

American Affairs

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SUPPLEMENT

We Hit the Jackpot

An Example in Mass Communication

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Notes on the Contents

This Adventure in Human Enterprise. Dr. Vannevar Bush, whose renown hitherto has been confined to the world of science, has suddenly found his voice. He has just produced a book entitled "Modern Arms and Free Men," and has made several notable speeches, of which this is one. His theme is free individualism. American civilization, he thinks, might be sooner destroyed by loss of the pioneer spirit than by the atom bomb, which he helped to make. The scientists on the left have been vocal enough. There was need of a counteroffensive, and this is it.

The Debacle of Planning. This is the longest article in the book, too long perhaps; but what the planners have done to money and to the trade of the world cannot be told without taking space, and the more simply one tries to tell it the more space it takes. One story runs through the whole of it, and that is the story of the overthrow of the free market and free competition everywhere.

The New Gimmick in Welfare Funds. Clarence E. Bonnett, professor of economics at Tulane University, is new to the readers of AMERICAN AFFAIRS. In this paper he gives a reason for organized labor's change of attitude toward pensions. It can accept them now with no sense of loyalty to the employer.

If We But Stumble. The importance of this speech by the Honorable James F. Byrnes is that it widens the chasm between right and left in the Democratic Party.

Forgetting How To Fly. Frank E. Holman, retiring president of the American Bar Association, here pays his bitter respects to what he calls a sitting duck economy.

What Soviet Russia Really Fears. This is what Senator Harry F. Byrd said when opposing a vast expenditure to arm Europe under the Atlantic Pact. Russia, he says, fears America's potential power, not its dollars, and we may lose that power if we ruin the dollar.

A New Philosophy of Laissez Faire. This review of the Ludwig von Mises book entitled "Human Action," is written by a member of the staff. It will give you a sound idea of what Dr. Mises has contributed to the sum of knowledge about why people behave as they do, even the economic man.

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*

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Comment

By the Editor

THE supplement to this number of AMERICAN AFFAIRS is a colored comic entitled, "We Hit the Jackpot." Whether or not the readers of AMERICAN AFFAIRS may be interested in it either as entertainment or information is not the point. There has been much discussion of the value of the comic as a means of mass communication—that is to say, in this example, as a way to make employees of American industry more intelligently aware of what they live by and how the free voluntary system works for everybody. Other attempts to put the story in that form, for the eye, have not been always successful, owing perhaps to the puerility of the product. This is the best thing of its kind we have seen; where the distribution of it has been followed by analysis of response, it has proved itself to be effective. If anyone wishes to try it as a medium whereby impressions may be conveyed directly to the senses, we are prepared to supply "We Hit the Jackpot" in the minimum quantity of 10 for \$1.00, or in large quantities at lower cost. We do this in collaboration with General Comics, Inc., who are the original publishers.

AT a press conference in London the British Chancellor of the Exchequer announced with evident pride that for several months before the devaluation of the pound sterling Great Britain had been adding heavily to her stocks of food and raw materials—paying for them of course with a pound valued at four dollars, knowing beforehand that it was going

to be devalued, yet pledging its word again and again that it wouldn't be. When a government does it nobody would think of calling it dishonest. But the same government would call it fraud if an individual did it, and invoke its own laws to punish him. What makes this difference between public and private morality? Is sovereignty above any moral law? A government may repudiate its debt with perfect impunity because creditors are powerless to do anything about it; but an individual who defrauds his creditors will be imprisoned. That is why no government can be trusted to print money—why people continue to believe in a gold standard and why no government does.

EVER since the Anglo-American conference in Washington last September, from which the British Chancellor of the Exchequer went home in a state of unwonted cheerfulness, which he acknowledged but declined to explain, there have been rumors of an understanding between the two governments. Understanding is a plastic word. It means almost anything you want it to mean. Generally it is not in writing. It may be only a harmony of sentiments. Congress made some futile inquiries about definite rumors, especially one, which was that by understanding with Great Britain the American Government would increase the price of gold, make a large gold loan to England and carry the pound sterling to safety on the back of the dollar. The State Department and the Treasury denied it. In politics, however, there is a region where understanding may come from the shape of events, with no words at all. For example, this question: From the point of view of those who are building here a Welfare

State how would the failure of Great Britain's Socialist experiment affect American opinion? What would it do to the campaign for socialized medicine in this country? What would it do to Mr. Truman's social program, to the doctrine of deficit spending, to planning and subsidies, to all the ways in which we have been following the British example? The following strange and unexpected answer appears in the British Socialist weekly, *New Statesman and Nation*, October 8:

"It is high time that British Socialists realized how closely their own struggle is linked with that of the American trade unions. On the other side of the Atlantic this realization is already widespread among American labor leaders and Fair Deal politicians. They appreciate that the British experiment is the testing ground for a future American planned economy and Welfare State. If the Labor Government were defeated in the next election, the chances of the Fair Dealers in the mid-term campaign of 1950 and of Mr. Truman himself in 1952 would be seriously diminished. Ever since Mr. Marshall's Harvard speech, American labor has been running a highly effective campaign—partly of political education and partly of direct lobby pressure—in favor of aid to Britain and against the reactionary forces which are only too anxious to assist Mr. Churchill in strangling British socialism. This movement of support for Labor Britain has gone so far that the AFL and CIO are actually seeking to popularize the British export drive among the American trade unionists, who might suffer from British competition.

"This change is as revolutionary as it is encouraging. Even as late as 1940, the American trade unions and, even more so, American liberals, were still traditionally anti-British and wrote off this country as the home of class distinction and the headquarters of imperialism. Today, because the struggle for the Welfare State is the dominant issue in both countries, Right speaks to Right and Left to Left as never before. Mr. Truman's political future is bound up with that of Mr. Attlee and Mr. Churchill's with Senator Taft's."

That was the leading editorial. The editor must have been nodding when he passed the title on the next editorial. The title was, "Bankruptcy Postponed." The bankruptcy that had been postponed was bankruptcy of Socialist Great Britain, whose pound sterling even then was selling at a discount from its devalued dollar

price and whose Treasury bonds, issued by the Socialist government less than three years ago, had already lost one third of their value.

IN evil times, said the ancient historians, the meaning of words is confounded. By that test, these are evil times indeed. The name of the newest communist state is the German Democratic Republic. The Russians do it with exceeding skill. We do it to ourselves unwittingly. A few years ago even ardent New Dealers, knowing their semantics, avoided the term *welfare state*, because it sounded too socialistic and might alarm the people. Now the President says that the Constitution intended the Republic of the United States to be a Welfare State.

IMAGINE that what follows in quotation marks was taken down by a psychiatrist from the delirium of an old bond salesman, who evidently thought he was talking to a client by telephone. It made no sense to the psychiatrist. He brought it in to get an opinion from someone who might be supposed to know the language of a bond salesman, looking for clues to what was going on in the unconscious mind of his patient. When the psychiatrist was told that these delirious utterances exactly corresponded to the facts and were, therefore, no proof that his patient was mentally ill, he looked very strange and went away, leaving the paper behind him. Naturally only one side of the bond salesman's colloquy with his imaginary client appears. The reader will fill in the other side.

*

"Would you like to invest some money in a motor car company?" (. . .)

"No, not that one. That one never really got started. This company is already making regular automobiles. Good cars they are. All it needs is some more capital." (. . .)

"What for? Well, it thinks it can do better with a line of low-priced cars, and you know it

costs a good deal of money to design a new car and tool up a factory to make it and then get it on the market." (. . .)

"No, there is nothing the matter with the car it has been making, only that it was in the wrong class to compete successfully. Now the company is going to try another class." (. . .)

"Will the stock go up? Well, you don't have to worry about that. The company isn't selling you its stock. It wants to borrow the money at interest." (. . .)

"No, the interest isn't guaranteed. What? Nor the principal either. The banks? Well the company tried the banks. You know what banks are. They haven't any imagination, for one thing. Then they take your shirt and want all the profit besides." (. . .)

"Certainly there is risk in it. No risk, no profit. This country is built on risk capital." (. . .)

"Your profit. Oh. Maybe profit isn't the right word. You are forgetting the interest." (. . .)

"No, that isn't all. Besides the interest on your money you will feel the satisfaction of having contributed to the expansion of American industry, to employment and to the general prosperity." (. . .)

"Yes, the company will get the profit. You understand what profit is, don't you? The company's profit is what makes your investment good." (. . .)

"If it fails? Well, if it fails you will read about it in the newspapers. Anyway, your loss would be small." (. . .)

"No, you couldn't deduct it from your income tax. It wouldn't be that kind of loss." (. . .)

"Who's crazy? What's that? Oh, I thought you said I was crazy. What? You would rather put it on the daily double." (. . .)

"Certainly it's a free country. You can do what you like with your money. But the money for this investment is money you couldn't put on the daily double if you wanted to." (. . .)

"Why not? Because it has already been loaned to the motor car company." (. . .)

"Certainly, it's your money. Nevertheless, without knowing it, you have made this invest-

ment in the expansion of the American motor car industry." (. . .)

"Oh yes you have. Who says so? The government says so. Nobody is crazy. You've said that again. The RFC loaned your money to the motor car company. And there is nothing you can do about it. And now that you show this uncooperative feeling you may as well know that if it turns out well and the money is paid back with interest, you won't get it. The RFC will get it and lend it to somebody else again."



