "It is something the government is trying to do for us, and certainly we did need it. If it doesn't work, or if we come not to like it, we can stop it."

In the third year of the AAA Program the unreconstructed Supreme Court said it was unconstitutional and ordered \$200 million of impounded processing taxes to be returned to those from whom it had been collected. This was a terrible blow to the New Deal, and together with the "sick chicken" decision that killed the Blue Eagle, laid the ground on which President Roosevelt attacked the Supreme Court as an institution that belonged to our horse-and-buggy days.

The AAA was hurt but not killed. The saving invention was the Soil Conservation Program, under which the Secretary of Agriculture was authorized to make cash payments to the farmer for the acres he withheld from production, if he kept them fallow or under cover crops according to the plan of conservation and curtailment; and the stream of checks

from the United States Treasury to the farmers was diminished hardly at all. And although President Roosevelt's plan for packing the Supreme Court was defeated, the political character of the Supreme Court was so changed by death, retirement and new appointments that it became friendly, not hostile, to New Deal solutions. What now is called the new Supreme Court might not have said the AAA program was unconstitutional. However that may be as a matter of speculation, the constitutional right of the government to subsidize agriculture, both directly and indirectly, and to regiment it, has never since been seriously questioned.

In every program for supporting agricultural prices the controlling idea has been "parity for the farmer." What does parity mean? It means that between agriculture on one side and industry on the other there shall be a constancy of exchange value. For example, if the price of wheat falls more than the price of a plow it takes more wheat to buy a plow, and hence there is a disparity in favor of the implement maker. In the agricultural depression that followed World War I farm prices fell so much more than industrial prices that the farmer had to give much more of what he produced in exchange for the products of industry, maybe twice as much wheat as before for a plow. When before? That was the important question. For purposes of parity you need a base.

The farmer said he would be happy if his buying power were restored to what it was just before World War I, and well he might be, since that was the most prosperous time he could remember. So the base for parity was taken to be the average of farm prices for the years 1909-1914; and from the beginning of the New Deal until now every law in aid of agriculture has said that farm prices ought to be such as to give the farmer back the buying power he had in those years. Thus if the price of a plow was twice as much as in 1909-1914 the price of wheat should be twice as much.

Generally what the government undertook to do was to support farm prices at 90% of parity, and the means to that end were mainly four, namely, (1) loans without recourse on storable farm products like grain and cotton; (2) cash payments to increase the farmers' receipts from other crops; (3) control of marketing, and (4) in certain cases, direct government buying of the surplus to keep it off the market so that the price might rise. Having bought up the surplus the government disposed of it in various ways. Often it had simply to be destroyed.

ALL this aid notwithstanding, agriculture came to World War II in a state of depression. Then the wartime demand plus inflation lifted it

suddenly to a great height. The full power of mechanization and scientific method began to be realized. Fewer farmers than ever before produced more food and fibers than ever before, and their buying power increased beyond anything they had ever imagined as parity. This was so because farm prices rose very much faster than industrial prices. Parity, therefore, was largely forgotten.

Nevertheless, remembering what had happened after World War I, the government said to the farmer: "Produce now to the utmost, and if afterward there is a collapse, or the threat of one, the government will keep a floor under you at 90% of parity. You may be assured that what happened after the last war shall not happen again." This guarantee was reduced to writing in the next agricultural bill.

However, an undertaking on the part of the government to support his prices at 90% of the old parity was no longer attractive. The farmer thought the guarantee ought to be at least 100% of parity, and said that anyhow the old parity base was obsolete.

Meanwhile there had been developing in the mind of the Department of Agriculture increasing dissatisfaction with the results of trying to keep the farmer's income up by simply supporting farm prices. There had been some disillusionment.

For one thing, supporting prices by a rigid parity formula was not fair to all farmers alike. It was fine for the farmer whose costs were falling, for example the wheat farmers, and not so good for those whose costs were rising, like the dairy farmer.

Secondly, many big farmers, "with no regard for the general welfare," could beat it selfishly and did. The government guaranteed the potato price at 90% of parity, which was a very high price, and the potato farmer on his part undertook not to exceed a certain acreage. What was the result? Production was enormously increased with no increase of acreage. On the smallest number of acres in seventy years farmers produced in one year the second largest potato crop in history. To keep the price of potatoes from falling the government had to buy the annual surplus. Some of it was sold for cattle feed and some of it was destroyed, and the loss on this one price support program was more than \$340 millions in three seasons.

Thirdly, producers of storable commodities like wheat and cotton on which the government undertook to lend 90% of the parity price were found to be growing crops not for the market but for the loan value, so that the government was continually turning up with a large surplus on its hands. On May 6 the following Associated Press dispatch came out of Washington:

"The Department of Agriculture announced today that it will offer government-owned grains at market

prices, providing that those prices are not less than what the grain cost. This sales price policy was announced in view of the fact that a large portion of the current supply of wheat is now in the hands of the government under its farm-price-support program."

This is wheat abandoned by the farmers who had borrowed more on it from the government than it was worth when the "nonrecourse" loans expired.

Since the first of the year, to a recent date, the government had either bought or made loans on crops in the following amounts:

Wheat, 350,000,000 bushels.
Corn, 295,000,000 bushels.
Cotton, 4,360,000 bales.
Butter, 2,500,000 pounds.
Potatoes, 125,000,000 bushels.
Dried Eggs, 39,000,000 pounds.
Peanuts, 294,000,000 pounds.

And now, because there is no more storage space, the Department of Agriculture is making loans on mountains of wheat just piled on the ground. If the wheat rots the government will take the loss. It is at the same time lending the farmers money to build new storage bins.

Fourthly, the consumer began to be heard from. He did not so much mind being taxed to keep agriculture prosperous, if that was for the general good; but to be mulcted a second time by the artificial and planned dearness of the food he ate, while a surplus was being wasted or destroyed, was too much.

Thus, both for the Department of Agriculture and for the farmer the price support program was becoming a political liability.

The problem, as always, was surplus production. All the trouble about prices and income came after production. Therefore, what the Department of Agriculture wanted was more power to control production, to balance and stabilize it, primarily for the farmer's benefit, of course, yet not forgetting the consumer. Always it has wanted more power. Every agricultural bill since 1933 has invested it with more authority over the farmer, and yet never enough. Political necessity at last required of it a feat in fourth dimensional economies. It had to think of a plan that would guarantee the farmer the highest income he had ever enjoyed and at the same time reduce the cost of food to the consumer. And for that who would quibble about giving it unlimited benign control of agriculture?

SUCH a plan was at length evolved. On April 7 the Secretary of Agriculture presented it before a joint meeting of the agricultural committees of the House and Senate. The first feature of this plan is that instead of undertaking to support farm prices in relation to an obsolete parity formula and stop-

ping there, the government will guarantee the farmers an annual cash income which shall be "*equivalent in purchasing power to the average annual purchasing power of cash receipts from farm marketing during the 10 calendar years 1939 through 1948.*" These were the most profitable 10 years in the history of American agriculture. Price supports, loans, production payments, direct government buying, marketing quotas and acreage allotment—these measures will all continue to be employed, but only as a means to the one end, of assuring "a volume of farm income and purchasing power which it is in the public interest to maintain."

The second feature of the plan is that the price of food to the consumer will nevertheless be governed by the law of supply and demand. How could that be? If what the farmer receives for his crops is guaranteed at a high fixed level, how is it possible at the same time for the price paid by the consumer to be governed by the law of supply and demand?

THE Secretary of Agriculture tells how. First he puts aside the storable commodities such as cotton, wool, corn, wheat, tobacco and oil-seed crops. For these, commodity loans and purchase agreements as before. But these storable commodities after all represent only one fourth of the annual agricultural production. The Secretary continues:

"The nonstorables—products which are either highly perishable or which can be stored only at heavy expense—include fruits, vegetables, meat animals, milk, butterfat, poultry and eggs, and account for roughly 75 per cent of cash farm receipts. Production of these commodities is geared largely to domestic demand, and this demand fluctuates with employment, wages and other factors which change mass purchasing power. We can hope to increase per capita consumption of all or most of these products in a healthy economic climate.

"When it is necessary to apply supports to any of these nonstorable commodities, I recommend that we rely mainly upon production payments.

"The term 'production payment' means exactly what it says—a payment to the farmer to go on producing to meet genuine consumer need, rather than restricting output short of that need.

"Under this system the farmer would be paid in cash the difference between the support standard for commodities which he produced and the average selling price for those commodities in the market place. Because the payment would go directly to the farmer it would be an efficient support operation.

"Another big advantage is that the system would induce efficient production and marketing, because any farmer who could exceed the average market price by quality of product or good bargaining would benefit to the extent that his selling price exceeded the average market price.

"A third advantage of this system is that it would

allow farm income to remain at a high enough level to sustain abundant production *while retail prices sought their supply and demand level in the market place.* This level is bound to be reasonable for consumers because of the larger supplies brought out."

This means that when a farmer has complied with all the rules and restriction laid upon him by the Secretary of Agriculture he will be free to grow all he can and offer it for sale in the open marketplace for what it will bring. He need not worry about the price at all. For if the price in the open marketplace falls to a point at which his cash income is less than the income guaranteed to him by the government, the United States Treasury will send him a check for the difference. The Treasury, of course, must get the money from the taxpayer, and the taxpayer is generally a consumer; but there is still for him the hope that under this plan the farmers will produce enough to cause the cost of food in the open marketplace to fall. In that case, as the Secretary of Agriculture says, the consumer will not be paying twice.

The very big farmer is out of this. The Secretary of Agriculture says:

"We should be aware that for many years there has been a steady increase in the number of large-scale, industrialized type of farming unit. Many of these are absentee and corporate-owned. According to the 1945 census, about 100,000 of the largest units—fewer than 2 per cent of all farms—are selling products valued at nearly one fourth of all the farm products marketed in this country. . . . In my opinion, we would be wrong to allow our programs to operate in such a way as to encourage the concentration of our farm land into fewer and fewer hands."

Therefore, the guarantee of an annual cash income shall be limited to farms only so big and no bigger, or to an output per farm of 1,800 units. A unit will be a little less than 8 bushels of wheat, or 10 bushels of corn, or 32 dozen eggs or 50 pounds of chicken or a little more than 9 bushels of potatoes, and so on. However, the Secretary of Agriculture thinks 98% of all farms will come naturally within those limits.

NOW what the farmer may hope to get is a constancy of buying power calculated on the basis of the best ten years he ever knew. On the other hand, what does he give? What are the conditions? The Secretary of Agriculture says:

"Eligibility of a producer for participation in the benefits of any price support program should be conditioned upon compliance with or adoption of applicable programs of production adjustment, marketing quotas or agreements, and the carrying out of reasonable conservation practice requirements."

Then he states the conditions as follows:

"(a) The observance of minimum and sound soil-conservation practices.

"(b) Compliance with or adoption of whatever programs are found necessary to curtail wasteful production or disorderly marketing (such measures as acreage allotments, marketing quotas, and marketing agreements which may be adopted from time to time through referendums or by the authority of the Secretary under terms of specific legislation such as is now on the statute books).

"(c) The limitation of eligibility for price support to a defined volume of production on each farm—a volume high enough to benefit most farms but one which will not encourage the development of extremely large, industrialized farming."

By these conditions (1) the farmer surrenders the right to do what he likes with his own land, (2) binds himself beforehand to comply with "whatever programs are found necessary" to control production, and (3) gives up the idea, if he ever had it, of becoming a big farmer.

And this, says the Secretary of Agriculture, is "the farmer's equivalent of the laboring man's minimum wage, social security, and collective bargaining arrangements."

In his presentation of his plan to Congress the Secretary of Agriculture made only one oblique reference to cost, which was to say, "It seeks not only in general but in certain specific ways to assure the general public with abundant food at reasonable prices and thereby offers them direct and tangible returns for the money spent." No one has been able to make a reasonable guess at what the government's liability might turn out to be, especially if depression should ever come again. In a supplemental statement the Secretary of Agriculture said:

"Let us look at the cost question. As you know, this question involves many values in addition to dollars. We can and will use certain dollar illustrations, but, as your own experience will verify, our economy is so complex and dynamic that it has never been possible to make accurate dollar estimates in advance for price-support operations."

Congress is divided on the plan; so also are the farm organizations. It now seems improbable that Congress will accept it as it stands. On the other hand, never yet has the Department of Agriculture asked in vain for more power over the farmer.

LEGISLATION for agriculture must be horizontal, based on generalization. A price parity formula is a statistical generalization; so is an income parity formula. Yet it is increasingly difficult to make any intelligent or valid generalization about American agriculture. There are many kinds of farming and within each kind are astonishing dis-

parities and differences. A corn farmer in Iowa and a corn farmer in southern Illinois hardly belong to the same rural civilization. At a given price for wheat one farmer will make money and another will lose his land. On how important it is for industry that the farmer's buying power shall be high, the Secretary of Agriculture said:

"Let me illustrate this fact by listing some of the manufactured equipment that is in use on one particular farm today and which has been purchased since the last depression. This happens to be a Michigan farm—not fancy—just a good family farm. Here's the list: A combine, a corn picker, a portable elevator, one additional tractor with equipment to go with it (including a disk, drill and corn planter), a feed grinder, a pick-up truck, motor and pump assembly for pumping stock water, an electric pump and pressure tank for running water in the house, electric refrigerator, electric stove, an electric hot-water heater. Think of almost any good farm, and you can make a similar list."

That is just an average farm. Then there is the industrialized farm, as in California and Texas, which is big business, and this kind of farming the Secretary of Agriculture would discourage for social reasons.

At the other extreme are the hill people, the sharecroppers and the submarginal farmers who cling to the soil because poverty there is preferable to poverty anywhere else. They have so little land and capital that they cannot make a decent living in good times, not even when their incomes are guaranteed by the government on the basis of the best ten years they ever knew; and yet the number of these is so large that their aggregate contribution to the annual surplus is often the quantity that breaks the price. For these, says the Secretary of Agriculture, "an expanded Farmers' Home Administration program is a basic need." That means to subsidize them to stay on the soil.

For all that has happened to agriculture, and largely because it has happened, there are still too many people on the soil to produce the American food supply—too many farmers, not too many effective producers. "Actually," says the Secretary of Agriculture, "the average net income of farm people from all sources was only \$909 per capita compared with the nonfarm average of \$1,569. This puts the average farmer's income at less than 60% of his urban brother's income."

The average farmer's income is a meaningless figure. To obtain it you divide the total receipts from all farming by the total number of people engaged in agriculture, which includes the farmer on the Secretary's average farm in Michigan, the big business farms which he dislikes, and all the people who need the help of the Farm Loan Administration. There is no such thing as the average farmer until he is invented statistically to support an agricultural aid bill in Congress.

Can Government Kill Depression?

**By Harold G. Moulton, President of the Brookings Institution*

RECURRING depressions have been the plague of the capitalistic system—in other countries as well as in the United States. Over the course of the last century business has been more or less depressed about 30% of the time. Economists, mathematicians, astronomers, physicists, engineers, business executives, and politicians alike have searched, in vain, for the cause and the cure.

In government circles the slogan in recent years has been the “maintenance of full employment”—which is only another way of saying, let’s prevent depressions and enjoy perpetual prosperity. The original sponsors of the Employment Act of 1946 conceived that the government should be *required* to maintain or provide full employment. But as finally passed the term “full employment” was dropped and instead of a mandatory provision it was declared to be the “continuing policy and responsibility of the Federal Government . . . with the assistance and cooperation of industry, agriculture, labor, and state and local governments, 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 . . . for those able, willing, and seeking to work, and to promote maximum employment, production and purchasing power.” A special clause was inserted which provided that government policy shall be carried out “in a manner calculated to foster and promote free competitive enterprise.” It was to facilitate the carrying out of this policy that the Council of Economic Advisers to the President and also the Joint Congressional Committee to review the President’s economic report were created.

A New Program for Full Employment

These developments have in turn led to a more comprehensive conception and program, which are embodied in the provisions of the Spence bill (H.R. 2756), recently introduced “to implement the established national policy of promoting maximum employment, production and purchasing power, and for other purposes.” The provision with respect to the fostering of private enterprise is omitted.

This bill has been developed by and has the confident backing of the Administration. It is not so

much concerned with depressions as with controlling and participating in long-term development of the economy in order to realize national economic goals formulated by the government. The scope and mandatory character of the program is indicated by the testimony of Mr. Clark of the Council of Economic Advisers in interpreting the President’s conception to the Joint Committee of Congress. In his words:

“Encouragement of productive capacity is so essential to continued maximum employment and production that neither the concealed dangers in any given plan nor the required scope of government intervention should prevent action which will be effective. The President has shown how earnestly he seeks effective action by declaring that if it comes to the point where the people cannot be furnished goods which they need in any other way and it is possible for them to secure them by having the government itself become a producer, he is not afraid to take that final step.”

Is There a Current Crisis?

With reference to the present business situation the Administration is at once reassuring and alarming. We are told that the business outlook is excellent because production and employment and income are still high, that the best estimates for business investments this year are very high, and that government demands for goods and services will increase considerably, and that the only real danger spot at the present is a development of a psychology of fear on the part of businessmen and consumers. We are informed that the recent development of soft spots accompanied by price readjustments is simply a leveling-off process conducive to health in the economy.

On the other hand, we are admonished by Mr. Keyserling that very serious maladjustments exist, “some of which are on the surface and others of which are still hidden deep beneath the surface.” We are told that the dangers of grievous inflation are still with us and that we are in equal danger of deflation. In short, there is inflation here, deflation there, reflation hither, and disinflation yon. “The problem is at one and the same time to prevent the inflationary cast or the deflationary cast from becoming so pronounced and so prominent that the whole economy becomes seriously affected. . . . It is perilous to delay action.”

* A speech before the Economic Club of New York.

It is argued from these premises that we must produce deflation where there has recently been inflation and produce reflation where there has recently been disinflation. In short, we should not allow any extensive readjustments to occur.

We seem to have reached an impasse with respect to prices. Those who raise prices are guilty of profiteering; those who reduce prices are seeking to undermine stability in the economy, and those who maintain prices are guilty of monopolistic collusion.

Criteria for Judging Stability

The new program envisages a state of "balance" throughout the economy. To quote from Mr. Keyserling's testimony before the Joint Committee of Congress on the Economic Report:

"This balance is attained when useful jobs in accord with abilities are available for practically all who are able and willing to work, and when the vast output created by the combination of maximum employment with our unrivaled resources and managerial skills can be absorbed promptly by a sufficiency of purchasing power. This sufficiency of purchasing power in turn depends upon how national income is flowing to various groups. Business should receive enough income to encourage the highest sustainable levels of investment and production but not so much income as to result in 'frozen savings' or lead to so-called 'overproduction.' Consumers should receive enough income to buy their full share of total output, but not so much income as to cause either inflation or the impoverishment of investment in plant and equipment. Farmers should receive enough income to carry them closer toward genuine parity of income, opportunity and living standards for the rest of the country. Personal incomes should be distributed, not to achieve equality of income for everybody but to get enough *equity* (italics mine) into the income structure so that large parts of the population do not suffer want in the land of plenty. . . ."

We may pause here to observe that despite the superprosperity of the past three years this happy state of balance appears never to have existed. It will be recalled that at the beginning of 1946 the Administration regarded the imbalance as so serious as to forecast an unemployment aggregating at least 10 millions. At the beginning of 1947 we were told that profits were dangerously high, that the masses of the people were suffering from restricted buying power, and contrariwise that excessive purchasing power was causing such serious inflation that price controls were indispensable. At the beginning of 1948 the situation was grave because of rapidly mounting food prices and growing disparities in the structure of wages and prices.

It is pointed out further that the achievement and maintenance of the essential balance in the

economy involve both adjustments in the relationships between prices, wages, and profits, and also government policies which affect the flow and use of income such as taxation, public expenditures, and credit regulations. One grows confused about the possibility of obtaining a satisfactory balance when he reads the Third Annual Report of the Council of Economic Advisers (December, 1948), which takes a stand fundamentally at variance with that just quoted. This report, which bears the signature of Messrs. Keyserling and Clark, as well as Mr. Nourse, states definitely that there are no adequate criteria by which to determine what policies would sustain full employment.

"A condition which has given the Council great difficulty is the lack of criteria by which to determine the relationships among prices, wages, and profits which are workable, in the sense that they contribute in the largest possible degree to economic stability. . . .

"The principal limitations (to the functioning of the Council) are imposed by the fact that no collection of data can comprehend the enormous variety of economic relationships and no techniques of analysis can forecast with assurance the actions and reactions of a free people."

More specifically, the Council expresses a lack of confidence with respect to programs for capital expansion as a means of maintaining continuous prosperity.

"Notwithstanding the great amount of attention given to the influence of capital investment upon economic conditions, the Council has not found adequate quantitative analyses that determine a sustainable relationship between the increase in productive capacity and the increase in consumers' markets. . . .

"It is important to know whether the continued good health of our free economy requires capital investment at a rate which bears some ascertainable relation to national income or to some other economic landmark. . . ."

Experience has clearly demonstrated that we cannot with any assurance tell whether depression is imminent or in early prospect. It is notorious that depressions have had a way of beginning when few expected them. This was the case, for example, in 1929 and again in 1937. Moreover, they often begin when there has been no rampant antecedent inflation with accompanying stresses and strains. The 1929 depression came at the end of a period of moderately declining prices and at a time when there was substantial unused capacity and considerable unemployment; the 1937 depression occurred at a time when we had unemployment running to the magnitude of 6 to 8 millions.

If there are no reliable indicators of a coming recession and no criteria—as the Council of Economic Advisers contend—by which to determine what policies would sustain employment, it would seem

that we shall have to be reconciled to the recurrence of business reactions. However, the Employment Act assumes that positive action should be taken. Accordingly it is still necessary to consider what types of action are possible.

Suggested Means of Checking Depressions

The principal measures designed to correct "dangerous" tendencies involve: (1) banking policy; (2) fiscal policy; and (3) price control. No great importance is attached to the first in view of the demonstrated inability of central banking institutions in this and other countries to prevent fluctuations in business activity. Price control is also of secondary importance, aimed at the prevention of rampant inflation. Primary reliance is placed upon fiscal policies. In a boom period emphasis is placed upon increased taxes as a means of checking inflation. When recession begins emphasis is shifted to an expansion of expenditures to prevent deflation. At the present juncture an increase in taxes is item No. 1 in the program.

The view is widely held that rising commodity prices are directly caused by an increase in the national money supply, and that this in turn is primarily due to government fiscal policy. Concretely, it is contended that when the government has a deficit it pumps money into the channels of circulation, which raises prices, and when it has a surplus it subtracts money from the channels of circulation, which lowers prices. Accordingly, the obvious way to control inflation would appear to be to replace a budget deficit by a surplus. This is the principle on which the government is now proceeding.

The evidence shows conclusively that there is no correlation between changes in the fiscal situation and the movements of commodity prices. In the prosperity period of the twenties there were substantial government surpluses every year, but the trend of prices was only slightly downward. In the early thirties there were large deficits, yet the price trend was sharply downward. From 1934 to 1936 the deficits increased and prices rose somewhat. In the prosperity period of 1936-1937 the budget was virtually brought into balance, yet prices advanced. From 1938 to 1940 deficits again increased but the price level remained virtually stable. The vast deficits of the war period were accompanied by rising commodity prices. A deficit of nearly 18 billions in fiscal 1946 was replaced by a surplus of roughly 7 billions in fiscal 1947 and 9 billions in fiscal 1948; yet prices rose sharply. The most rapid advance in prices occurred in the first half of fiscal 1948, at the very time when the budget surplus was reaching maximum proportions. Now we are again

approaching a deficit situation; and prices are receding.

The explanation of the lack of correlation is found in the fact that the Treasury controls neither the principal pipe lines by which money gets into circulation nor the principal price-motivating factors. Money enters the hands of the people through the medium of wage, salary, interest, rent, and dividend payments; and the amount of such payments is governed chiefly by wage and other contractual agreements. An increase in wage rates, unaccompanied by an increase in output, naturally involves paying out more money for the same volume of goods produced. On the one side this means that the money cost of production has increased, which commonly necessitates an advance in prices in order to preserve the margin of profit. On the other side, the higher money incomes received by workers enable them to purchase the higher-priced goods. The so-called spiral of rising costs lies wholly beyond the control of the fiscal authorities. The determining contractual agreements are made in the realm of business; and the additional money required to finance the expanding requirements is obtained chiefly from bank credit expansion.

Time Lag Is Fatal

At the beginning of a depression Treasury outlays cannot be expanded with sufficient speed to check the shrinkage in the private sector. Whereas the latter proceeds weekly and even daily, some time must elapse before a corresponding expansion in public disbursements can take place. In 1937, for example, the government sought to arrest the recession by means of increased outlays for: general relief, transient relief, rural relief and rehabilitation, student aid, old-age assistance, dependent children, aid to the blind, Civilian Conservation Corps, Civil Works Administration, Works Progress Administration, Bureau of Public Roads, Public Works Administration, and self-liquidating projects of the Reconstruction Finance Corporation. Despite this vigorous and extensive effort to arrest the recession, the decline proved to be very sharp—industrial production falling by one third in the first seven months and by as much as 38% in a year. The recession became a genuine depression. The rate of decline was in fact more rapid than in 1929-1930 when the shrinkage in industrial production was about 30% in the first twelve months. There was no significant recovery until the war preparedness program was launched in 1939.

The sheer volume of contraction in the private sector may well greatly exceed any practical possibility of expansion in the public sector. Starting

from a high level of national production, employment and income, such as prevailed in 1948, a 30% slump would quickly reduce the rate of flow of money income by something like \$60 billion a year.

The program as a whole is faced with an insuperable difficulty with respect to timing. The Council's analysis, prepared in December, is made available to the Joint Committee of Congress some time in January; and after conducting hearings this Committee must submit a report not later than the first of March for the guidance of various congressional committees having jurisdiction over one or another phase of economic policy. Before these committees could complete their deliberations and a comprehensive program and coordinated program be achieved—assuming it could be achieved at all—several months would have elapsed. Meanwhile a deep depression could have developed.