IT may be understood that a government spending above \$40 billion a year will become a little dim about whose money it is. The President says the government has got to have the money to conduct its business. Like that. From *its* business to *its* money is a natural movement of thought. A secondary confusion follows. What *is* the government's business? When it lends \$44 million to the Kaiser-Frazer Motor Corporation to bring out a new automobile, whose business is that? From the taxpayer's point of view this is compulsory investment. Although the government may have forgotten it, it is *his* money. Could it be justified on the ground that the country is suffering for want of automobile capacity? Hardly. Then on the ground that the motor car industry needs more competition? Hardly that either. Well then on the ground that it was necessary for the government to provide capital to sustain employment? The answer there is that such loans are made by the RFC, and have actually been rising, at a time of full employment. The Kaiser-Frazer incident happens only to have received a good deal of publicity. In the same way, through the RFC, the taxpayer has been making investments in every kind of business there is. He will be surprised to know where his investments are. He will find them in small construction outfits, in stores, in restaurants and laundries, in food processing plants, in hotels, in flying schools, in beauty shops, in photographic studios and in soda fountains. There is one in a plated house which is now so large and discouraging that even the RFC is

worried about it. It is sometimes a new business; sometimes an old one that is in trouble. The Hoover Commission on Reorganization of the Executive Branch of Government recommended that the RFC be discontinued, on the ground that—

“It is not in the public interest for the government to keep an emergency institution alive during nonemergency periods, in the hope that its existence may mitigate the effects of a future crisis, the date of which, the duration, the scope and the magnitude of which are all unpredictable.”

The RFC was created during the great depression to mobilize the country's credit and make distress loans. Came then the defense program and the war, and it was needed as a tremendous credit engine. Since the war it has been continued by acts of Congress. The last extension of its life was for eight years, and now in peacetime it is the most powerful and most resourceful lending institution in the world. The theory is that it shall not compete with private enterprise. Literally this seems to mean only that it shall not compete with private lenders of capital. One application of the theory is the rule that it shall make loans only to borrowers who can show that they have been unable to get the money from the banks in the regular way. It results from this, first, that private banks are relieved of risks they would sooner not take, and that, secondly, the loans of the RFC, except only its loans to the government itself, are generally such as the government's own bank examiners would refuse to OK if they turned up in private banks.



RECENTLY a subcommittee of the Senate Committee on Banking and Currency held a series of hearings on “RFC Loan Policy.” It wanted to find out if the RFC was keeping the policy which the Congress thought it had laid down. Mr. Gunderson, speaking as a director of the RFC, said its policy was based entirely upon considerations of public interest, touching either national defense or employment; and that as concerning employment,

“the community interest is the controlling thing, because substantially the public interest of the whole country is made up of a group of communities, and unless you keep those communities in a reasonably healthy condition, your condition all over the country is not healthy.” Thus, for the sake of the community, it would invest the taxpayers' money to keep a business alive that might otherwise fail, with consequent unemployment. To this, Senator Fulbright said:

“It seems to me that would lead us to the conclusion that the function of the RFC is to prevent unemployment; in that case you would be superseding another agency in government which is to take care of unemployment. If you were really effective in your policy we should not need unemployment compensation, would we?”

Mr. Gunderson thought unemployment compensation would still be needed, unless the powers of the RFC were greatly increased. Senator Fulbright then came at it in another way:

“Practically every case of failure involves unemployment. To follow your argument logically, the RFC would be in the position of seeking to prevent every failure in our economic system. When the automobile came along, the wagon manufacturers had to quit and there was unemployment. If there had been then an RFC it would have been duty bound to keep them alive in order to prevent unemployment. . . . What I object to is taking in all the companies that have gone bad because of various conditions, either mismanagement or because of changing conditions or because the product is no longer needed, and seeking to keep them alive. I think that is very bad for the economy.”

Mr. Gunderson said that to the RFC that would seem to be a matter of degree. Senator Fulbright said:

“But you feel that the prospect of unemployment in the case of a business that should have closed down is a justification of a loan and meets your requirement of the general public interest?”

Mr. Gunderson said:

“I do not mean to say we do not have a considerable amount of question on the application of these principles to many of our loans, but you

reduce that down to the point of—do you help them or don't you help them?—and I confess when we get down that far we try to help them.”

What a pity that this touching chromo of the government with a bleeding heart should be ruined by the reflection that it is the taxpayer's blood.



IN the act of granting the railroads another increase of passenger rates the Interstate Commerce Commission audibly wondered whether, by this raising of prices to meet competition, they were not going to price themselves out of the market. Later, one member of the Interstate Commerce Commission suggested that if the railroads' passenger revenue continued to fall Congress might have to consider a federal subsidy to make up the loss. At one of the hearings on Bigness before the Celler Committee this question was raised: What if a corporation got so big that the government, having accepted the responsibility for full employment, could not afford to let it fail? The alternative of course would be another federal subsidy. Thus one may note the birth of the idea that the Federal Government may be obliged to provide old age pensions for capital. That idea was bound to follow from the delusion that by the free application of federal subsidies to any seat of pain we may secure the great blessing of a painless economy. This of course is quackery. There is no such thing as a painless economy; and if you overcome the sensation of pain by anesthetics, how shall the economy know when it is sick or why? The use of pain in a healthy body is to give notice of wrong living. The only way to cure it really is by right living. Many people have forgotten, if they ever knew, what happened in a free profit and loss system to capital when it ceased to earn a profit. If it could think of no way to get its profit back by improving its tools and methods, then simply it was lost—wiped out. But that is all that did happen. The great economic mechanism was not hurt at all. Indeed it was generally improved and worked much better when relieved of the weight of old and obsolete

capital. Before there was any Interstate Commerce Commission to say that railroad rates should be such as to guarantee a reasonable return of the capital, railroad bankruptcy was very common. Once two thirds of all the railroad mileage in the country was in receivership. The courts operated the railroads as trustees for the creditors. The trains went on running just the same; wages went on being paid to the employees as before. Receivership certificates with prior lien on all the assets were sold to buy new equipment and new rails. After a while the owners, who were the stockholders, sat down with the creditors, who were the bondholders, and together they worked out a reorganization plan. The capital structure was scaled down. The heavy loss fell on the stockholders, which was only fair, because for the sake of the profit they had voluntarily taken the owner's risk. Then a new company was formed, new stock was sold, the bankrupt railroad went on the block and was sold to the new company, and that was the end of receivership. So American railroads were rebuilt many times, with new capital taking the place of old, and the cost of transportation fell until it was the lowest in the world. There was pain in it of course, but it was pain that cured itself; and there came to be a hard saying of great wisdom—that the measure of the country's prosperity was the amount of bankruptcy it was willing to stand. This meant only that the faster it sloughed off dead and dying capital the faster it could go forward—provided always that the dynamic principles by which capital endlessly renewed itself were preserved.



IN its crusade against bigness, the Department of Justice takes the position that “monopoly power is to be found in those industries controlled by a few large companies—the *big threes* and the *big fours*—following policies and practices which avoid any real competition among themselves.” Has the Department of Justice noticed in the news how the steel strike was settled? Did the steel industry settle with the *unions*? No. Did the *big threes* and the *big*

fours of the steel industry settle with the unions? No. Then what happened? What happened was that the steel companies, big and little, settled separately with *a* union. First Bethlehem Steel settled with Mr. Murray of the United Steelworkers of America-CIO. Then Jones and Laughlin, a competitor, settled with Mr. Murray of the United Steelworkers of America-CIO. Then Republic Steel, another competitor, settled with Mr. Murray of the United Steelworkers of America-CIO. Later the U. S. Steel Corporation, the biggest single competitor, settled with Mr. Murray of the United Steelworkers of America-CIO. No steel company could settle or make a bargain with a union of its own employees. Any steel company that wished to go on doing business had to make its bargain with Mr. Murray of the United Steelworkers of America-CIO. For the steel companies there was no united front. They had to deal separately with one industry-wide union. The only united front was that of labor. In all that happened, the only monop-

listic power that appeared was the power of labor. Does this mean anything to the Department of Justice? To everyone else it means, first, that an industry may have its *big threes* and *big fours* and still be intensely competitive, and, secondly, that organized labor has arrived at the legal status of a privileged monopoly. No steel company may operate without the written consent of Mr. Murray of the United Steelworkers of America-CIO. What is more, no man may work for wages in the steel industry without permission of Mr. Murray of the United Steelworkers of America-CIO. What is monopoly? Does the Department of Justice know? It might look it up in the dictionary and find it to be defined thus: "*Monopoly*—The exclusive possession of the trade in some commodity; this conferred by the State; exclusive possession, control and exercise of the thing that is monopolized." By etymology, it means a common seller, or in this specific case, Mr. Murray of the United Steelworkers of America-CIO.

I BELIEVE that the world is going through one of its vast secular revolutions, and this one may last a long time and lead to great changes unforeseen today. We are witnessing a switch-over in human affairs such as the world has not seen since Roman days.—*Field Marshal Viscount Montgomery.*

ONE of the things we have to be thankful for is that we don't get as much government as we pay for.—*Charles F. Kettering.*

Wealth

WEALTH brings with it its own checks and balances. The basis of political economy is noninterference. The only safe rule is found in the self-adjusting meter of demand and supply. Do not legislate. Meddle, and you snap the sinews with your sumptuary laws. Give no bounties, make equal laws, secure life and property, and you need not give alms. Open the doors of opportunity to talent and virtue and they will do themselves justice, and property will not be in bad hands. In a free and just commonwealth, property rushes from the idle and imbecile to the industrious, brave and persevering.—*Ralph Waldo Emerson.*

Winds of Opinion

I have just been having a conversation with His Majesty in which he has been discussing a fair deal for Iran. It sounds like my St. Paul speech!—*President Truman in a toast to the Shah of Iran.*

The day we decide that the government is our brother's keeper, that day the spirit of compassion will have been lost. If we abandon private charity, we will have lost something vital to America's material, moral and spiritual welfare.—*Herbert Hoover.*

I am uneasy when I see farmers demanding stimulative prices whilst government accumulates gigantic surplus holdings, pays subsidies out of federal deficits and imposes production allotments and marketing quotas. I am not happy when I see government slipping back into deficits as a way of life in a period when production and employment are high, instead of putting its fiscal house in order and husbanding reserves to support the economy if less prosperous times overtake us.—*Dr. Edwin G. Nourse, who recently resigned from the President's Council of Economic Advisers.*

The people want these things, despite such labels as statism and welfare state with which Republicans tag this legislation.—*Representative George M. Rhodes of Pennsylvania.*

Since 1787 the art of government has not progressed much. The founding fathers were the most amazingly keen and intellectual group of students of government in the history of the world. This is the age of science. That was the age of government.—*Representative John C. Kunkel of Pennsylvania.*

Reliance upon such orthodox economic theory has brought distress to the American farmer in the past. What we have done is to say to the farmer, "We want you to have an adequate income, but if the government is going to put a floor under your income it is not going to rely upon the uncertainties of automatic operation of the law of supply and demand. We are going to rely on price supports."—*Senator Humphrey.*

Republicans side with the New Dealers on issue after issue, in both foreign and domestic policy, so that we who work to elect Republicans are deprived

of representation and are "taxed without our consent." The situation has become unbearable, and unless we get representation immediately, we will no longer support these Republicans. Indeed, we will actively oppose these appeasers at the polls, because we intend to oppose the enemy wherever he exists; and if the Republican Party cannot offer us a fighting leadership, we will continue the fight alone. We will no longer tolerate "bipartisanship" by Republicans.—*Winslow A. Robbins, Chairman of the Abington (Mass.) Republican Town Committee in a letter to the Chairman of the Republican National Committee.*

It is difficult for Americans to realize that we are now face to face with arbitrary use of governmental power great enough to nullify the Bill of Rights. The political weapon of our time is illusion. Under the veil of illusion those who seek arbitrary power today do not use jails and soldiers. They use money and words.—*Edna Lonigan in Human Events.*

Those are very dangerous things, afterthoughts.—*Field Marshal Viscount Montgomery.*

Money is not a moral issue.—*New York Times.*

I perceive no moral problem involved in this question of gold convertibility. . . . The principal argument for restoring the circulation of gold coin in this country seems to be distrust of the money managers and of the fiscal policies of government.—*Allan Sproul, president of the Federal Reserve Bank of New York.*

We should strive for an economy that will be able to stand on its own feet, and this can be accomplished by a gradual withdrawal of government from the operating spheres of private industry.—*Joseph W. Frazer, vice chairman of the Kaiser-Frazer Corporation, that has just borrowed \$44,000,000 from the government.*

If farm prices are permitted to drop to 1941 levels, it will mean the complete collapse of our American system. No political party can operate the economy of the United States on a basis of full employment, a balanced national budget, and pay off the national debt unless it is willing to provide

such legislation as may be required to maintain an average of 100% of parity at the market place for our agricultural production.—*Carl H. Wilken, economist of the Sioux City Raw Materials National Council.*

A further slight reduction in economic activity and a relatively slow decline in prices appear likely.—*Bureau of Agricultural Economics, United States Department of Agriculture.*

It is just as illogical to suggest abolishing capitalism because it hasn't abolished poverty as it would be to suggest abolishing the churches because the churches haven't abolished sin.—*C. Donald Dallas, Chairman, Revere Copper and Brass Co.*

No foreigner was consulted and less than a dozen Americans. The last precaution was felt to be necessary in order to avoid premature debate on this side of the Atlantic.—*General George C. Marshall, on the origin of the Marshall Plan.*

A statesman or a man who has to deal with public affairs cannot ignore realities and cannot act in terms of abstract truth. His activity is always limited by the degree of receptivity of the truth by his fellow men.—*Pandit Nehru.*

With 6,000 years of recorded social history and all the wisdom, wit and philosophy of the sages and seers at one's command, it would appear that it might be possible to begin to lay the foundations of a genuine science of society.—*Dr. Oliver C. Carmichael, president of the Carnegie Foundation for the Advancement of Teaching.*

It is hardly lack of due process for the government to regulate that which it subsidizes.—*United States Supreme Court, 1942.*

The national form of communism is preferable to the Moscow version and, though we abhor both, there can be no question which is the lesser evil. We cannot hope to convert Marshal Tito to Western ways of thought, but Marshal Tito as a neutral is more acceptable to us than Marshal Tito ruled by Moscow.—*Anthony Eden, deputy leader of the British Conservative Party.*

If the Soviet Government wishes to undertake measures for strengthening peace, the means are at its instant command. Stop your campaign of hate against the non-Cominform world. Forsake your

doctrine that the non-Cominform world is your enemy. Let your people meet with ours and discuss together our common problems. Lift your iron curtain and you will strengthen peace.—*Warren R. Austin, head of the United States delegation to the United Nations.*

The free countries of western Europe provide almost as much manpower as Russia, five times the industrial potential and many times the intellectual capacity of Russia. We are being frightened by a second-rate people.—*General Lucius D. Clay, formerly United States Military Governor of Germany.*

Once you accept the premise that it is the duty of the United States to provide for economically backward peoples everywhere there is literally no place to stop. Indeed, if you operate on that premise there is little chance of ever stopping. To suppose that people will be content with \$35 million, or \$35 million plus a billion or so of guaranteed private investments, when there is obviously more to be got is to misread human nature. Nobody is that backward.—*Wall Street Journal.*

We are entering history's greatest period of international competition in commerce.—*Ernest T. Weir.*

Full employment does not and can never mean that every individual job is guaranteed for as long as the present occupant wishes to stay in it. That would be industrial stagnation. The aim of the full employment policy is to insure that everyone who can contribute to the national output of goods and services gets a chance to do so in one way or another.—*Sir Stafford Cripps.*

In the heart of the German man in the street there are bitterness, frustration, dissatisfaction, self-pity, resentment, a longing back to the great days of Hitler, and last but not least, a reborn and growing feeling of nationalism. This development is an evil omen for the future of Europe.—*Trygve J. B. Hoff, in the Norwegian weekly, Farmand.*

I don't believe that we need to have a violent revolution, certainly not today. The people still have it in their power peacefully to check this thing, but if we don't do it and do it soon, we will have to fight our way back, as Thomas Jefferson said, through revolution.—*John Foster Dulles.*

This Adventure in Human Enterprise

*The blind pursuit of security could lead us over a precipice.
There is still in this country a belief in the magic wand.
We have been drifting unconsciously into state socialism.*

By Vannevar Bush

President of the Carnegie Institution of Washington

During the war Dr. Bush was director of the Office of Scientific Research and Development and organized the work that produced the atomic bomb. He is both scientist and philosopher and fundamentally an optimist. This rare address, delivered at Cooper Union in November, is later than the book now current, entitled, "Modern Arms and Free Men," published by Simon & Schuster, New York. In the book he says another great war would not end the progress of civilization, that science distributes its uses both to those who build and those who destroy, and that freedom will survive if the American people are not made soft by the idea of the welfare state—Editor.

THE human enterprise—the endeavor of mankind from earliest days—is to force back barriers, no matter of what sort, in order that man's life may steadily grow to be a better life, physically, intellectually, spiritually. It is an enterprise of movement, change, growth. As we look at the record of history, even the grimest recent history, we know that over the long pull it has been a successful enterprise, and we are determined to keep it continually successful. To do that, we must assure its characteristics of evolution and advance. Above all we must be ready, as in the past, to take risks for that purpose.

From this view of the human enterprise I wish to discuss a matter of which the air is full these days. It is the topic of security. The word has many meanings, of which three—distinct but closely interrelated—are of major interest at present. We shall need to consider all three. In all three senses, security is a good thing. And equally in all three senses it can, like most good

things, defeat its own purposes if carried to excess. By carrying it to excess I mean simply putting so much emphasis on it that we lose the courage to take a risk. These two polar conceptions, security and risk, go together. They go together just as much today as they did a century ago when the wagon trains rolled west and men left their accustomed security and risked everything in the determination to have a better life out of which they expected a richer security to grow.

The first of the three senses of the word is that of national security, the safety of this country in a hazardous world, where conquering armies still roll across a vast continent, where dictators curse one another, and where modern weapons have quickened the pace and filled us with dread of what may come.