The only types of action that can be taken with considerable expedition are those for which congressional authority had hitherto been granted. As a practical matter action would have to be achieved along the lines pursued without effect in 1937. The most that could be hoped for would be that government disbursements might be on a substantially greater scale; it is hardly conceivable that they could rapidly be increased by as much as 40 or 50 or 60 billion dollars a year. The volume of public works authorized and blue-printed is likely to be limited in view of the demonstrated reluctance of the government in good times to postpone such undertakings for an indefinite period. In any case, much time is required to reach the stage of actual disbursement.

As indicated at the beginning of this address, the new full employment measure as embodied in the Spence bill is primarily concerned with the long-term development of the economy in line with national economic goals formulated by the government. It would vest in the President of the United States the power to formulate national production requirements in line with his conceptions as to what

is necessary for the people's welfare. The President shall "determine approximately the quantity goals to which it is necessary and feasible to increase the supply within a specified reasonable period of time." He may contract with private industry, research laboratories, and scientific or educational institutions for research or development related to the improved utilization of designated materials or facilities, on such terms and conditions as the President deems necessary. He may make loans to private industry (particularly small or independent enterprises) or to state and local governments for the expansion of capacity and production—on such terms and conditions as the President deems necessary. And whenever the President finds that a person who has received financial assistance is unable because of unfavorable nation-wide economic conditions to pay current interest on or repay the principal of the loan such payments may be reduced or deferred in whole or in part. Finally, the President may also contract with private companies to construct new plants or expand or rehabilitate existing plant facilities and enter into contracts with private individuals for the operation of such plants. To this end the President is authorized to acquire real and other property, as he deems necessary.

While the Act does not expressly authorize the government to contract and operate the plants itself it may reasonably be assumed that if private enterprise proved reluctant (recalcitrant would presumably be the word) the President, according to Adviser John D. Clark, "is not afraid to take the final step" and become a producer.

Such a program in its conception is potentially more far-reaching in the scope of its influence than the socialization of key industries. It would inevitably result in the elimination of the guidance of economic activity afforded by consumer demands as expressed in the marketplaces and substitute therefor the judgments of government officials as to what the people need and can have. In due course it would mean the end of private enterprise.

THE path of freedom is difficult and tragic, more beset than any other with heroic responsibility and martyrdom. The paths of necessity and compulsion are easier, less tragic and less heroic. That is why the historical process shows so many derogations from the path of freedom to that of compulsion.—*Nicholas Berdyaev—"The Meaning of History."*

Why the Air Industry Is Sick

"Too Much Coddling and Wet Nursing"

By E. V. Rickenbacker

President and General Manager of Eastern Air Lines

The Committee on Interstate and Foreign Commerce had invited testimony on this question: "Why, in a period of unprecedented prosperity, is the air line industry in such a poor financial condition?" Mr. Rickenbacker, who runs an unsubsidized air carrier system, was an astonishing witness. His plea for hard living to make the industry healthy has many implications beyond the immediate subject.—Editor.

I AGREE with the Committee that if air transportation is ever to prosper, it should do so now. Production and general prosperity have stood at an all-time high for several years. That the air line industry should be in difficulty in such an era is cause for reflection and concern.

The fact that several air carriers recently have published statements of substantial earnings is not reassuring, because these statements are more a reflection of increased subsidy, than increased earnings or economy and efficiency.

The Civil Aeronautics Board has granted millions of dollars of additional mail subsidy recently to help certain air lines get rid of their economic headaches, without going seriously into the causes of the headaches.

Stated briefly, air transportation is suffering from too much coddling and wet nursing.

More regulation and more paternalism are not the cure. The individual carriers need less artificial support, less shielding from the facts of life, and more exposure to the inexorable economic laws that apply to business in general. The industry needs to "get its feet on the ground" and learn the homely virtues of thrift, economy and efficiency and that one must work if he expects to eat. And it is absolutely essential that whatever economic regulation is provided shall be consistently and uniformly applied—something that has been sadly lacking.

Congress, in Section 2 of the Civil Aeronautics Act of 1938, declared the National Policy in part to be: "The encouragement and development of an air-transportation system properly adapted to the present and future needs of the foreign and domestic

commerce of the United States, of the Postal Service, and of the national defense."

A tragic error on the part of the Civil Aeronautics Board, and many of the leaders of the industry, has been the assumption that the Act set air transportation apart from all other businesses and made it immune to the grim necessities of sound business practices, promised it a "blank check" and guaranteed each air carrier a livelihood at the expense of the taxpayers.

In 1948, the government spent approximately \$48 million on domestic air mail pay. About \$26 million might be said to represent reasonable compensation for the mail service rendered and the other \$22 million subsidy. Eastern Air Lines does not receive any of this subsidy and is not asking for any. Eastern would not object to the expenditure of all or any part of this subsidy if it were necessary to advance the industry for the general welfare.

Not a Sound Upbringing

A strong, tough and well-developed air transportation system is worth infinitely more than \$22 million per year to this country for military protection alone in these days of international uncertainty.

But is the present administration of the Act of 1938 "promoting" or hindering air transportation?

I regret to say that the philosophy of the administration of the law has been definitely hurtful and has denied to this young industry the sane and sound upbringing to which it was entitled and which was envisaged by Congress in the Act of 1938.

Chairman O'Connell of the Civil Aeronautics Board, in an address before the Association of the Bar of New York City on March 23, 1949, made this timely observation:

"In large part . . . incentive has been removed because the present Act tends to operate as a shield between the air carriers and the ultimate in economic penalties—bankruptcy."

The fact that air transportation is of grave national importance is all the more reason why it

should have a sound upbringing. In my opinion Congress never intended that a "softie" should take over the air transportation responsibilities of this country.

Eleven Proposals

I urge the following remedies for the improvement of the economic condition of the industry and the promotion of the national air transportation policy.

1. Require clear separation of subsidy from actual compensation for air mail transportation—thereby eliminating the "cost-plus" concept which has hurt the character and leadership of the industry, and providing an incentive to economy, efficiency and good management;

2. Require that no newly authorized air carrier shall receive mail compensation at a higher rate on a given segment or route or between the same cities than that received by any previously authorized air carrier serving the same segment, route or cities—thus eliminating favoritism and government subsidized competition;

3. Prohibit the Reconstruction Finance Corporation or any other government agency from lending directly or indirectly to air carriers—eliminating paternalism and the competitive unfairness of having some air carriers enjoy the protection of a solicitous government creditor while others have the competitive disadvantage of being on their own in new route and mail rate proceedings and elsewhere;

4. Develop a positive, and not a negative, approach to curing economic ills. Through economy and efficiency, air carriers ought to keep themselves in a position to set their fares and rates within the range of the largest possible volume of passenger and cargo business;

5. Carry by air all first-class mail, where delivery would be expedited;

6. Provide for development of transport prototype airplanes at military expense, the interests of national defense fully justifying such expenditure;

7. Have a uniform application of the law to all parties in the industry—showing no favors to "irregulars," "latecomers," "all-cargo carriers," and other special pleaders who, through violation of the law, and without hearings or certificates, have attempted to develop "going concerns" for the purpose of stampeding the Civil Aeronautics Board and the Congress into clothing their operations with legality regardless of economic considerations and the rights of others;

8. Complete without further delay the basic and essential air map of this country, insisting upon

direct, efficient one-carrier routes where essential, and accepting detours, transfers and interchanges of equipment only in cases where direct one-carrier service is not needed;

9. Eliminate uneconomic and improvidently authorized routes and operations—whether "trunk line" or "feeder line";

10. Permit mergers where mergers are logical for public convenience and for economy and efficiency;

11. Increase salaries of Civil Aeronautics Board members and make ample appropriations for an adequate Civil Aeronautics Board staff.

If Times Got Hard

If the air lines are in serious economic plight at this time, when the national economy is at a high level, one may well inquire what is in store for the industry during the period of leveling off and recession which we are now entering.

Too much of the regulatory philosophy and too much of the policies of air line management have been cradled in the abnormal atmosphere of unwarranted optimism which surrounded the industry during the war and the period immediately following the war. The Civil Aeronautics Board then embarked upon a program of granting duplicative new routes without proper regard for the fundamental provisions of the Act of 1938 and the facts of record, and the air carriers developed luxury habits and a complacency which are difficult to break away from in the days of reckoning which have come upon us. Services were multiplied, costs rose, load factors dropped, and the inevitable result was deficit operations for most of the carriers.

Evils of Cost-plus

As Section 406 of the Act is now administered, air transportation is essentially on a "cost-plus" basis for most of the industry. In my opinion Congress never intended such a program and never intended to guarantee the financial success of any particular air carrier.

I am not contending that in certain marginal areas of the United States where the revenues from passengers, cargo and mail at compensatory rates are insufficient to support needed service, such service should not receive a subsidy from the Federal Government in order to make it possible. Air service to and from military posts and frontier cities frequently falls into that classification.

But I do say that subsidy ought to be specifically labeled, and identified in amount, after a hearing in which the Board makes a solemn finding that it is needed to support an economical and efficient air service which is required by the public convenience and necessity.

The present system of commingling compensatory mail rates with subsidy payments is confusing to all concerned and is discouraging and unfair to the carriers which seek to maintain a high level of economy and efficiency and avoid subsidy.

A Crazy Mail-rate Structure

It is interesting to note that Eastern receives less than 6¢ per plane mile and that one of its competitors between New York and Boston receives more than 48¢ per plane mile for carrying the mail between the same points. The taxpayers are paying a severe penalty for the luxury of having a third competitor between New York and Boston—paying one carrier approximately eight times as much per plane mile as Eastern receives for the same service.

The confused state of air mail rates destroys all incentive for economy and efficiency, it discourages good management and high performance. It puts a penalty on accomplishment, and rewards the wasteful and inefficient.

Until now, apparently the Board has felt that mail rates should be set so that each air carrier would break even and also earn a fair rate of return on its investment. Handing out increased payments retroactively in order to take care of deficits may please some creditors who otherwise might become claimants in bankruptcy proceedings, but such a rate policy cannot inspire confidence in the future of the industry or attract venture capital or encourage management to high endeavor.

Why Not Take It Easy?

In a North Carolina city one night in 1946, a vice president of a subsidized air carrier chided a vice president of Eastern Air Lines for working so late at night, and observed: "You people in Eastern are only cutting your own throat by making such a showing of economy and efficiency. Don't you know that it is harder for your company to get new routes and high mail rates because of your earnings, and easier for my company to do so because we are chronically in the 'need' class? Take it easy and you will get along better."

Some time later, in a Texas city, I asked a young lady agent at the counter of a subsidized air line how that carrier's passenger business was developing and she replied with complete frankness: "We are not pushing our passenger business because the more passengers we haul the less our mail rate is. It is on a sliding scale."

Hence, I say the present subsidy administration is not helping air transportation but is actually hurting it.

I of course am not criticizing the program of the Civil Aeronautics Administration and other public agencies in establishing and maintaining aids to navigation and airports. Such facilities are essentially a part of the national military establishment and a part of the general development of this country, just as are public highways, inland waterways, harbors, etc.

Nor am I criticizing the granting of subsidy, *when labeled as subsidy after proper hearing*, in certain instances where air transportation is required in the public interest and the patronage is not sufficient to sustain it.

But, beyond that, I think government paternalism should end. If air transportation has available to it the public benefits already mentioned, I think the industry from there on should stand on its own feet and obtain its finances in the marketplace as other businesses do.

How Government Capital Works

Wholesale support of air carriers by the Reconstruction Finance Corporation or any other public agency would have the effect of encouraging complacency and of destroying self-reliance and managerial initiative. If we expect air transportation to be strong enough to meet its public obligations, let it grow out in the open and not in a financial hot-house.

Another objection to Reconstruction Finance Corporation assistance is that it injects an element of unfair competition in favor of the borrower from Reconstruction Finance Corporation and to the disadvantage of air carriers which manage to keep their financial houses in order. Without any criticism of the Reconstruction Finance Corporation or any other lending agency of the government, I would say that it would be unrealistic to assume that such lending agency would not express to the Civil Aeronautics Board a deep concern about the refunding of its credits to a particular air carrier and that interdepartmental and interagency contacts on the subject would inevitably have a bearing on Civil Aeronautics Board proceedings where mail rates and subsidy and new routes are involved.

Thus the Suicide of Liberty

"There are many appeals these days to liberty, often by those who are working for an opportunity to taunt democracy with its stupidity in furnishing them the weapons to destroy it.

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"Terminiello's victory today certainly fulfills the most extravagant hopes of both right and left totalitarian groups, who want nothing so much as to paralyze and discredit the only democratic authority that can curb them in their battle for the streets.

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"This Court has gone far toward accepting the doctrine that civil liberty means the removal of all restraints from these crowds and that all local attempts to maintain order are impairments of the liberty of the citizen. The choice is not between order and liberty. It is between liberty with order and anarchy without either. There is danger that, if the Court does not temper its doctrinaire logic with a little practical wisdom, it will convert the constitutional Bill of Rights into a suicide pact."—*From the dissenting opinion of Mr. Justice Jackson in the case of Terminiello versus the City of Chicago.*

What Is Happening to Our Bill of Rights

By Edward Jerome

AS the Twelve Tables of the Roman Law were lost, so will the text of our Constitution probably be lost; and later the historians will try to learn it. Imagine that about the year four thousand some historian, whose interest in our constitutional history has evoked years of research, discovers the reports of decisions by the Supreme Court of the United States complete from the beginning through volume three hundred thirty-nine, or to July 1, 1949. How near to an exact reproduction of the text of the Constitution could he come?

Although we may hope for a different result, we ought to fear that the historians will find in our history confirmation of the observation made by Gibbon, at the end of his chapter on Roman law, "that the discretion of the judge is the first engine of tyranny." So, we may guess that this imaginary historian of the future will be directed by his curiosity to search first for a provision in the Constitution which authorized the Supreme Court to revise it.

This discretion of the judge can be exercised in a dangerous manner when applied to a case which

involves one of the first ten amendments to the Constitution—our Bill of Rights. If the judge's discretion can be used to extend the power of a court for the purpose of protecting a right, so may it be used to abridge or deny a right.

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The case of *Terminiello v. City of Chicago*, decided by the Supreme Court of the United States on May 16, 1949, illustrates discretionary extensions of the power to hear cases; and, although in this instance a right was protected by reversal of the state court's judgment, the case nevertheless illustrates the danger.

Terminiello was indicted and convicted under a city ordinance which was construed by the trial judge as forbidding what Terminiello said. The ordinance was:

All persons who shall make, aid, countenance, or assist in making any improper noise, riot, disturbance, breach of the peace, within the limits of the city . . . shall be deemed guilty of disorderly conduct. . . .

Mr. Justice Douglas stated the facts as follows:

Petitioner after jury trial was found guilty of disorderly conduct in violation of a city ordinance of Chicago and fined. The case grew out of an address he delivered in an auditorium in Chicago under the auspices of the Christian Veterans of America. The meeting commanded considerable public attention. The auditorium was filled to capacity with over eight hundred persons present. Others were turned away. Outside of the auditorium a crowd of about one thousand persons gathered to protest against the meeting. A cordon of policemen was assigned to the meeting to maintain order; but they were not able to prevent several disturbances. The crowd outside was angry and turbulent.

Petitioner in his speech condemned the conduct of the crowd outside and vigorously, if not viciously, criticized various political and racial groups whose activities he denounced as inimical to the nation's welfare.

Why was the Supreme Court of the United States hearing a case of this kind?

Until the adoption of the Fourteenth Amendment in 1868 no contention whatsoever could have been made that the Court had the power to hear such a

case, and for nearly sixty years afterward the Court, whenever such a question was presented, still held that it had no power to hear appeals in cases which involved this question: Does a statute of a state prevent freedom of speech? Whether the Court has such power depends upon the meaning of the First, Fifth, and Fourteenth Amendments, the applicable parts of which are as follows:

(I) Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press;

(V) No person shall . . . be deprived of life, liberty, or property, without due process of law;

(XIV) No state shall . . . deprive any person of life, liberty, or property, without due process of law;

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Formerly, one of the elementary propositions in our constitutional law was that the first ten amendments applied to Congress, or to the Federal Government, *only*, and did not apply to the states. The Supreme Court, however, in the words of Mr. Justice Jackson in his dissenting opinion in the *Terminiello* case "*entirely on authority which this Court has voted to itself*," extended the application of the First Amendment to the states by virtue of the words in the Fourteenth Amendment which are quoted above. It is clear that those who prepared the First and the Fifth Amendments did not regard "freedom of speech" as being protected by the words "liberty" and "due process of law" in the Fifth Amendment. If so, there was a confusing waste of words—of which James Madison was not likely to have been guilty.

In 1791 the customary meaning of the words "due process of law" as applied to liberty was hardly more than that a man should be heard before he was condemned and have a fair trial according to the common law. High authority has always treated the expression "due process of law" as meaning "law of the land," as used in *Magna Charta*. Since the Fifth Amendment has the same words as the Fourteenth, no change in meaning could have been made by adopting the latter. When considered together these three amendments give sufficient proof that "freedom of speech" was neither included in, nor protected by, the words "liberty" and "due process of law." By changing the customary meanings of these words, however, the Supreme Court made the First Amendment apply to the states. In *Terminiello's* case no Justice dissented on this ground.

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There is in any written constitution a danger which ought always to be guarded against. This danger is explained in a striking passage in *Ortega y*

IN that twilight zone between liberty and order where the constitutional meaning of free speech is bitterly debated, the case of Terminiello versus the City of Chicago is a new bench mark. Under a commonplace police ordinance, one Arthur Terminiello was fined \$100, not for making a violent speech, not for anything he said, but for having caused noise, riot, disturbance and a breach of the peace in the streets of Chicago. A jury found him guilty. He appealed, first to the Supreme Court of Illinois, which confirmed the verdict, and then to the United States Supreme Court, which, last May 16, reversed it in the name of free speech. Three members of the Supreme Court—Frankfurter, Vinson and Jackson—strongly dissented, and based their criticism of the judgment mainly on two points: first, that the Court entirely ignored the circumstances under which the speech was made, and, second, that instead of saying the Chicago ordinance was unconstitutional it found only that the judge of the lower court, in his instructions to the jury, had used one sentence in which the Constitution was misconstrued; and that one sentence, which was unnecessary in the first place, had been disregarded by all concerned until the Supreme Court dug it out of the record in order to apply to the case the constitutional guarantee of free speech.—Editor.

Gassett's "Toward a Philosophy of History" (p. 131), in which he says:

. . . for the law, once it is written, turns into a reign of pure words which, since words cannot be fulfilled to the letter, necessarily results in falsification of the law and governmental dishonesty.

Of course, one who approves a change in the law regards it as progress, and he who disapproves calls the change falsification. This progress, or falsification, occurs gradually. The judges who favor a change begin by inserting into opinions, somewhat obscurely, suggestions that the change ought to be made. Later they will write such suggestions into either concurring or dissenting opinions as their own statements of the law applicable to the particular case. Then statements as if the change had been made are inserted into unanimous opinions which are written by the former dissenters. Frequently the other members of a court are not alert to point out that such statements are not necessary for decision of any question of law involved in the case. At the risk of making a few passages appear as parts of a lawyer's brief, it seems worth while to trace the history of the application of the First Amendment to the states.

In the case of *Patterson v. Colorado*, 205 U.S. 454, Mr. Justice Holmes, writing in 1907, said: "We leave undecided the question whether there is to be found in the 14th Amendment a prohibition similar to that in the 1st." This case involved freedom of speech, but not directly, it seems, and to include in the opinion the sentence here quoted was little more than preparing the way for judicial usurpation. Mr. Justice Holmes did not dissent, however, from the opinion in *Prudential Insurance Co. v. Cheek*, 259 U.S. 530 (1922), in which Mr. Justice Pitney made this definite statement: "But, as we have stated, neither the 14th Amendment nor any other provision of the Constitution of the United States imposes upon the states any restrictions about 'freedom of speech.'" In 1924 another unnecessary statement was made in the opinion in *Gitlow v. New York*, 268 U.S. 652, as follows:

For present purposes we may and do assume that freedom of speech and of the press—which are protected by the 1st Amendment from abridgment by Congress—are among the fundamental personal rights and "liberties" protected by the due process clause of the 14th Amendment from impairment by the states. We do not regard the incidental statement in *Prudential Ins. Co. v. Cheek*, 259 U.S. 530, 543 . . . that the 14th Amendment imposes no restrictions on the states concerning freedom of speech, as determinative of this question.

The reason for saying that this statement was unnecessary is that the Court decided "that the

statute is not in itself unconstitutional." This time, however, Mr. Justice Holmes dissented and said:

Mr. Justice Brandeis and I are of opinion that this judgment should be reversed. The general principle of free speech, it seems to me, must be taken to be included in the 14th Amendment, in view of the scope that has been given to the word "liberty" as there used. . . .

Finally, there is this statement in *Stromberg v. California*, 283 U.S. 368 (1930): "It has been determined that the conception of liberty under the due process clause of the 14th Amendment embraces the right of free speech." This seems to be a misstatement, in that the two cases relied upon to sustain it, *Whitney v. California*, 274 U.S. 357, and *Fiske v. Kansas*, 274 U.S. 380, did not decide the question, although Mr. Justice Brandeis wrote a concurring opinion in which he said that such was the law, and Mr. Justice Holmes joined in this.

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In the final chapter of the "Myth of the State," Professor Cassirer called myth "the collective desire personified"; and explained how political pressure is intensified by the use of words in "a magical sense," as distinguished from descriptive and logical meanings.

Our controlling minorities have the collective desire that government be perverted into a state that will give its people economic security, and personification of this myth is found in the leader who falsely represents that the state can do this. All this political pressure brings "not only a transvaluation of all our ethical values but also a transformation of human speech"; and "the former social bonds—law, justice, and constitutions—are declared to be without any value."

Even our traditional conception of the common law is changed, and this is demonstrated by the Court's treatment of the Seventh Amendment. That Amendment reads:

In suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.

The Supreme Court upheld the section in the Wagner Act which authorized the National Labor Relations Board to order reinstatement of employees who may be discharged on account of labor disputes and to order payment of wages for the time lost while discharged. An action to recover wages is based upon contract, and the remedy is a judgment for damages. This remedy is exclusively one of the common law. Under the Seventh Amendment, the

employer has the right to demand that a jury render a verdict to decide whether there was a contract and, if so, the amount of damages which may be recovered. The ground upon which the Court sustained the denial of this right by the Act was given as follows:

The amendment [the Seventh Amendment] thus preserved the right which existed under the common law when the amendment was adopted. . . . Thus it has no application to cases where recovery of money damages is an incident to equitable relief even though damages might have been recovered in an action at law. . . . It does not apply where the proceeding is not in the nature of a suit at common law. . . . The instant case is not a suit at common law or in the nature of such a suit. The proceeding is one unknown to the common law. It is a statutory proceeding. Reinstatement of the employee and payment for time lost are requirements imposed for violation of the statute and are remedies appropriate to its enforcement.

Thus Congress has taken the subject of a common law action, made it the subject of a statutory proceeding described as equitable, and so denied the right of trial by jury. The Seventh Amendment, however, made the distinction between common law and equity a constitutional requirement which cannot be abolished, except by amendment.

To transfer by statute a part of common law jurisdiction, so that a trial by jury may be denied, is to amend the Constitution by judicial interpretation.

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Both the letter and the spirit of the Bill of Rights will appear from consideration of two propositions which bear upon the decision in *McCullum v. Board of Education*, 333 U.S. 203, and the bill pending in Congress to grant aid to the states for public education. The first proposition is that, if the First Amendment applies to the states, no state may maintain any school. The second is that enactment of this bill would violate the spirit, and the letter, of the First Amendment.

The decision was that no religious instruction could be given by means of a school maintained by

a subdivision of a state. The First Amendment, however, not only prohibits any law respecting an establishment of religion, but also one "prohibiting the free exercise" of religion. A parent, whose religion so binds his conscience as to make him believe that sending his child to a public school will impair the child's religious beliefs, certainly is prohibited from the free exercise of his religion when he is compelled to pay taxes to support the public school before he may use his resources to send his child to a private school. Support for this view may be drawn from Mr. Justice Frankfurter's opinion in the *McCullum* case, page 227, and from Mr. Justice Jackson's, pages 233-235; and there are other reasons.

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One who regards religious faith as an intellectual virtue—reason as the perfection of the senses and faith as the perfection of reason—abhors the strictly secular instruction, in history, science, and philosophy, given in our schools. Since all education affects religion, the tendency of our public schools to guide the reason away from faith is apparent. There is an unalienable right to acquire, without interference by government, instruction which deals in a spiritual manner with the bearing of secular knowledge upon religious opinions.

Now it would be ridiculous for a court to upset the system of public education by an injunction; or try to restrain payments by the federal treasury. Such matters are beyond courts; but the Supreme Court has intruded. The purpose of the First Amendment was to bind Congress while leaving the states unbound; now Congress is unbound and the states bound.

Has the discretion of the judge falsified the law, and become the first engine of a tyranny which makes the Constitution a scrap of paper that "means what the judges say it means"? Whatever the answer, this is certain: the same kind of reasoning that has been applied to the First and Seventh Amendments may be used to change the meaning of all provisions in the Bill of Rights so as to deny the very rights for which protection was sought.