We are not likely to lose sight of the importance of national security. It behooves us likewise not to lose sight of the fact that we may have in the future as we have had in the

past to take calculated risks to maintain it. If we had not been bold and imaginative enough to take risks in the past decade with the development of the atomic bomb, for example, our security would not have been so well protected as it has been.

We shall do well to keep this fact in mind now, with the President's recent announcement that an atomic explosion has occurred in the heart of the Eurasian continent. This came as a surprise—in its timing somewhat of a surprise even to military men with full access to information, for it was earlier than expected, not radically so, but earlier. We do not of course know how long it has taken Russia to produce this explosion; certainly the Russians did not start from scratch as the war closed. But this is a detail. We now do know in no uncertain terms that our monopoly of atomic bombs has ended, and in so far as this knowledge shakes us out of any Maginot Line complex, it is a good thing. To go from an initial test to a stockpile of bombs is a long hard road; this we recognize from our own experience. Even so, our approach to this aspect of national security is now on a new basis.

We have also heard much, unfortunately, of strife among our own services. However sincere its motives, it risks the security which it seeks to preserve. Thus the merits of carriers and of long-range bombers are argued in the public press and in open hearings in Congress, in neither of which places can sound judgments be rendered on intricate matters involving many phases which should not be made public. We hear of pursuit ships and antiaircraft rockets, defensive radar networks and recoilless guns. To balance the effect of these into complete and accurate judgments is no mean task. It will require the best minds we can muster, the keenest of analysis using all modern methods. It will require unity of military approach, and teamwork, which is now being set back rather than forward. The system established by law to resolve such matters normally and deliberately has been thrown into confusion, and the public security suffers as a result.

We know that our security as a nation cannot safely rest on the defense of our own shores,

that readiness to take the risks of the offense is necessary for security. Had we learned that lesson early enough, this might be a different world. But at least we have learned it. Hence we tax ourselves to rehabilitate Europe, and to furnish arms for aid to a revival of strength which can in the long run defend itself fully. This involves a new set of international relationships, not one world as yet, but a United Nations growing gradually in prestige and influence in spite of all obstacles, an Atlantic Pact, and the beginnings of a Federation of Europe. We have had to learn a whole new set of principles in regard to the motivations of men, their ambitions and their fears. For the security of the country rests not alone upon weapons, and the hope of peace lies in understanding, boldness, risk-taking, and wise courage.

THE second sense of the term security is closely related to the first. Through military usage the word has come to mean the inviolability of secret information, the guarding of data and documents important in the national defense. All, or nearly all, of us admit that certain secrets we must guard. We do not intend that spies and traitors among us shall operate unmolested, to pry out data on new weapons we are developing, or about our plans for using them if we must, in order to deliver that information to a potential enemy. This is proper enough, no more than sound common sense. The principle, basic in our heritage, that the defendant is innocent until proved guilty should be our safeguard against abuses of excessive zeal in carrying it out.

We may come to need a comparable safeguard in another aspect of security of secret information, which directly involves the national security, and which again points up the inescapable connection of the two antithetical ideas—security and risk. Fundamental science is essential to our industry, our economy, our whole social structure, our national strength, for it is from constant and vigorous fundamental research that there comes the knowledge which produces new applications, new

implements, new industries. Shall we, in the name of security of information, severely restrict the publication of scientific results, with the idea of preventing them from aiding those with whom we are engaged in a race on new weapons? This question too takes on a new aspect now that there has been an atomic explosion elsewhere, and we can look at it in a new light. Certainly none will object to our keeping secret the mass of technical and engineering information involved in manufacture of materials, and the making of an atomic bomb itself; we are not concerned here, for instance, with any such things as the rate of production or the dimensions and design of the actual missiles. Does it make sense to hold back fundamental science?

WHEN the first atomic bombs exploded in Japan and brought an end to the war the President made a very wise and far reaching decision to take a calculated risk, and release the Smyth Report. This told all that was bound to be generally known and readily found out, but went no further. It undoubtedly helped those in other countries to see important relationships. But it gave a great start to American science generally. The Atomic Energy Commission has pursued the same wise policy, releasing scientific matters broadly, and withholding only techniques. In the light of accomplishment elsewhere—for in my opinion that depended very little upon information obtained from this country, either overtly or clandestinely—the choice of working here in reasonable light appears in retrospect to have been the only sane course.

Science in America cannot prosper in the dark. We can proceed only at a snail's pace on the basis of whispered confidences. But this country is rapidly progressing toward magnificent accomplishment in many fields of fundamental science, and free interchange of results is its heart's blood. There is reasonable limitation; we should not be so carried away that by stretching boundaries we publish practical matters of moment to a potential enemy. But the great danger of security of information is that

it will be overdone, and militate in the long run against the security of the country in a hazardous world.

THE third meaning of security is, however, the one to which I would primarily devote this talk. Here it means safety of the individual against the hazards of nature and of his fellow man, but safety only in a limited sense, and usually safety by reason of action of a paternal government. For a generation we have seen great strides in this direction, and most of it has been salutary indeed. The growth of voluntary life and accident insurance, and more recently of health insurance, and the safety moves in industry have illustrated one phase.

The governmental phase has involved child labor laws, safety codes, and more recently minimum wage laws, subsidies of farm products, social security, and the like. The growth of labor unions, and their maturity into powerful organizations, accomplished much in this direction, and a more enlightened business management deserves credit also. The most powerful influence however has been an awakened public consciousness, and a response of legislatures to the demands of organized groups of citizens. There is no doubt that we have come far, and no doubt also that much of the progress has been salutary. Our people are more protected against the hazards of life than ever before in history, yet we are prosperous, and our national product is twice as great as it was only a decade ago.

The blind pursuit and overemphasis of this form of security could, however, take us over a precipice. Specifically if we outpace ourselves, and overdo this phase of things, we can render this country unable to develop itself and to defend itself in a world in which we may have powerful enemies. We can seek security of the lesser sort so avidly that we lose its essence.

There is no such thing as absolute security. In this uncertain and complex world there is no workable security without the willingness and courage to take risks. We cannot protect ourselves by passing a law. We can hope to protect ourselves only if our people—our greatest

resource—maintain and develop their imagination and initiative and are willing and able to take chances—often great chances.

Moreover, the search for security by action of a paternalistic government has its seamy side. Along with the advocates of good causes we at times encounter those who would get at the trough for selfish ends, and by political manipulation. The area is also one in which muddled thinking abounds.

One result of that kind of thinking appears to take the form of a belief that the Federal Government has a kind of pipe line to some inexhaustible treasury on the moon—that it has income in addition to what it gets from the people in taxes—that the national income each year consists of something in addition to the total annual national product.

This kind of thinking looks at dollars, at money, as something significant in itself, rather than as what it is—a mechanism, a mirror that reflects tons of coal, tons of steel, bushels of wheat, and so on. If we were not beguiled by this kind of false notion, we would hardly as a country regard with equanimity the things we do. Today, for example, with unprecedented expenditures for military services and for foreign aid, with a budget thrown out of balance by mounting costs and a spiral of inflation hardly fully arrested, a session of Congress just ended with nine billion dollars of expenditure for various good causes still in the hopper. Many of these proposals came very close to being enacted into law.

WOULD there be a rush in this direction if citizens generally regarded these bills as merely a way of shifting funds from one group within the country to another, with the intervention of a growing governmental bureaucracy? Would we appropriate so freely to aid this or that if the taxpayers generally really recognized that they would pay the bill, either directly or by indirect taxes they hardly see? Not at all. There is still, in this country, some sort of belief in a magic wand.

The difficulty is that there has been a magic wand in the past, in fact two of them, and the

people generally do not realize they have lost their power. One magic wand paid for new dispensations by soaking the rich. The other did so by leaning on the national credit. We are getting perilously close to the end of our tether on both of these matters, and as a country we do not yet know it.

IT is strange that this should be so with the spectacle of England before us. It does not matter that England came to its present predicament by reason of war losses, and the metamorphosis of an empire. The present situation is intense, and fully spread out for all to see. In England they soak the rich no more; there are no rich. No man can earn or keep an income which is more than sufficient for immediate needs. The national credit is exhausted, in spite of rigorous controls and valiant efforts to support it. Yet the move toward more taxes, and more distribution continues. We cannot see the end, but we clearly see the plight. But England is governed by state socialists. They believe, very honestly and very vigorously, that all property used for production should be owned by the state, although they proceed slowly in this direction to avoid abrupt disruption. They believe in a superstate which plans and regulates the lives of its citizens in detailed ways for their own good. They believe in plenty of taxation, and plenty of services, managed by a horde of officials.

We may stand off and wonder why anyone should wish to go down that path, even as we realize that a majority of England's citizens have voted to do so, with full freedom of discussion of all the merits. But there is little difference in trend in the two countries. We have been going down the same path for nearly a generation; we merely have not gone quite so far because of the fortunes of war and some difference in national temperament.

Moreover we have been drifting unconsciously, rather than plunging into state socialism deliberately. And the reason that we drift is that as a people we do not understand. We still believe in fairies. We still conceive that

money in some strange way gives birth to more money, or that money can merely be printed.