"...We have built up new instruments of public power. In the hands of a people's government that power is wholesome and proper. But, in the hands of political puppets of an economic autocracy, such power would provide shackles for the liberties of the people."—*President Roosevelt in the Annual Message to Congress, January 3, 1936.*

Crisis in the Marshall Plan

ANXIETY about what will happen when Europe gets to the end of the Marshall Plan money has moved the United States Council of the International Chamber of Commerce to issue a report entitled, "The Specter of 1953." Unless the Marshall Plan countries really grasp the American idea and begin at once to do much better with it, says the report, the specter will materialize in newspaper headlines somewhat like this:

Marshall Plan Ends— Dollar Deficit Remains

American Investments Abroad Frozen

Private Enterprise Doomed in Europe as Scope of Planning Enlarges

European Standard of Living Declines

U. S. Unwilling To Subsidize Permanently

International Economic Warfare Feared by U. S. State Department

Responsible American businessmen already see that news in their nightmares, the report says, and sometime in 1953 it will become real—"unless the present course of events is arrested."

Briefly and bluntly, the report says:

"The steps which the European nations receiving ECA aid are presently planning to take are not enough to solve their problems. Unless, without delay, they reshape their policies and show a willingness to take more drastic steps, additional aid will be needed on the termination of ECA in 1953. Failure of the western European nations to act boldly will place them in the position of seeking to become pensioners of the United States or of lowering their standard of living."

It goes on to say what the trouble is:

"Under the various national programs for 1952-53, each nation is separately determining its national policy

of economic recovery. Independently each is contriving measures to check inflation, increase production, increase exports, reduce imports, attract foreign investments and find new, non-dollar, sources of supply. Each has its own program for obtaining dollars by bilateral, triangular or multilateral trade and by its own notions as to the amount and direction of intra-European trade. From the vantage point of a single nation many of these ends seem most nearly attainable by strict national planning, industry by industry, and by autarchic restrictions on the flow of goods and capital to and from its area. From the point of view of western Europe as a whole, however, many of these nationalistic measures are conflicting and mutually defeating. As such they constitute serious impediments to European recovery."

Accordingly, says the report, it is imperative for the Marshall Plan countries to adopt a program based upon the following four points:

"Free flow of goods: The reduction of tariffs, the elimination of preferences, quantitative restrictions, and discrimination.

"Free flow of funds: The elimination of exchange controls, the free convertibility of currencies, the attraction and protection of foreign investments, the encouragement of tourism.

"Free competitive enterprise: The restoration of competition, the provision of incentives for the private trader.

"Increased production: The avoidance of private cartel or governmental restrictions on production, the introduction of advanced technology, the modernization of distributive techniques, new investment, the development of colonies and backward areas."

This is asking in effect that the governments of the Marshall Plan countries shall take their hands off trade and set it free—and since all of these governments are more or less socialistic it is a good deal to ask. For example, take the number one imperative, namely, "the elimination of exchange controls and the free convertibility of currencies." The question there is not, as many think: Shall governments make currencies convertible? Governments cannot make currencies convertible. They can only say, "Now the pound sterling shall be worth so many dollars and the French franc shall be so many to the pound," and start all over again with exchange control. That would be merely a revaluation of currencies by edict and agreement, all still under control. The only way really to make currencies convertible is to let them find their own true value in terms of one another in a free exchange market.

The report of the United States Council of the International Chamber of Commerce concludes with these words:

"We advance this program with the full knowledge that it has many supporters in Europe. We advance it with equal knowledge that it has many opponents, who

will try to disparage it either as a naive approach or as utterly unthinkable in the light of current (36 months) realities.

"To those who would cry 'naive,' we reply that it is far more naive to fail to realize that nothing short of heroic measures can be effective.

"To those for whom 'current realities' constantly perpetuate themselves as a deterrent to long-term thinking and action, we have this reply:

"Admittedly the detailed action specified above cannot be put into operation overnight by a wave of anybody's wand. Admittedly there are and will be a long series of short-term problems requiring short-term and occasionally *ad loc* decisions. However, unless there is an attitude, a sincere united desire on the part of the Organization for European Economic Cooperation (the OEEC, which is the Marshall Plan's European instrument) to achieve as rapidly as possible its long-term program, and to measure its short-term decisions against the yardstick of its long-term objectives, we will all come to the end of the road and find that ECA has been grandiose relief instead of intelligent reconstruction.

"Moreover, the people of the United States, whose collective will is the final determining factor in the policies of the President and the actions of the Congress of the United States, are becoming aware of the key importance of OEEC in the solution of our vast problems.

"Should they withdraw the enthusiastic support they have shown for two successive ECA appropriations because of OEEC failure to think and act beyond *splitting the take* a national reversal of popular opinion may very well take place in this country with calculable legislative results.

"We of the United States Council believe that the spotlight is turning full on OEEC; that OEEC, originally an ECA device, has the opportunity and responsibility for becoming the conclusive device for the success of the vast and expensive recovery program underwritten by the United States. We therefore urge—in fact, request—that OEEC recognize publicly that the first phase of its activity has ended and that the second and final phase has already begun.

"History will either record that OEEC saved the Western world, or will sadly print the headlines listed at the beginning of this report."

The Paris correspondent of *The New Statesman and Nation* (London) recently wrote:

According to the Right-wing press, the ranks of the Communist-C.G.T. procession which marched from the Place de la Nation to the Bastille were "extremely thin." According to my observations, it took a column, 12-15 deep, four hours to march past the tribune. A curious feature was provided by a couple of brand-new tractors waltzing along the Faubourg St. Antoine, and scattering leaflets proclaiming that, owing to the Marshall Plan, the French tractor industry was threatened with unemployment.

Why People Are Numb in the Money Nerve

By Walter E. Spahr
of the

Economists' National Committee on Monetary Policy

The supplement to this number of AMERICAN AFFAIRS is a pamphlet entitled, "Now the Fiscal Crisis," by Senator Harry F. Byrd, whose efforts to make people conscious of what has been happening to the public purse have been heroic and not very successful. Why are the people not aroused? That is the question to which Dr. Spahr here addresses himself.—Editor.

ALMOST every day, the public is admonished to demand retrenchment in federal spending. For a decade, at least, this has been going on, and the results are nil. Why will not Senator Byrd and others consider carefully just why this is so? Federal spending and bureaucracy are apparently out of control, and the public, although it is lectured regularly about doing its duty, can accomplish nothing. These facts should be clear by this time.

How much longer must our people be led along this course before Congress will understand that the people cannot exercise any control over their public purse for the very simple reason that Congress deprived them of this power when it gave them an irredeemable money?

If Senator Byrd and others in Congress wish to return to the people their proper power over their public purse, let them give back to the people the only effective weapon that a people can have. The Reed Bill, H.R. 3262, has been introduced in Congress to accomplish this purpose. If the Senator would stop what he fears for this country, let him introduce the same bill in the Senate and then proceed to get support for it. It is an obvious fact that most Congressmen apparently do not understand the connection between an irredeemable currency and profligate government spending and between a redeemable currency and a budget under control of the people.

John N. Peyton, president of the Federal Reserve Bank of Minneapolis, recently made a ringing speech in behalf of a balanced federal budget and greater economy, and he urged the bankers to "carry the torch, in the effort to force Congress to

keep the budget in balance." But it will all come to nothing as thousands of similar speeches and admonitions have come to nothing.

Congress deprived the people of this country of control over the public purse. Let Congress return that control by providing a redeemable currency. That is the only answer to the problem of our government's profligate dissipation of our national patrimony; but after sixteen years of what should have been clear long ago, the majority of our Congress and people still do not understand this very important fact.

People in and out of Congress have discussed and reported and protested and organized in the interests of economy and have lectured one another—all without any worth-while results. They have practically all skirted around the very thing—a redeemable currency—that would have brought the desired end.

Probably no one in Congress has worked more consistently in behalf of economy or commanded more admiration for his efforts than has Senator Byrd. But his reports and exposures and pleas have

not, and cannot, stem the tide. He would need to be President to be even moderately successful. The people cannot respond to his pleas and the majority of Congress will not.

But let Congress make our currency redeemable, and every person in this country will be able to exercise some power over the government's use of the public purse. No individual will need to hold meetings or to write reports or to make speeches. He can register his objection directly by demanding redemption of his share of the government's promises to pay. When red flags of warning of that type begin to go up with increasing frequency across this nation, Congress will then stop throwing the people's money around and the pressure groups, which have taken possession of the people's purse, will be sent home empty-handed and our profligate waste will come to a halt.

Unless Congress recognizes these facts and acts upon them, it will be the guilty party in leading the people of this country into a serious, perhaps catastrophic, economic, social, and, possibly, political collapse.

Restore the Purse

FORTY-FIVE members of the Economists' National Committee on Monetary Policy have joined in a statement in support of the Reed Bill (H.R. 3262) which is, according to the preamble:

A bill: To restore the right of American citizens to freely own gold and gold coins; To return control over the public purse to the people;

They support it for the following eight reasons:

I. Restoration of a gold-coin monetary standard in the United States would reestablish integrity in the promises to pay issued by the Treasury and Federal Reserve banks. Most of the paper money of the United States carries promises to pay which, under present laws, are not, and cannot be, honored. Statements on some of these notes as to the nature of the security underlying them are not in accordance with fact. No nation, if it can avoid doing so, should permit its Treasury and banks to issue and circulate such promises. Our country can and should avoid this practice.

II. A circulation of an irredeemable paper money permits and invites a much freer and less responsible issuance of circulating media than would be possible if these promises to pay were redeemable in gold on demand. Profligate government spending and depreciation of the nation's currency in terms of goods and services are natural consequences of the issuance of such a currency.

III. Restoration of a gold-coin monetary standard and system would return to the people a high degree of direct control over the government's use and abuse of

the people's purse. Under our system of irredeemable currency, the people's purse is at the mercy of pressure groups to which the majority of Congress have been yielding, since such a currency makes it easy for Congress to spend the people's money as demanded by such groups.

IV. Restoration of a gold-coin monetary standard and the return to the people of their proper control over the use of their public purse should provide them with a potent weapon against socialization and regimentation by their government.

V. Restoration of a currency characterized by integrity in the promises to pay should, in so far as any currency can do so, inspire confidence and encourage saving, investment, production, employment, and trade.

VI. The free flow of gold, silver, and our other money across our international boundaries should enable private ingenuity once more to go where it will and can, when it will, in search for goods, markets, and services with the consequence that foreign trade should expand and other nations should, sooner than otherwise would be the case, be able to develop their trade, obtain more gold and silver, reestablish redeemable currencies, and increase their production and wealth.

VII. The monetary stock of the United States is ample in ratio and amount to permit reestablishment of a redeemable currency.

VIII. Resumption should be at the established rate of \$35 per fine ounce of gold. This standard has been maintained at our Treasury and Federal Reserve banks since January 31, 1934. Fixity is a basic requisite of a good monetary standard, and there is no valid reason why the weight of our standard gold dollar should be altered.

Review

The Hanging of Free Enterprise

HANGING free enterprise under pretense of saving its nonexistent soul is the favorite pastime of those now referring to themselves as "we liberals." The rules of this intellectual sport are fixed. The first rule is to say, "We believe in private enterprise, *but*." Here is a new book, entitled, "Saving American Capitalism." It is a symphony of neo-liberal sounds under the direction of Seymour E. Harris, professor of economics at Harvard. A reader who might know about American capitalism only what these twenty-odd economists and social scientists tell him about it would almost certainly put the book down with the question, "Why bother to save it?" And if it is not the intention to produce that effect, the book is a total loss, for there is not one new idea in it. There is no description of the thing to be saved; there is only a catalogue of its sins. It is conceded that under capitalism the country grew very rich. In the introduction Professor Harris says:

"The sweep of history shows us that our system of private enterprise has served us well. In 150 years the income of the country has grown from half a billion to more than 200 billion dollars, an increase of four hundred times or more. In the same period, population rose by 26 times and the supply of money by 1,150 times. It is a striking fact that this country now supports 27 times as many people at a standard of living 10 or more times as high as in 1820. It is not difficult to understand why apologists for capitalism are impressed by its attainments, and in their satisfaction occasionally seem smug to advocates of other systems."

It is no defense of capitalism to say that it made this country the richest country in the world. That is the neo-liberals' way of presenting on the scaffold a gross figure who in pursuit of the profit motive did somehow multiply the material satisfactions of life and nothing more. If that were the meaning of capitalism many people would hate it. Firstly, it isn't true. Capitalism did not make this country rich. What made it rich was the release of the energies of a free people, here for the first time in the modern world.

"Nineteenth century capitalism," says Professor Harris, "however well it served us in its time, will not do for another 100 years or even the next 25 years." If the 19th century belonged to capitalism, why not look at it? In all history that was the century in which freedom was most extended; and

for that reason man's progress in material welfare was greater than in all the time that went before. Its two principal sources of inspiration were the Declaration of Independence and the United States Constitution. It was the century in which the idea of one world at peace was almost realized. The people of all nations were entirely free to produce and exchange wealth with one another, on their own terms, with no benefit of government. You could go anywhere in the world without a passport. All kinds of money were everywhere interchangeable at rates of convertibility established in a free exchange market. If that was capitalism what was wrong with it? Who would be unwilling to exchange this world for that one?