THE fallacy that money makes money is very deep rooted. Like the other fallacies mentioned earlier it persists, for one reason, because at times it has been true. In the early days of commerce, when banking was rudimentary, and the handling of funds was done by a close-knit few, it was indeed true that the mere control of a portion of the flow of the medium of exchange could leave large residues in the hands of those who controlled it. Even in later times, say in this country for a long period following the war between the states, the purchasing value of the dollar increased over the years, and those who held funds found them continually more valuable. This probably did not occur by chance. But today, and as far as we can see permanently, if the conduct of financial matters is widespread, and the sharing of groups in the economy finds its own level, without artificial control, the value of the dollar decreases slowly and steadily. It has decreased rapidly in recent years, and that is inflation, but there are signs that the pattern following wars will again be repeated, and we will get back closer to the long-term trend.

This long-term trend is about such as to cancel out the interest on funds which take almost no risk. It is incorrect to believe that one can invest in a bond which has almost no risk, governmental or otherwise, and enjoy an income therefrom. One can receive dollar income, true, but in the long run the purchasing value of the whole, principal and accumulated income, will remain unchanged, if the trends in purchasing value of the dollar which have persisted for 50 or 75 years continue, as they probably will, even if they do not become accelerated.

It is absurd to set up an organization with its endowment invested in riskless securities, and to call that organization perpetual or immortal. It is perpetual only in the sense that its dollars may be preserved, and dollars dwindle. It is doomed to extinction, very slow extinction it is true and on an exponential or a symptotic

basis, so that it will go to zero only in an infinite time, by extinction of part of its size each generation.

Money does not make money. But money combined with judgment, courage, and risk taking can and does. In fact securities which represent a share in the business of the country show, on the average, and over many years, under the conditions which now exist, an income and an increment which much more than offsets the decline of the dollar. Some such securities become worthless—if the investor tries to be very smart a very large fraction may do just that. But the grand averages, through depressions and wars, grow in value with time. They are bound to, not merely because the productivity of industry increases some 2% a year, measured in output per man hour, and may now be increasing at nearer to 3% because of increased reliance on research, but also because the effort expended in exercising wise judgment inevitably reaps a reward.

Not all of the governmental provision for personal security is by any means merely a result of a false belief that money grows on trees. Nor is all of it, by any reasoning, merely the result of clamor by pressure groups. Some of it is the result of real major problems. The question of old age pensions, now very much in the public mind, is a case in point. Here indeed, science and humanistic considerations meet. The medical profession, aided by chemistry, biology, and other neighboring sciences, has increased the life span and presented us with a severe problem. In 1925 five per cent of the population was over 65. Now it is eight and one half per cent, and in another 25 years, even if the medical sciences made no progress in the meantime, it will be eleven per cent. An annuity to provide \$100 per month costs, at age 65, over \$15,000. No wonder there is argument as to who is going to pay the bill.

WE can be sure of two things—first the elderly are not to be left in distress, in the present temper of the country, and unless we lose our prosperity; second, no matter who pays in the first instance the burden will ulti-

mately fall on those who produce. The chances are the long-suffering taxpayer will get the bulk of the charges directly, and the question we present is how much he can stand without bringing about a collapse of the system on which all support of the unfortunate or elderly depends.

This is a good place, however, to emphasize that our present dilemma is not merely due to some long-haired group of socialists in our midst. We are all involved. In this particular instance part of the responsibility is that of the scientists, for it is their discovery of aids such as penicillin which has produced the problem by enabling us all on the average to live longer. In this instance management has also been short sighted, taking management generally and of course with notable exceptions. Only half the men above 65 are at work.

It is reasonable to suppose that the same agencies which have postponed death have also improved the general level of health of the old, and postponed also the day of real incompetence to earn a living. Yet industry generally has made no move to correspond. It is still customary to retire working men at the same ages that applied a generation ago, and with surprisingly little attempt to keep old people earning, even at altered tasks and lessened income. Undoubtedly businessmen and professional men need to retire from responsible positions in time, so as not to block the path of younger men who could outperform them if given the chance. Undoubtedly also we should not artificially guarantee the old man a job at the cost of throwing the young man out of one, for the latter is primarily the one who has to produce for all. But there are plenty of skilled workmen whose loss of usefulness is postponed well beyond the time when executives begin to balk at difficult decisions, or coast in a changing environment.

There are plenty of other problems, besides that of old age pensions, where we have merely allowed a situation to creep up on us, and about every section of the population has been at fault in allowing it to occur. Now we are faced with tough decisions, and we are tempted merely to spend and spend, and hope that in

some mysterious way the resiliency of the American system of production will provide. If we do so, that system may bog down, like a yoke of oxen when one too many rocks is rolled onto its sledge.

THERE is little doubt that this country, if it could shake off its fallacies and face facts, if it ceased to drift because of the lure of individual benefits which are themselves desirable, without really counting the cost, would call a halt. Such a halt would not mean that we would turn the clock back, that we would frown on humanitarianism, that we would return to the good old days, or that we would become reactionaries. It would not mean that we would cease to strive to adjust the relations between men, so that there would be justice and reason in sharing the product which we all create. It would not mean that we would hesitate to extend the protecting hand of government to support the weak or distressed. Regaining the use of our heads would not mean that we need lose the impulses of our hearts. But it would mean that we would count costs as well as benefits. It would mean that, before we vote some special group a slice out of the federal treasury we would balance affairs to see whether it is really just to take away earnings from some larger group, by taxing them, in order that the benefit that is clamored for may be given.

It would mean one more thing. It would mean that, in a world where harsh fighting is still possible, we will not follow a will-o'-the-wisp over a precipice into ineptitude. It would mean that we would not, in the selfish interests of potato farmers for instance, who are doing pretty well already, hazard the over-all national strength which we may someday need sorely. For the question of whether we can avoid war depends to a great degree upon whether we can maintain our strength.

The question of whether we can win a war without being set back for many generations, should we be forced into one, depends upon whether this country of ours is really strong. This is not merely a question of weapons, or armies, or appropriations. It is a question of

whether the country as a whole is healthy, with a strong, vigorous, successful, independent industry, with a soundly balanced budget, and an unimpaired national credit, with progress on every front by pioneers and innovators.

Whether we are sound depends upon how we control our selfishness, and our desire to be kind. For even good things cannot come all at once. If we build well we can have security, genuine national security. But if we are deluded into believing that security of the individual against all hazards and all ills can be obtained by fiat and by law, without limit, and without deliberate progress toward an end, we will sacrifice the foundation which makes humanitarianism possible, and start the weary climb over again, only after a long, dark interval.

THE dangers of rushing headlong into a full welfare state are very practical and very immediate. Yet there is a more subtle danger than this in the present cry for personal security. A passion for personal security is an opiate which tends to destroy the virile characteristics which have made us great.

The danger of a central bureaucracy which plans all our lives, and doles out what it thinks we need is much more than that it will plan badly, although it undoubtedly will. The greater danger is to ourselves, that we will cease to think for ourselves, that we will not exert ourselves when only a drab mediocrity lies ahead, that we will substitute the arts of petty political maneuvering for self-reliance.

The greatest of these dangers is the last mentioned. This country has the highest standard of living in the world by far, and it did not come about by chance. Some of it is due to our resources, some of it is due to the fact that in two world wars our land has not been devastated. A large fraction of it is due to the fact that we have a great homogeneous population which furnishes a mass market. But the greater part of it is due to the fact that we have willed it so.

We have not, as a country, been lured by the mirage of restricted output. In spite of feather-bedding and other shortsighted labor moves, of

which we have had too much, our men who labor have not in the past generally loafed on the job. Our business management has not in general grasped at cartels and combinations to restrict output, and thus furnish profits in a stagnant industry. The fact that we have had antitrust laws has helped in this regard. Much as they have been railed against, and much as they have at times been operated in ways that approached the ludicrous, their presence has been a large factor in preventing us from going down the path which England has pursued to its present dismay. We have, in general, had lively competition, rapid introduction of new machinery, lavish use of power, and a mounting production of goods at an ever-decreasing cost.

Now there is real danger that this trend may be reversed. If it is, it will be because the people fail to understand, and because our spirit of adventure—our readiness to run a calculated risk—fails us.

WE cannot treat all phases of this problem. One that stands out is the matter of the advent of new industries. There is a distinct tendency for business to aggregate into very large units. Modern technical methods of mass production produce part of the tendency. Much of it is merely due to the very human tendency to build large structures. Many a great concern has blithely absorbed its small competitor for this reason alone, without giving thought to the fact that by so doing it was putting itself in jeopardy.

We have to have large organizations for large things—our public utilities for example can hardly be managed soundly on a competitive basis. We also need large organizations for mass production of things that require great capital and extensive markets. But overdoing the matter leads straight to the type of monopoly which can be disastrous, not so much perhaps because it can control markets, as because in doing so it loses its vigorous nature.

Much of our present safeguard against over-concentration is a legal one. As things stand we have not done badly at all—in fact the amount

of present concentration is probably somewhere near the optimum for maximum progress, and we certainly have good vigorous competition in the fields where it really counts.