The momentous facts of the 19th century were three, namely, the extension of human freedom, the rise of free enterprise, and the decline of government. The momentous facts of the 20th century also are three, but in reverse, thus, a shrinkage in the sphere of human freedom, restraint of free enterprise and a phenomenal rise in the power and authority of government, to the point at which people no longer control government anywhere in the world, not even here. All seeming to the contrary is delusion.

Between government and capitalism there is natural enmity, always latent but now active, because one limits the other; and it is as if government were now taking revenge for its humiliation in the 19th century. In this struggle the neo-liberal takes the side of government. His career is there. And for every social and economic evil his solution is more government. Classic 19th century liberalism was on the other side. It believed in limiting the functions of government. Freedom from the interventions of government was its first theme. Its ideal government was one that should intervene only to enforce the rules of justice and equity and leave people free to administer their own affairs. More government than that would sometime devour their liberties. That kind of liberalism, says Professor Harris, "was already dead in the 1930's. It existed only in textbooks." In the 30's, he says, "this government began to recognize a liberalism more consistent with the needs of the time, a liberalism which tolerated intervention by government to protect the many against the few."

This neo-liberal, wanting more and more power to act upon people for their own good, or for the good of the whole, thinks he is looking forward. Actually he is walking backward in history. If he now is right, the 19th century was but a magnificent interlude, a moment of illusory triumph in the age-old struggle to reconcile government with liberty, not likely to be soon repeated.

The first article in the book is by Chester Bowles, who is neither an economist nor a social scientist, but

the darling political aspirant of the regathering New Dealers. The cynical may suspect that his essay is the reason for the book. It is entitled, "Blueprints for a Second New Deal." He lays down the familiar premise that the American people will not tolerate another depression, and all the more certain may you be of this because the people now possess "the knowledge that if our private enterprise system fails other alternatives are possible."

Why must it be assumed that free enterprise cannot survive another depression? What other system in the world has better survived depressions? Two of the alternative systems are fascism and communism. What are their records with depressions? Fascism destroyed itself; and as for communism, if you take it in Russia, its freedom from depression is owing to the fact that depression is something you fall into from a height of well-being. No height, no fall. If you live in a state of perpetual depression you do not worry about boom and bust. However, says Mr. Bowles, to save our free enterprise system we must eliminate depressions, positively. Free enterprise itself cannot do it. Therefore government must. Thus the case for more government is established, even without his castor oil argument, which is that unless we take willingly what we need we shall get more than we want—

"It may be paradoxical but it is true, if we are unprepared to accept *enough* government we will end up with *too much*."

Mr. Bowles proceeds then to set out the government's responsibilities. The government of course will see to it that people are properly housed. "If private builders fail to move ahead it should be the government's responsibility to buy the land, let the contracts, buy the materials and see that the houses are built."

The government will see to it that every citizen gets the very best medical care.

Having established a minimum basic standard of health, the government must then go on to establish a "minimum standard of food consumption," since if people do not eat well they cannot be healthy.

These it may be understood are social responsibilities. In the economic sphere, the government's first responsibility is to see to it that the industrial machine is kept running in very high gear—

"Government could, for instance, establish production goals for basic industries where production restraints are holding down output. These goals would be based on the needs of our economy operating on a basis of full production and full employment. If these goals cannot be met by existing privately owned industries within a reasonable period, government would fill in the production gap by establishing its own plants."

Having become responsible for production to the utmost, the government must assume the further

responsibility to see that people have always in their hands enough money to clear the market of what they have produced—

"What I am urging is a flat government guarantee that the purchasing power will always be present to buy all the goods which our workers, farmers, and businessmen can produce each year. This is a basic responsibility of government, if we are to maintain full production and full employment. Clearly, the more effective this government guarantee, and the more widely it is accepted, the less will be the positive action which the government will be called upon to take to make good its commitments. The more effective the guarantee, the greater will be the confidence in the economic outlook, and the more certainly will pent-up demand be translated into orders."

Then of course we should be very prosperous, and that might go on forever, but for the fact that—

"We cannot successfully build a palace for Americans in the midst of a world of slums. Unless the standard of living is raised steadily for all peoples there can be no peace or security for ourselves or our children."

Therefore, we shall have to use perhaps one tenth of our annual product of wealth in aid of other nations, to improve their welfare, and this "would be the soundest peace insurance that we could buy in a world that is tense and desperate and disillusioned."

Mr. Bowles says:

"What I am suggesting is an 'economic brain' responsible to Congress, with the authority to increase or decrease the total flow of purchasing power as our economy tends towards inflation or deflation. I believe that we have sufficient economic knowledge to enable an agency of this kind to fill an important role in leveling out the business cycle."

How ironic that whereas 19th century liberalism believed that people could be free and prosperous only provided they had a minimum of government, 20th century liberalism is proposing to govern them with an economic brain. An economic brain would comprehend all things big and little, the flow, the cataract, the little eddies and the ripples, all alike, as Mr. Bowles' own brain acted when he was at the head of OPA and told your landlady how often to change the slips on your pillows.

If Mr. Bowles with his economic brain were running the government there would be full production, full employment, and stability. A perpetual boom with never any bust, and, therefore, never again any mass unemployment. It is all so clear. All we have to do is to mean to do it and then "put outworn economic theories behind us." One trouble before has been that we never really meant to do it. Mr. Bowles says:

"In our own country before the war, we saw signs of the same ominous influences which had seriously

weakened capitalism in France, England, and other countries across the seas. Monopoly was growing. In our more exclusive clubs, it was freely stated that if our society was to remain 'free' we must become accustomed to the presence of from five to eight million permanently unemployed."

Since Mr. Bowles undoubtedly was welcome in exclusive clubs, it may be supposed that he heard what he reports, but even so it would not be valid. He appears to be speaking of the 1930's. Anybody who knew responsible men of business in the 1930's will remember that that is not the way they talked or felt about mass unemployment. They did not know what to do about it, more than to run \$5 billion in the red during three years to maintain unprofitable pay rolls. The New Deal said it knew how to cure unemployment; it tried and failed. For all it could do, unemployment was rising again in a perilous manner when the defense program started.

In the neo-liberal's indictment of private enterprise the first count is that it has never been able to maintain economic stability, and does not know how. Moreover, the neo-liberal now says, the reason why the New Deal failed to cure unemployment was that its tools were new and not powerful enough, whereas now, with so much more power in the hands of the government and so much more knowledge about how to use the tools, stability can be maintained by what Mr. Bowles calls an economic brain in Washington.

In the first place, that has yet to be proved. But before that there is a question the neo-liberal entirely ignores. Suppose by any means economic stability could be attained. Would it be life or death? Nobody can say what a really stabilized economy would be like. It has never happened and there is no experience. It is true that the American free enterprise system was notorious for boom and bust; it is also true that in spite of boom and bust—or because of it—American industry grew faster than industry anywhere else, and came to be paramount in the world.

It is a slanted book. All the contributors are Keynesian. All of them assume as a matter of course that the government has not only the moral right but the duty to redistribute the national income in the name of general welfare. It has, however, the one merit that the neo-liberal's line is developed with some frankness. He is tired of being called a Socialist, a Communist, or a Marxian. He says now that he stands above all this conflict of ideology. He is first of all a pragmatist. If a thing will work, he is for it, no matter what it may be named. If public ownership will work better than private ownership, he is for it. Abba P. Lerner, Professor of Economics at Roosevelt College says:

"Liberals are now beginning to recognize that neither capitalism nor socialism represents either pure good-

ness or pure wickedness, that private enterprise and public enterprise are both useful instruments for serving the public welfare, and that the issue between them is best resolved in each particular instance by the pragmatic economic test of which is able to operate more efficiently. That instrument is better in any situation which can provide better pay for the worker or better conditions of work or result in a bigger or better product. The best way to make this decision is to permit private and public enterprises to compete on equal terms and let that form of enterprise win which is more efficient in the particular circumstances. . . . The liberal who has completely freed himself from the confusion of individual freedom with either capitalism or socialism can describe his position as Democratic Functionalism. Whether a capitalistic or a socialistic mechanism is to be used should depend on which functions better in the circumstances. It is merely a technical difference between methods and should be decided by technicians or by competition."

As if there could be such a thing as fair competition between the government and its citizens, when the citizen is taxed in the first place to provide the government with the means to compete, and a second time to pay the bill if the government loses his money. Moreover, it is notorious that in business government does not itself obey the rules it imposes upon private business. For example, the Federal Power Commission tells the private electric companies how to keep their books; the same Federal Power Commission lets the TVA keep books in its own way and could not interfere if it would. Professor Lerner himself says:

"An insistence on a balanced budget is not so much too strict as somewhat beside the point. It is possible and much better to concentrate on the real objectives—the prevention of depression and of inflation by keeping total spending from going either too low or too high."

Imagine private enterprise conducted in that manner, charging its deficits to the taxpayer.

Professor Harris, maestro of this performance, also is above the conflict. Whatever works, that is good. He says:

"Karl Marx wrote that inevitably the capitalistic economies would break themselves to bits through periodic booms and busts. The leaders of the Soviet Union are Marxists. A basic assumption of Soviet foreign policy is that the American economic system is soon destined to come apart at the seams. Unless we throw off our smugness and put our economic house in order, this assumption may be proven correct within the next ten years. . . .

"The world needs a system which will combine the best features of the Russian system (for example, an approach to fair distribution, full use of resources, and the mobilization of incentives for workers) with the attractive features of our system (for example, political and other freedoms, the maximum scope of freedom of choice by consumers, investors, and workers consistent

with high levels of employment and fair distribution, and the general application of incentives)."

After that he contributes an article on "Dollar Famine and Trade Policy" in which he says:

"Americans will have to learn that the balance of payments will not be in equilibrium until this country accepts a weakening of her competitive position vis-a-vis the rest of the world, and, therefore, a rise in the level of imports relative to exports."

So, we must incorporate into what is left of the American free enterprise system the best of the Russian system, and then, lest we still be strong, we must weaken our position vis-a-vis the rest of the world. And once we are weakened enough to suit the neo-liberal, what will happen?

The most interesting and most profitable essay in the whole book is by Leon H. Keyserling, vice-chairman of the President's Council of Economic Advisers. Mr. Bowles would give the Council of Economic Advisers authority to act on the economic affair. Mr. Keyserling, who knows much more about it, is very conscious of the fact that we know much less than we think we know. He has so few delusions about the New Deal that one wonders how he fits into the regathering New Deal cult. He says:

"But while the record of the last depression alerts us to the danger, it does not provide us with a complete remedy. The most significant lesson we can learn from the past is that we have not yet learned enough. Without underestimating the far-reaching social legislation (for example, old-age insurance) and permanent economic programs (for example, securities regulation) that were initiated during the thirties, we must recognize that the recovery, strictly speaking, was not complete until the advent of the defense program in 1939-40. In fact, by the middle of 1937, we were again on the economic downgrade for a spell."

It is difficult to place Mr. Keyserling. He assigns a very important role to government, and yet he believes more than the others in private enterprise, to the point of saying that the most serious defect so far in the antidepression measures adopted by government "was that they did not place enough emphasis upon restoring balance within the enterprise system itself." The wage-price-profit policy pursued within the private enterprise system must continue, he thinks, "to exert a far larger direct impact upon the nation's economic health than any programs the government may undertake, unless the government should undertake to run practically the whole economy." That is after all not much to say. It means only that a large majority of the people still rely upon private enterprise for income. Mr. Keyserling is far from holding private enterprise alone can be sufficient to conduct the American economy. He says:

"But neither those 'liberals' who betray nostalgia for

the New Deal of the thirties which accomplished much but not nearly enough, nor those 'conservatives' who would reincarnate the brutal and reckless economic philosophy of the twenties should be allowed to say the last word."

He is for a mixed economy, partly controlled and partly free, "a wise admixture of private and public action," but he doubts whether the necessary instrumentalities have yet been forged.

But does the government ever wait to forge the perfect instrumentalities?—G. G.

A Witness of Two Worlds

IN a tight little one-man craft of unsinkable integrity, M. J. Bonn navigated the stream of human events that led from one world to another, without a single bad mishap. The dividing line was World War I. He had three roles. In the academic role he taught political economy, first in Germany and then in England, and from time to time in the United States as a visiting professor. In the political role he was adviser to governments and to the men who rose and fell with the governments they created on treacherous sands. His third role was that of scholar and philosopher, and his solitary satisfactions in that one were compensation enough for many disillusionments in the other two. His teaching of sound economic doctrine was swamped by the Keynesian fallacy, which was preferred by a world that had forgotten solvency. His experience as political adviser was to be overcome again and again by the more urgent counsels of fear, expediency and passion. But he was not bitter; and although he was related to nearly everything that happened he was never so engrossed as to be unable to see clearly what it was and why it happened. Now a time comes to put it in writing as a continuous story and this he does in "Wandering Scholar," with such delight in the telling, such mellowness of wisdom and with so much light on the dark margins of history that you may put the book down with the thought, "I could wish to have lived a life like that." But if you do, or if, like many reviewers, you put literary and historical values first, you will miss its hard economic core.

His family belonged to banking and trade and was very old in Germany. He was born in Frankfurt

* "Wandering Scholar," by M. J. Bonn. The John Day Company, New York.

in 1873 and studied political economy at the University of Heidelberg. During World War I he served in the economic councils of the German Government and afterward was employed on special diplomatic errands. He was with the Germans at Versailles, lived through the wild German inflation and was present when Hindenburg and Ludendorff invented the legend that Germany had been stabbed in the back, not defeated. When Hitler's rise put an end to his career in Germany he was Rector Magnificus of the College of Commerce in Berlin. After that he became a British subject, taught in the London School of Economics and became very well known for his lectures in the United States.

Naturally he came to know many famous actors in the drama of his time; and one of the fascinating features of the book is a series of word etchings in portraiture, such as this one of Germany's most tragic figure, Walter Rathenau, who:

"was the most attractive, and at the same time, the most elusive personality in modern Germany. His father, a prominent engineer and a very able businessman, had founded the German General Electric Company and become very wealthy. The son, trained as an engineer, had succeeded him, and presided with exquisite dignity over shareholders' meetings. One of the most cultivated men of his age, he would have shone rather as a professional writer and lecturer than as a businessman. A very striking figure, tall and broad, he loved to talk, or rather, to sermonize. A messianic undertone pervaded his utterances, whether he was vaticinating things to come or winding up his address to the Genoa economic conference with a deeply felt, and at the same time histrionic, appeal for peace. He was mystic rather than profound, understanding but not discerning. He sometimes underlined his Jewish origin; yet he suffered intensely from this martyrdom of his birth. He yearned to be a Teuton. He had renounced with eagerness the freedom from illusion that is part of the Jewish inheritance, and deliberately cultivated the haziness of professional German transcendentalists. He could have sympathized with the more abstruse of the Nazi philosophers, had his race not prevented him from joining their ranks; but he would have been horrified at the brutal application of their principles, for his was a world of words, not of deeds.

"He had brilliant flashes of practical intuition; the organization of raw materials for German industries in the First World War was due to him; the military had completely overlooked it, and without it Germany would rapidly have collapsed. Yet he preferred to dwell among abstract conceptions. He was meant to be the gallant outsider, the great columnist, who accepted the happenings of this world with profound understanding, and interpreted them to his more shortsighted contemporaries from the angle of eternity, with a gentle tolerance born of mellow skepticism. Yet he had an irrepressible urge to be in the fray, not because he loved the din of the battle, but because he wanted to be seen. He had little genuine ambition; neither power nor money really attracted him; his one devouring passion

was vanity. His sad eyes betrayed his utter loneliness. He disliked the crowd and despised the people after the manner of great philosophers, not so much as the great unwashed, but as the unlearned, who could hardly appreciate the nuances of his resounding verbal output. Yet he could not do without them; they were the echo which brought back to him the sound of his own voice. The revolution had compelled him to take sides; he had become a member of the democratic party, but the party managers did not appreciate him. They preferred lobbyists to seers, and never sent him to parliament. Yet they felt flattered that he was one of them, especially as he asked no favors. They loved to hear him at their party gatherings, not so much for what he said, as for how he said it. Outsiders treated him as one of the great captains of industry of the age. His confreres in that select fraternity had no great opinion of his detached dreamy attitude to business problems, though they were under the charm of a personality that both irritated and captivated them.

"Our contacts had been few and pleasant before Rathenau became minister of reparations. They continued so after he had taken office. But we were not meant to do teamwork. He approached all problems as an aesthete and a mystic, while I relied on mere reason. Discussing currency and monetary issues with him was like talking to a dreamer who does not care to understand facts but is in search of material for prophecies."

Or this one of John Maynard Keynes:

"I had first met Keynes on a cold November evening in Rotterdam (1919) when a journey to England had come to nought. There and then I had undertaken the German translation of his 'Economic Consequences of the Peace.' In that book he had shown himself a *political*, not an *academic* economist, for he was not profoundly interested in abstract, scholastic truths. He deduced his theories, not from the textbooks of his predecessors, but from the problems of the day. He wanted to find solutions that could be applied to urgent actual situations, not answers to eternal questions. His well-known dictum, 'In the long run we are all dead,' demonstrated this clearly. He preferred the role of the surgeon, who tries to save life by a bold experimental operation—though he sometimes sacrificed it—to that of a professor of anatomy who cuts up corpses. The value of a doctrine to him lay not so much in its truth as in its successful applicability. Keynes's mind was so much more nimble and quick than those of any of us that he usually detected the flaws in his arguments long before his most bitter critics had found them out, though not always before they had done harm. A creative artist such as he had to look forward, not backward. He was not always aware that the new gods whose worship he advocated were but ancient idols in modern disguise.

"On the visit to Berlin when he launched his world-famed attack on economic liberalism in the lecture on 'The End of Laissez Faire,' he and his wife had tea with me before he delivered it. 'Why,' I asked him, 'do you come here to preach the new gospel to us? In this part of the world we have never had genuine laissez faire;

its only thoroughgoing advocate has been of British origin, by name Prince Smith.' He was a little puzzled. He prided himself on the boldness of his onslaught on the gold standard, calling it 'a barbaric relic.' Yet fifty years ago his heresy had been the cardinal faith of American populism. One of its leaders had looked forward to the time when gold and silver would be discarded, and an international legal tender money be established — 'but that is a vast reformation, which the world is not yet ready for; the greater part of mankind have never yet heard of it.* After Keynes had taken it up, mankind did hear of it. His loss is irreparable. For only his authority could have had held in check the noisy sect that is applying his doctrines to situations for which he had not designed them. For to him economics was an art to be practiced with all available scientific knowledge, not a book of rules from which medieval-minded scholars could pick dehydrated fruits of wisdom."

These acute penetrations in Dr. Bonn's beautiful style tend to distract attention from his economic judgments, as for example this one of what happened to the gold standard:

"The financial crash in New York had worsened the situation. In every country, price levels were rapidly declining, yet manufactured goods remained relatively stable. Monopolist industries reduced output rather than price. Organized labor generally preferred unemployment to lowering money wages. Thanks to the dole, the working class as a whole was able to bear large-scale layoffs, though the impact on public finance was disastrous.

"In the early twenties a decline of production of gold had set in; its continuation (actually production had risen again after 1923) might contribute to the depression. Once more the specter of a gold scarcity began to haunt the world. The Financial Committee of the League appointed a gold delegation to inquire into the matter. I was invited to join it. . . . We were called to Geneva and asked to incorporate our separate papers into a joint report. For three days we were closeted and, assisted by Sir Alfred Zimmern, labored hard to produce a joint report; we merely succeeded in turning two readable essays into a dull government paper. Finally we were allowed to write a short introductory note and present our views in their original shape. They were very well received everywhere. They started the discussion on the economic causes of war that has ever since been going on. It has become the favorite plaything of noneconomists who discovered, somewhat late in the day, what they thought was the Marxist economic interpretation of history, and claimed that all wars were the result of economic forces, especially of the capitalist system. Their discovery was a godsend to budding instructors. If the decisive causes of all wars were economic, the particular noneconomic circumstances in which particular wars had started need not be carefully studied. . . .

"The gold delegation met in the early summer of 1930; it concluded its deliberations in the spring of

1932. Our number was small; our most brilliant member was the late Sir Henry Strakosch. He usually worked in close cooperation with Gustav Cassel; the latter rarely honored us with his presence, but when he did, he was pontifical. . . . I disliked our first interim report, drawn up in the summer of 1930, just after I had left for the United States. It did not destroy the myth of an impending gold scarcity. I had signed it, for it seemed unwise to resign on an interim report that could be corrected later on. I should, however, have made a personal reservation. . . .

"On my homeward journey I went straight to Geneva from Cherbourg to another meeting of the gold delegation. It was now getting its second wind. The fall of prices, which I had predicted as early as 1926, made possible the working of poorer gold mines and had automatically increased gold supplies. The problem now was the so-called maldistribution of gold, caused mainly by the violent changes in the international debt structure that war and peace settlements had brought about. Gold was concentrating in the United States, in France, and in a few other countries. They were creditors who were unwilling to accept payment in goods; the movement was accentuated by capital flights from weaker currencies—from real or imaginary political dangers. The problem was not technical, not due to a faulty monetary mechanism, but the results of unstable political and economic conditions; no monetary system in the world can be devised that can successfully withstand political shocks and large-scale economic miscalculations. The delegation was split into two sections. One section, for which Sir Henry was the spokesman, explained the rapidly spreading depression more or less exclusively by monetary causes, and proposed mainly monetary remedies. The other group, whose views I shared and frequently voiced, interpreted it as a much wider phenomenon for which political, economic, and monetary causes were jointly responsible."

With a kind of surgical precision he marks the moment at which the old free capitalistic world of the 19th century expired. That was the moment at which the Bank of England abandoned gold payments. He says:

"September 20, 1931,* was the end of an age. It was the last day of the age of economic liberalism in which Great Britain had been the leader of the world. . . . At a meeting of the Gold Delegation Sir Henry Strakosch explained to us: 'We had to do it because we had to relieve our sterling debtors.'

"'What difference could it make to them—for example Chile or Brazil,'" I replied, 'whether they repudiate in good or bad sterling?'"

Dr. Bonn now regards the world from the vantage point of retirement in England, but he is still writing. He has an article in this number of *AMERICAN AFFAIRS* in which he raises the speculative question: Is what now we call socialism in England socialism really, or a return to medievalism?—G. G.

* John D. Hicks, "The Populist Revolt," pp. 316, 317, 338.

* It was two days after Japan began the war in Manchuria.

Labor

Piecework in the Soviet Wage System

From the May 27 issue of U.S.S.R. Information Bulletin

THE new material incentives for labor stem from the socialist principle of distribution applied in the U.S.S.R.—“From each according to his ability, to each according to his work”^{*}—which is one of the economic laws of socialism.

The most widely used is the piecework rate. As employed in the U.S.S.R., the piecework system is highly instrumental in stimulating higher labor productivity and thereby improving the living standard of the Soviet workers. It promotes in the worker an interest in his job not only as it affects him personally, in terms of his own wages, but also as it affects the entire economy, in terms of the growth of production as a result of higher labor productivity, and furnishes the basis for a most objective appraisal of the quantitative and qualitative results of labor.

The piecework system of payment for labor is therefore extended to the overwhelming majority of the workers, and about 75% of the workers in socialist industry are paid on the basis of piecework rates. This stimulates the interest of the workers in rationalization and in mastering the new machinery with which every branch of production in the U.S.S.R. is being continuously equipped.

Under the individual piecework system, every worker receives an independent production assignment (individual quota). The fulfillment of the fixed production quota and, consequently, the earnings depend upon the efficiency and skill of each worker.

Another form of the piecework system is based on teamwork. In this case a definite task is assigned to a whole team composed of several workers of different specialties. The results, therefore, depend upon the work of the entire team.

But even in this case, the earnings of the team are not equally distributed among its members, for this would amount to leveling and thus constitute a violation of the socialist principle of payment for work. The earnings are distributed according to the skill of each member of the team and the amount of time worked in the given team.

Thus, the more skilled workers receive higher

earnings, which fully corresponds to the socialist principle of distribution according to labor. The work performed by a skilled worker is valued higher than the work performed by an unskilled worker in the same amount of time.

Furthermore, the system of payment provides for higher rates of remuneration for more arduous labor, namely, 20% to 25% higher than the payment for lighter work.

Another widely employed system of payment for labor in the Soviet factories is the so-called progressive piecework rate. Under this system, the rates of payment are higher for production over and above the fixed quotas, the said rates increasing in proportion to the overfulfillment of the production quota. But the rates of payment are not reduced if the worker's production falls short of his quota.

In a socialist economy, the piecework system is one of the most important means of raising labor productivity and one of the sources for improving the material conditions of the working people.

Another incentive widely employed in the U.S.S.R. is the system of bonuses and prizes. In cases where it is impossible to calculate the exact time and quotas for definite operations, the worker is paid on the basis of daily or hourly rates. But in order to ensure higher labor productivity and higher earnings in this case as well, Soviet labor legislation provides for bonuses depending upon the monthly results of the work.

Revaluation of Man's Free Right To Work

ON the subject of *Compulsory Union membership*, the Executive Committee of the Federal Council of the Churches of Christ in America adopted the following statement last May 17:

“Labor unions that are strong, free, stable, and responsible can best serve their own legitimate interests and those of the public. Toward this end various forms of union security are proposed. Some of these, such as maintenance of membership and dues check-off, seek to stabilize the relationship existing between unions and their members. Other proposals, such as the closed and the union shop, are designed to enforce union membership as a condition of employment with a given employer. The only difference between the latter lies in the time when membership in a union is first required. With the closed shop it is prior to, with the union shop it is soon after, employment. In both, the continuance of employment requires the worker to remain a member of his union in good standing.

“Obviously compulsory union membership places a limitation on the right of the individual to work

^{*} The original Communist slogan was, “From each according to his ability, to each according to his need.”

where he would otherwise obtain employment. There is reason for Christian concern at this point, for this right is basic; but like all such rights it is subject to restrictions under democratic procedures in the interest of justice and the welfare of the consuming and general public.