But not all the offset to concentration in the past has by any means been due to legal restraints. A great part of it has been due to the constant advent of new, vigorous, small industrial units, which could often cut rings around the big fellows and keep them on their toes. This is one of the greatest contributions of the pioneering spirit—the willingness to take a risk. It is another reason why we need opportunity for that quality which will not rest content with increasing repetition of the accustomed, but strikes out on new paths, devises new undertakings, creates new things.

But that spirit is being smothered. It is far more difficult today than it was even twenty-five years ago, to set up a new, successful business in this country, and the rewards for doing so are far less. There are many reasons for this, but they nearly all go back in one way or another to the search for artificial personal security, and the accompanying tendency to tax heavily those who are prosperous to make the way easier for those who are not.

ONE great factor is the system of taxation. This has dried up a large fraction of the venture capital which used to make small starts possible. It has also borne very heavily indeed on the successful pioneer, who makes a sudden income. We fully accept today the graduated income tax, and the graduated estate tax. We have enormous military burdens, and burdens for foreign aid, enormous payments to veterans, enormous subsidies—we have to pay for them all, and it is reasonable that those who have prospered should pay a heavy share. But we have gone so far that the incentive to take a chance, to risk a novel product, or boost a novel idea, is nearly gone. It takes a bold man to venture his property when a failure means a total loss, and success means a payment to government of a large fraction of his gain.

A second factor is the tendency of courts to weaken the patent system. Patents, like other property, have been used improperly in re-

straint of trade, and it is correct and in the public interest when courts restrain such use. Often however, in this country, we take a broad lunge at the large misdoer and hit a lot of little fellows in the process, and this is an instance. A smoothly working, effective system of patents is one of the primary reliances of the new unit in industry, making its hazardous way in a territory often previously occupied only by large industrial organizations. The tendency to restrict patent use, to interpret patents narrowly, is often no more than a matter of words.

Patents set up a monopoly. Certainly they do, and their basis lies in the Constitution, where it was placed for that very purpose. A temporary monopoly, in exchange for a full disclosure, was intended to make it possible to attract capital to an infant idea, and to avoid the evils of industrial secrecy, and it has done just that very effectively throughout our industrial history. But to some, any monopoly is *ipso facto* evil, and should be assaulted. There is no doubt that some of the present tendency to soften the patent system comes from this feeling. It is one more thing that makes the way of the pioneer hazardous.

Moreover, we regulate everything under the sun, and in so doing we often waste most of the time of the pioneer filling out forms, when he ought to be out in the shop studying a new device in its first steps. Most of the form filling, and inquiries, and inspections, occur because we are protecting somebody against something. It is usually well intentioned and often necessary. We protect the public against improper stock issues, and make it difficult for the small outfit to obtain capital. We protect labor against a thousand kinds of exploitation, and a horde of officials gather statistics and ask questions. We protect and protect—and bury the venturesome pioneer in industry before he can begin to give us one of the greatest protections we sorely need—the protection of recurrent youth against industrial senility.

WHERE we go in this whole matter depends upon what we most desire in this world. It depends upon what our youth desires, for they will set the pattern. If we want

a system in which, by every artifice we can command, we protect the individual citizen against all the ills of nature and of grasping man, we can have it. We can legislate, and set up new bureaus, systematize life to the utmost, plan and regulate, until we are insured against the hazards of existence and the injustice of our fellows in every way that we can devise. But when we have succeeded in doing so we shall have produced a dead level of existence far below our possibilities—we shall have stopped progress. We may then succumb in a world where wars are still possible.

On the other hand if we want the kind of country that has thus far prospered well, if the youth of our land wish adventure and the conquest of new horizons, great possibilities lie before us. The application of science has much yet to offer, and a strong country can maintain our national security and give us opportunity to develop our great potentiality.

If we wish to go down this path we will temper our humanitarianism with hard common sense. We will protect the unfortunate and continue to strive for justice between men. We will guard against the vicissitudes of life by new combinations to meet emergencies in our personal lives. But we will have no raids on the public purse. We will make sure that when we transfer a burden from one group to another we genuinely advance the common welfare. Above all we will not block the path of the pioneer.

The choice is an individual one. As youth selects its path, so will the country grow. We have a magnificent asset, in a whole generation of new lives, guarded against disease as never before, with educational opportunities that are unmatched. The kind of world in which we live will be built by those who take over the management of the next generation, and it will be a world either of progress, or of settlement to a dead level, where the small securities have rendered impossible security in the larger sense. If that youth, in its choice of jobs, in its potential power, in its words and acts, wishes us to, we can have an increasing standard of living, a country of color and of opportunity, and we can be secure as a nation. We can continue our adventure in human enterprise.

Farmer Fix Your House

Washington, D. C.

THE principal beneficiaries of the Housing Act of 1949 will be of course urban people in the low income brackets. Probably, however, Congress would have been unable to pass the law against the opposition of the farm bloc; wherefore, it was necessary to put in something for the farmer. Title V of the Act is Farm Housing. The farmer gets \$280 million. The money will be divided among farmers in three categories, namely:

1. Adequate farmers,
2. Potentially adequate farmers, and
3. Inadequate farmers.

If you are an *adequate farmer* it is quite simple. You have only to show the Secretary of Agriculture that you are unable to borrow anywhere else the money you want to improve your house, your buildings and your earning power, and he will lend it to you for thirty-three years at four per cent.

If you are a *potentially adequate farmer* you are all right as a risk, but you probably need better housing, better farm practice and more land for the better practice. To provide these things the Secretary of Agriculture will lend you the money, provided he thinks that at the end of five years your income will be so improved that you can begin to pay interest at four percent and installments on the principal; he may also contribute during the first five years an amount equal to the interest you owe him, plus fifty per cent of the installments.

If you are an *inadequate farmer* you are a hazard. You belong to the rural slums. In that case the Secretary of Agriculture is bound to take care of you. He will lend you \$1,000 and make you a grant of \$500 besides, "to cover the cost of improvements or additions, such as repairing roofs, providing toilet facilities, providing a convenient and sanitary water supply, supplying screens, repairing and providing structural supports or making other similar repairs or improvements."

No more leaky farm house roofs. No more chic sales in the apple yard. No more fetching of water from the spring. No more falling down porches. And if, after all, your income will not enable you to pay back the loan of \$1,000, the Secretary of Agriculture may declare a moratorium on repayment for as long as he sees fit. The grant of \$500 is not repayable.

So far as the loans are concerned, the risk from the government's point of view is of course greatly reduced by the fact that the government intends to guarantee the farmers' income—also by subsidy.

The Debacle of Planning

- I. *The Corruption of Money*
- II. *Even the Dollar*
- III. *Riddles of Planned Trade*
- IV. *The Dollar Gap*

By Gareth Garrett

FOR fifteen years the division of labor among nations—called also international trade—has been passing from freedom to control. The transition is practically complete. The planners have it. And they have so admirably planned it that the free commercial world now is but a memory, the true meaning of trade is almost lost, and the exchange of wealth is a confusion that no longer makes common sense. Indeed it seems as if the experts themselves are now unable to make sense of it. Witness the following comment from the economic survey of Europe made by the United Nations Economic Commission:

“The United States is thus in the strange position of financing a program which is directed largely toward the reduction of its own exports. It faces the anomalous prospect that by the end of the program [the Marshall Plan] it will have surpluses and excess productive capacity in commodities for which it has helped to develop substitute sources of supply elsewhere.”

At the heart of the confusion, enthroned there, is man's fondest economic delusion, namely, that magic may be worked by the manipulation of money.

I.

The Corruption of Money

IN the postwar world the laggard thing has been not production but the international exchange of wealth. Why?

Because everywhere money has been false. There was nowhere a standard of value that people could really trust. For example, Great Britain said the pound sterling was worth four dollars and that it would not, absolutely not, be devalued, whatever else happened. It was a fiction. Everybody knew it was a fiction. Nevertheless the world was obliged to accommodate itself to the false valuation of British money and billions of American dollars were poured into Great Britain and into Europe on the assumption that it was true. Even as the pound sterling was overvalued, so were all the other European currencies, and so long as this was true the American dollar itself was false because it would buy less than it was worth in Great Britain, in the British Commonwealth or anywhere in Europe.

Then a time came when Great Britain, taking stock of the debt she owed in pounds valued at four dollars and of the strangulating effect her dear money was having on her export trade, decided that she could gain more by letting the pound sterling go—not to let it find its own value in a free exchange market but to devalue it by edict.

Accordingly, one September Sunday, Great Britain announced that the value of the pound sterling was \$2.80—and let the world adjust itself to that fact.

Immediately 26 other countries devalued their money by edict, meaning that each one

said for itself what its money was worth. Here was a wholesale confession of the fact that all the planned money with which the world had been trying ever since the war to conduct its trade was false.

How false? That was a question nobody could answer, because after all this devaluation of money by edict there was still nowhere a free international exchange market in which to prove the true value of anybody's money, and in that sense all money was still false.

Where there is neither a gold standard nor a free exchange market how shall the value of money be determined? In what shall it be priced? Its value can be determined only by what it will buy when you spend it.

The kind of money we are talking about—planned money—can be spent for only two things, namely, other money or goods. But there is often a discrepancy between what it will buy in other money and what it will buy in goods, and that makes trouble. In terms of other money the pound sterling was said to be worth four dollars. One pound would buy four dollars and it took four dollars to buy one pound, and that was the official rate of exchange; but if you went to England with dollars to buy goods it was different. To buy British goods you had first to convert dollars into pounds. It took four dollars to buy one pound, but nowhere in England could you get four dollars worth of goods for one pound, thinking always of what you could buy in the United States for four dollars. Therefore, fewer and fewer people went with dollars to Great Britain to buy British goods and that was what was happening to British trade.

At the first Bretton Woods conference in 1944 the world's monetary problems were scientifically solved. There was formed the International Monetary Fund to guarantee the stability of international exchange and the convertibility of one nation's money into that of another. And this is so far what has come of it—a monetary debacle of incredible magnificence.

And still what was it that happened to the pound sterling? One thing that happened to it, the first thing of all, was a total loss of any

moral sense about money. It was not of course the British alone who had lost that sense. The idea that money rests upon faith and that to break the faith is an offense against morals has completely disappeared out of the world, for the first time in the history of money. For this disaster, the last consequences of which are yet unimaginable, the British must bear a serious responsibility. It will be remembered that after World War I it was Great Britain who led the European movement for the repudiation of war debts, not that the debts were unpayable in fact—for how little they were by comparison with the magnitude of debt with which we are now familiar!—but because to pay them would hurt. Since then there has been no such thing in the world as integrity of debt between nations. Great Britain, the great creditor, had made repudiation respectable. After that, when the great depression came, Great Britain first imparted to the world the Keynesian doctrine, and then herself embraced it for purposes of her Socialist experiment. In the Keynesian monetary theory there is no moral basis for money whatever. Money becomes an instrument of policy, a thing of expediency, to be manipulated for political and social ends.

THE world's way of thinking about money now is perfectly cynical. No government any more is expected to keep its word about money if breaking its word will pay; no government is expected for any moral reason to refrain from debasing its money if by debasing it a "disequilibrium in its balance of payments" may be corrected—which means only to defraud those who have accepted its money in good faith. Twelve times the British Chancellor of the Exchequer pledged the word of the British Government that the pound sterling would not be devalued, the last time on September 6. A week later it was devalued nearly one third. Was that held against him? Certainly not. Could the British Government be expected to say what it was going to do? It had to be done that way.

If, as after World War I, the pound sterling had then been permitted to price itself in a free

exchange market it might have fallen to \$2.80, but that would have taken place gradually, as day by day its honest value was recorded in competition with all other currencies—only in that case Great Britain would have had to pay more for the American dollars she borrowed.

Or if Great Britain had been willing to give four dollars worth of goods for a pound sterling it would not have been necessary to devalue the pound at all—only in that case she would have had to deflate her great Socialist experiment and for political reasons that had to be postponed as long as possible.

The action of the British Government, together with the competitive devaluation that immediately took place, created a world-wide sensation and gave rise to grave premonition of evil; but the evil people talked about was economic evil only, as when the French Finance Minister defined it as an act of economic warfare. The moral implications were hardly mentioned. It was as if people had forgotten that debasing money was once the heinous crime of kings, for which they sometimes lost their heads. It was unforgivable because the people were thereby insidiously defrauded. That is why at last the people took control of the mint out of the hands of the king, so that it could never happen again. Now democratic governments do it with impunity and the planners discuss it calmly as monetary mechanics.

When now in this cynical world a government devalues its own currency the effects it intends to produce are of three kinds—

(1) It may intend to cheapen the money with which it pays its debts, which defrauds the creditor;

(2) It may intend to cheapen the money with which other people buy its goods, which is supposed to be good for its export trade, or,

(3) It may intend to produce a planned inflation and cause prices to rise, which was the New Deal's reason for devaluing the dollar fifteen years ago. Great Britain does not want any more internal inflation; therefore, her reasons for devaluing the pound were the first two.

However, the effects intended, whatever they may be, are seldom realized. The record shows generally that the first advantage, if any,

is temporary. Besides, it is a dangerous game. Everybody can play it, and then for a while you have competitive devaluation and monetary chaos and everybody is sorry. Once the forces that tend to corrupt money are set free the end of folly is unpredictable.

Since there is no base in either gold or morals, no money is immune, not even the dollar.

II.

Even the Dollar

WHAT gives the dollar both its value and its prestige is the vastness of the productive power that lies behind it—that and nothing more. It is a dollar because it is a dollar and for no other reason. It is irredeemable—that is to say, it is redeemable in nothing but itself. There is a legal fiction that it has a gold content; actually it has not, since you cannot as an individual exchange a paper dollar for gold, and since, moreover, it is illegal for an individual to have monetary gold in his possession. Only international transactions may be settled in gold, by permission. Thus it is said that our money is on a gold bullion standard; but bullion is nothing we can think of as money.

Nevertheless, the dollar is the paramount piece of money in the whole world because of what it will buy, and for that reason it is the money in which all other money is priced. Now these facts taken altogether, especially the fact that by definition the dollar is an ambiguous thing, put a strong temptation on the minds of the money planners. They look at the government's fabulous gold hoard buried in a cave at Fort Knox and think how easy it would be for the government to revalue it in dollars and make a very large profit.

The planners say: "The government now values its gold at \$35 an ounce. But while gold for a long time has been standing still at a fixed price, the dollar value of everything else has risen. The dollar value of gold is really more than \$35 an ounce. Let the government, therefore, value its gold at \$45 an ounce."

If the Fort Knox gold hoard is worth \$20 billion at \$35 an ounce it would be worth ap-

proximately \$6 billion more at \$45 an ounce. Ergo, the government would have a profit of \$6 billion.

Among the sorceries of money debasement this is the trick of the serpent that swallows itself. The wand is a pen. When the cloth is whisked away the serpent has vanished and there in its place is the profit that is said to cost nobody anything. The New Deal invented this trick and the profit that time was \$2 billion. Why not try it again?

In September last, Representative A. L. Miller of Nebraska sent a letter to the State Department saying information had come to him to the effect that the American Government had agreed with the British Government to raise the dollar price of gold to \$45 an ounce and to make a gold loan of \$1 billion to Great Britain to support the pound sterling. In a letter dated October 10, the State Department replied, saying it was "aware of no proposals now under discussion within the government to devalue our currency."

At the same time the Secretary of the Treasury issued a formal statement saying: "The statutory monetary value of gold in terms of the United States dollar is fixed at \$35 an ounce." Then he added: "The Secretary of the Treasury has authority . . . to purchase and sell gold at such rates and upon such terms and conditions as he may deem most advantageous to the public interest."

He had no intention, he said, of proposing a change in the price of gold, and furthermore his authority to do so was limited by an agreement with the International Monetary Fund not to raise the price of gold "so long as the par value of the dollar . . . remains unchanged," and that the par value of the dollar, whatever that means, can be changed only with the consent of Congress.

IN view of all that has happened it is not strange that official statements by a government concerning what it intends to do with its money are treated with some skepticism. Moreover, it is well understood that a change in the value of money cannot be advertised beforehand. If it is, the government will lose all of

the advantage. And as for the restraining effect of any agreement with the International Monetary Fund, the fact is that so many national obligations to the International Monetary Fund have already been broken that this now is a sick institution—almost too sick to care.

After the Secretary of the Treasury had put forth his denial, Representative John Taber of New York, whose long association with the Appropriations Committee of the House gives his words a great deal of weight, said publicly for the second time:

"I understand the Truman Administration is working on a scheme to increase the value of gold and devalue the dollar."

By then rumors of the devaluation of the dollar were widely current in Europe and were having the effect, said the newspaper correspondents, of putting "insurmountable psychological obstacles in the way of recovery."

The International Trade Section of the New York Board of Trade adopted a resolution, September 15, declaring its unalterable opposition "to any proposals now being presented in Washington to impair the intrinsic worth and stability of the dollar through indirect devaluation, which should be effected by a rise in the price of gold expressed in dollars beyond \$35 per ounce for gold."

Just then, at the September meeting of the Governors of the International Monetary Fund in Washington, Nicholas Havenga, the Finance Minister of South Africa, blurted a fact that had been kept secret ever since the International Monetary Conference at Bretton Woods five years ago. At that conference South Africa represented the interests of gold because gold was South Africa's principal export. The gold producers foresaw that when the whole world began to do business with inflationary Bretton Woods money, prices were likely to rise, and if prices did rise with gold fixed at \$35 an ounce the gold producers of the world were going to be hurt. So, off the record, they obtained an honorable gentleman's agreement that if a world-wide rise in prices did take place the member nations of the International Monetary Fund would raise the price of gold, even though to raise it would mean by indirection to devalue

everybody's Bretton Woods money, including the American dollar.

After devaluation of the pound sterling there was noticed in Europe a flight from the dollar. The central banks of Italy and Belgium began to convert their dollar assets into gold. The bank of France, needing dollars, borrowed them instead of selling gold for dollars. The Italians increased their gold reserve 50%. The London *Economist* said, on October 22:

"These moves are designed against the contingency—which a persistent crop of rumors in New York and Washington has envisaged—that the dollar itself may be devalued. It would be fantastic if the American authorities, having long argued the case for correction of overvaluation of European currencies, were now to face about and take steps to cancel the effects of the adjustments which have been made. That is not to say, however, that the dollar price of gold must remain forever at \$35 per ounce."