"Limitations upon the right to many kinds of work are fixed on behalf of safety, health, efficiency and skill. This limitation on the right of the employer to employ and of the worker to employment is a result of a social process in which there has developed an acceptance of new appraisals of moral and social values. Where these restrictions are set or permitted by law, the public recognizes other values which may in a given situation carry greater weight than the unrestricted right of a worker to employment."

Who Owns Your Right to Work?

A Bulletin from the De Mille Foundation,
8247 Beverly Boulevard, Los Angeles

ASK yourself: Am I as free as my father was—to get a job and keep it, to start a business and run it, to build a house and live in it?

If your answer is "no," then *It is Time for You To Act.*

The De Mille Foundation chooses to fight—for the freedom of the individual—against the forces that would enslave him, mainly through control of his *Right to Work*.

We believe that every American should have the *Right to Work*, when he pleases, where he pleases, for himself or for whoever wants to hire him.

This Is Not True in America Today.

Restoring this freedom means:

1. Abolish the closed shop—protect labor's right to organize and bargain collectively, but allow no group to control the individual's right to work.
2. Prohibit forced political assessments—let every man and woman work without sacrificing political independence.
3. Combat communism, fascism, and other ideologies which seek to destroy our democratic political and economic system—let every man, woman, and child enjoy and inherit a free America.

Cecil B. De Mille

Note: At the International Labor Organization's convention at Geneva in June the Committee on Industrial Relations rejected a proposal to confirm the wage earner's right *not* to belong to a union. George F. Meany, secretary-treasurer of the American Federation of Labor, said it was enough for that right to be understood; there was no need to write it into the proposed international convention.

The Values of Poverty

E. M. Biggers of Texas was a gadfly to the New Deal in Mr. Roosevelt's time, and put forth millions of letters in ridicule of it from the point of view of a pure individualist. One of them was received by Representative Cox of Georgia, who replied in a critical spirit. Here is Mr. Biggers' reply. It was introduced into The Congressional Record by Mr. Crawford of Michigan.—Editor.

Mr. W. M. Cox,

Dear Sir: Back in May, this year, I received a letter rather critical from you, and have wanted to reply, but more important things prevented earlier attention.

Usually I pay no attention to such letters, most of them being anonymous and very obscene, abusive, and threatening. It was a relief to get your signed letter, and in a more courteous manner.

In the first paragraph you refer to me as "one who never had a hard time" and "do not know what it is to be up against it." I hope you will pardon me for writing in such a personal way, but that statement requires a very personal answer.

First, Mr. Cox, I was born on a farm. Never left one until I was 16, then got a job in a printing office. I had no schooling, did get out of the first grade and attended only one session. No boy ever had a harder time. I know every part of every farm implement or harness, from nose bag to crupper, Georgia stock, bull tongue, middle buster, soldshut, single and double tree, bellyband, hamestring, clevis, trace chain—you just can't stump me.

I have split rails, using home-made mauls and wooden wedges; cut cordwood at 50 cents a cord, trimming and burning tops. Picked cotton at 38 cents and keeps. Then we weighed it on the old stilliards, hung in the end of the wagon tongue, which was propped up by the breast yoke. We always hung the pea in the hook so as to keep the stilliards pointing up. If you are an old-timer, these things will be familiar to you.

I am not yet sure that hard times—yes, even a bit of poverty—is not a blessing in many ways. At least it helps us to appreciate what we have, and someone asked, "If you can't appreciate what you got now, how can you appreciate more?"

In those days farmers believed in God. Though they were poor, every night after supper we gathered around the table, verse from the Bible was read, and then a prayer was offered for the blessings we had. Our light was a tallow dip, later a small brass lamp with a round wick and no chimney, and do you remember the paper lighters that were kept by the fireplace, because we had no matches?

It was good for those who could take it, and I think

those trying times made for more happy homes, brought more families closer together, and did more for real Christian religion than wealth and luxury have ever done. Yes, I am proud of what I went through, though I do not want others to be forced through the same.

The first cultivator I used was a walking one, and at night we cut a supply of wooden pegs to fill the bag carried on the handle. Next day when the plow hit a stump, and there were many of them, it would break the peg. Later we had the riding cultivators with the spring which allowed the plow to trip. I rode cultivators when my tiny legs were too short to reach the stirrups.

My mother died when I was four, the youngest child, leaving father with four to bring up. We scattered out, living with anyone willing to take us. Two years later, father rented a small place, borrowed a yoke of oxen, and assembled his little brood. With a sister, then fifteen years old, as our housekeeper, he tried to make a home for us. I was too small to do much of the field work, but I did cut sprouts and hoe. My main job was to provide meat. This I did by trapping quail and rabbits. In those days we ate the rabbits, rather than just pulling them out of a hat for exhibition purposes, as the New Deal became so proficient in later.

We had neither flour nor meal, our bread being made from grated sweet potatoes, and it was good and wholesome, too. In addition to a bountiful supply of game, our food was black-eyed peas, sow belly, and the sweet potato bread. Any sugar we had was from evaporated sorghum. It was very dark, but it was sweet, and we gulped it down. Dad's coffee was parched corn.

Before a year, sister died. She was not only our housekeeper, but a mother to the two younger brothers. She was buried out in the woods under a large tree near Ranger, Texas. Today, if I could have just one wish fulfilled, it would be to locate where that little girl lies, so that I could erect to her memory a monument she so deserves.

My father was a carpenter (and I recall there was once another poor but honest character who was both a carpenter and a shepherd). Father made her coffin out in the back yard. I can see him working on it this very minute. It impressed my young mind. After cutting the boards correct length, he sawed several cuts for the bends on each side, then poured hot water on them, which caused them to bend properly without breaking. I had never seen such a beautiful thing as that coffin with its black plush covering and shiny brass tacks. That's what I saw then. In later years, and after father passed on, I saw the tragedy and the suffering he went through to bury his only little girl.

Please, Mr. Cox, do not say I am a stranger to hard times, for I have lived them. Never had a real home until I was married, but bummed all over the nation, acquiring a self-confidence and a faith that has stood me well in later life; faith in my ability to take care of myself, and not look to the government for a dole, as is so popular of late.

Blessed with a healthy body and devoid of laziness, I have by hard work (and I am 71 and working hard) managed to accumulate something for the rainy days I was brought up to believe surely come to all.

HOUSTON, TEXAS

E. M. BIGGERS

Indignation on N. C. Campus

THE explosion that rocked the Atomic Energy Commission touched the University of North Carolina because a young Communist who turned up with a federal scholarship for advanced study in nuclear physics was not only a graduate student there but a part-time instructor. Even before this it had been said that the air of the campus was tainted with adolescent communism. The student body as a whole, however, is vehemently anti-communist, and this fact is made clear in the following manner:

Editorial from the *Daily Tar Heel*

(A paper published by the student body of the University of North Carolina)

HANS FREISTADT, graduate student in physics and the leading exponent of communism on campus, is attending the university on a scholarship—given, amazingly enough, by the United States Atomic Energy Commission. Readers of this page are thoroughly familiar with Freistadt's philosophy, for the Stubbering, Austria, native is the most prolific letters-to-the-editor writer at Carolina. He has consistently attacked the American form of government, its theory, and its practice—the same government which is giving him \$1,600 to study in college.

The Commission certainly pulled a "boner" in selecting Freistadt for the award. One wonders just how naive a committee can get. Of all the 100 per cent Americans with loyalty unquestioned, the Atomic Energy Commission has chosen Mr. Freistadt. Of all the thousands of students scraping to get through college, and the thousands of others never able to attend, Mr. Freistadt gets a \$1,600 scholarship. Surely there are numbers of good physics students in the United States who do not have a background entangled in communism. What has happened to the Atomic Energy Commission's reason?

Freistadt came to Carolina from the University of Chicago, where he headed the Communist organization in that school. Here he is the leader in the propagation of the Communist doctrine and heads a little group which he calls the Karl Marx Study Club. He has been investigated by the FBI.

Many say that the best way to deal with communism is through not publicizing it. We are inclined to agree, but when one of its leading advocates is given a scholarship to prepare for eventual work in anatomic energy laboratory, then the matter calls for action.

The students and nation have just cause to be indignant. Hans Freistadt publicly brags of being a Communist. He in no way merits governmental assistance. He should be deprived of his scholarship immediately, for the sake of the good name of the University of North Carolina, the taxpayers' money, and the welfare of the nation.

LETTERS

The Constitution in Wartime

To the Editor of AMERICAN AFFAIRS:

My attention has been called to your pamphlet "The Government's Reach for Education," which I am reading with care and interest, since it gives warning against "profound changes in the structure of our government" which would end "Our American way of life" and result in the scorning of freedom. However, I think I ought to say to you that I believe the following clause carried on page thirteen of the pamphlet to be most unfortunate:

"The discussion of this problem should be completely disentangled from problems relating to the war. War cannot be conducted on the basis of democratic principles. Every democracy must temporarily give up its basic philosophy in order to carry on war successfully. War demands *the gathering up of all power by the central government* and the yielding by every citizen of all his rights, including life itself, if necessary."

If you will re-examine and re-study the quoted language, I am sure you will agree that it is entirely too broad, and tends to give encouragement to the hoax idea that whenever there is war there must be not only military mobilization but also civilian and industrial mobilization (the combination of which three mobilizations would mean socialism). Britain is today a lasting victim of socialism in consequence of such false and hoax idea, which our New Deal Administration here also tried to put over upon the American people during World War II. A loyal and courageous Senate Military Affairs Committee fortunately blocked the effort.

It is well to recall at this time the Supreme Court decision of 1866 (*Ex parte Milligan*, 4 Wall. 2, 120), declaring:

"The Constitution of the United States is a law for rulers and people, equally in war and in peace, and covers with the shield of its protection all classes of men, at all times, and under all circumstances. No doctrine, involving more pernicious consequences, was ever invented by the wit of man than that any of its provisions can be suspended during any of the great exigencies of government. Such a doctrine leads directly to anarchy or despotism, but the theory of necessity on which it is based is false."

Washington, D. C.

GEO. E. SULLIVAN

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The Civil Right To Advocate Murder

To the Editor of AMERICAN AFFAIRS:

In your January issue you carried a page of comment on the American Civil Liberties Union under the heading *The Civil Right to Advocate Murder* in which you quoted from a Congressional document of 1931 and a committee of the New York State Legislature in 1928.

Your quotations make it appear that the American Civil Liberties Union devotes its efforts mainly not only to the defense of Communists but to protecting subversive movements and the advocates of violence.

It's a little surprising to see documents of such ancient vintage quoted after so many years when the record of the Civil Liberties Union refutes their substance. Even the chairman of a later congressional committee, Martin Dies, publicly absolved the Union of any Communist or subversive taint in 1939 when he said: "This Committee found last year in its reports, there was not any evidence that the American Civil Liberties Union was a Communist organization."

The facts are that the Civil Liberties Union is very little engaged in the defense of Communists. It of course concedes them the same civil rights under the law as others. But it excludes Communists like other anti-democratic elements from its governing committees and staff.

The Union adheres to the "clear and present danger" rule laid down by the Supreme Court in dealing with propaganda by any agency. The quotations from Mr. Baldwin's testimony which you cite adhere to that rule.

Your quoted reference to the defense in 1929 of the Gastonia, North Carolina, workers who jumped bail and went to Russia ignores the point that we entered that case only on civil liberties issues in the Supreme Court of the state where they were argued by our distinguished counsel, the late United States Senator Thomas Hardwick of Georgia.

The Union, in its wide range of activities, has only the single platform of the Bill of Rights. Its major activities are in the courts where it defends equally the interests of all persons without favoritism. The Union conceives its function in terms of patriotic devotion to American principles.

ARTHUR GARFIELD HAYS

General Counsel of the American Civil Liberties Union

*

Mr. Arthur Garfield Hays:

I have just read the letter which I suppose you want us to print in AMERICAN AFFAIRS. My criticism of it is that it is not entirely responsive. You entirely ignore the testimony of Roger N. Baldwin in that old Congressional document. Mr. Baldwin is still Director of the American Civil Liberties Union. Does he repudiate that testimony?

GARET GARRETT, *Editor*

*

To the Editor of AMERICAN AFFAIRS:

I do not know why you do not feel that my letter is responsive. I said that the quotations which you have cited, as well as the position of the American Civil Liberties Union, upheld the clear and present danger rule as laid down by the Supreme Court, and it is in this light that Mr. Baldwin's remarks of years ago should be interpreted. I should think no further comment would be necessary.

ARTHUR GARFIELD HAYS

American Affairs Pamphlets

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(*Supplement to the Summer Number, 1949*)

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By AGNES MORLEY CLEAVELAND
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By ROBERT A. MILLIKAN
(*Supplement to the Autumn Number, 1947*)

*Note: Extra copies of these pamphlets are available at 25 cents a copy;
ten copies \$1.50; twenty-five or more copies at 10 cents each.*

Reprints of an article entitled *Laissez Faire*, by Garet
Garrett, from the Winter 1949 Number of AMERICAN
AFFAIRS, are available at 10 cents per copy up to 100; 8
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