Notwithstanding all other denials, these rumors about the dollar continued to grow until President Truman, in November, declared the government had no such intentions. That had a quieting effect.

So much for a subject that most people find oblique. At this point one thing must be entirely clear even to those not skilled in monetary matters—the fact, namely, that in the whole world planned money is in a state of dire confusion. Internationally, the true function of money, which is to effect exchange of wealth among nations, is breaking down, so that many countries, including the United States, are reduced to experiment with barter, that is to say, the exchange of goods for goods.

III.

Riddles of Planned Trade

THE planners who have done this to money lay their hands also upon trade itself. The world would think the foreign trade of the United States was relatively free. Certainly it is much less restrained than the foreign trade of Great Britain, for example; and certainly it is true that the American Government is con-

tinually complaining to other countries about the restraints they impose upon their trade and holds itself out to be the great defender of the freedom of trade. Nevertheless it is true that as the government has conquered more and more of the economic sphere, freedom of trade has been one of the great casualties. That it has been so little mourned is owing to the fact that the victims have been solaced by enormous subsidies direct and indirect and provided with many prosthetic devices in place of the arms and legs they have lost.

Consider wheat. Wheat is and always was one of our principal exports. It moved with the ease of the tides, by rail to tidewater, by boat to all the ports of the world, supply seeking demand, magnetically, so that a cargo of wheat might change ownership at sea and alter its destination. The free grain trade was one of the wonderful mechanisms of the modern world. Now read the following two paragraphs of the law enacted by Congress, last September 18, to implement the International Wheat Agreement:

"The President is hereby authorized to take such action, including prohibiting or restricting the importation or exportation of wheat or wheat flour and to issue such rules and regulations which shall have the force and effect of law, as may be necessary in his judgment in the implementation of the International Wheat Agreement.

"Any person who knowingly and willingly exports wheat or wheat flour from the United States or who knowingly and willingly imports wheat or wheat flour into the United States for consumption therein in excess of the quantity of wheat or wheat flour permitted to be exported or imported, as the case may be, under the regulations issued by the President, *shall forfeit to the United States a sum equal to two times the market value.*"

State trading was once in the black books of the State Department as a device of totalitarian and socialistic governments, very inimical to the freedom of trade. But now the American Government is doing it. This is state trading in wheat. Moreover, it is state trading deliberately conducted at a loss, which gives rise to the question of whether or not it is trade at all or something for which we have still no name. The government buys wheat from the farmer at a high subsidized price—called the

support price—sells it to the International Wheat Fund at a lower price, and charges the loss to the taxpayer.

IN the year 1934 the first New Deal Congress enacted the Trade Agreements Act, delegating to the President the tariff-making power and the authority to enter into executive trade agreements with foreign countries. Since then, step by step, the State Department has advanced its control of trade until now it says what the country's economic foreign policy shall be, determines the rules and conditions of trade, makes tariffs and swaps American for foreign markets, all as it deems proper; and its agreements with other countries are proclaimed by the President and become law. The Congress no longer interferes and American business of course has nothing to do with it.

The State Department's famous ITO Charter for a completely planned trade world has not yet been approved by Congress. In place of it, however, is GATT (General Agreement on Trade and Tariffs) which is an interim ITO Charter existing by virtue of the proclamation of the President. What takes place under the international authority of GATT is that from time to time the American Government's trade planners meet with the planners of other countries somewhere in Europe to negotiate new tariffs and determine the terms of trade. Members of American business are not permitted to take part in these conferences. They cannot even listen in. The planners do not want to be distracted by the clamor of selfish interests. They know what they are doing. They know very well what the State Department's policy is and are loyal to pursue it.

Concerning the inwardness of the State Department's foreign economic policy, Senator Taft says:

"The entire attitude of the State Department in this matter, as in other matters, is rather a giveaway attitude, or at least a willingness to sacrifice American interests and American industry and American cash to the purposes of foreign policy. The State Department is so anxious to please certain nations and to obtain certain concessions from other nations and to get them in a state of mind where they will cooperate with us in

other respects in regard to foreign policy, that it seems to have no hesitation in sacrificing American industry."

Coming before Congress last September to urge extension of the Trade Agreements Act, the State Department defined its policy in the following statement:

"Under the act which the President has requested, every officer concerned will be mindful of the need to safeguard the American economy, but at the same time we shall have a clear mandate to broaden the basis of United States foreign trade, to create purchasing power for American exports, and to guide the economy as a whole into the most productive lines possible."

This is a very significant statement. In these few words three points are established, namely, first, that trade now is an instrument of foreign policy, which of course greatly diminishes its freedom; second, foreign policy and economic policy now are tied together, whereas formerly foreign policy began at the water's edge, and, thirdly, that when the planners plan foreign trade they plan also the American economy with intent to guide it as they think it should go.

THE tariff-making power delegated by the first New Deal Congress to the President becomes a policy-making power in the hands of the State Department, and all that Congress now is expected to do with it is from time to time to renew the Trade Agreements Act. GATT, the interim ITO, was created beyond the ken of Congress; the United Nations published the first news of it and then the President proclaimed the adherence of the United States. By that time the planners were in control. They slammed the door. Not only was Congress excluded from the deliberations of the policy makers; it was denied access to the information on which decisions of policy were made. Twice the Senate Committee on Finance asked to see the minutes of the interdepartmental Trade Agreements Committee—once in 1948 and again last year—and both times the Department of State refused to reveal them on the ground that to do so would not be in the public

interest. On May 5, 1948, the Department of State sent a letter to the Senate Committee on Finance, saying:

"The minutes are the records of the deliberations of the President's advisers. The President is the one responsible for the decisions on tariffs under the Act and is entitled to the opinions of his advisers expressed fully and freely without the constraint which would inevitably come from the knowledge that they might be made public. The Department would not feel authorized to make these records available to the Congress without the consent of the President."

And the President said no.

On February 24 last, the Department of State refused again and sent a letter to the Senate Finance Committee, saying:

"The President is in agreement that it would not be in the public interest to make the minutes available, for the reasons indicated last year in response to the same request."

To this, Senator Millikin said:

"Obviously when the Congress becomes impotent to keep itself informed in matters affecting its exclusive constitutional jurisdiction it has become blind and the executive department becomes its seeing eye dog. It has lost its hearing and the executive department becomes its listening post."

THE Trade Agreements Act had to be renewed again last year and when it came before Congress in September as a piece of imperative legislation there was a bitter controversy, not over the Act itself, the renewal of which was certain, but over what was called the "peril point clause."

The meaning of that is to be explained. In a series of agreements arrived at in Geneva with 22 other GATT nations the State Department's trade planners had already reduced tariffs to the lowest point in American history, with, however, no pronounced immediate effect upon American industry, owing to the distortions of trade both during the war and under postwar conditions until now. Tariffs or no tariffs, other countries were not able to compete heavily in the American market.

But now the State Department planners were at it again. This time they gathered in

Annecy, France, where they began to bargain in April and continued through August, last year. Ten more GATT nations were added. More American tariffs were bargained away. Incidentally, these new arrangements, all designed to give foreign countries freer access to the American market, were based upon the fictitious exchange rates then existing, particularly the one that read, "One pound sterling is worth four dollars." Nobody at Annecy, France, knew that in September the pound sterling would be devalued to \$2.80, the effect of which was meant to be a cheapening of British goods on the American market beyond any concessions made at Annecy to Great Britain. Congress was alarmed. It began to hear from American businessmen—from those who had already been hurt and many more who thought they were going to be hurt. So Senators Millikin, Malone, Taft and others proposed to amend the Trade Agreements Act by adding the "peril point clause," which was to provide simply that before proclaiming any further reductions of tariff the President should ask the United States Tariff Commission whether or not in its opinion American industry would be seriously injured. He was not obliged to accept its opinion, but if he disregarded it and proclaimed the lower tariffs anyhow, he would have to give Congress his reasons. To this proposed amendment all the planners objected most vehemently. Such an arrangement, they said, would cramp their style of bargaining, even though they were not going to be bound by anything the United States Tariff Commission said. The President supported the planners and so the "peril point clause" was lost.

Speaking in support of it—speaking, that is, of the Act the Administration wanted and got, Senator Taft said:

"The Act gives the President arbitrary power to destroy American industry. It is a complete delegation of legislative power. . . . There is no shadow of standard in the bill unless the peril point amendment is adopted. . . .

"We are asked to give the President the power which may destroy particular industries and the only answer to the criticism of unlimited power is that they will not exercise it. They say they are willing to take a calculated risk; in theory at least

they will undertake not to injure American industry.

"They realize that the American people will not stand for the destruction of any important American industry; therefore, they are not willing to admit the end they should like to attain, as did Henry Wallace when he spoke of the elimination of the American beet sugar industry. Rather than admit the necessity of tariffs in some cases they would adopt quotas. Quotas mean complete government control of a particular industry."

Senator Millikin said:

"The Constitution puts the sole and exclusive tariff-making power in the Congress of the United States. We have delegated it to a servant and the servant has become more powerful than the master and insolently refuses to make an accounting. . . . We found out in the hearings that they will not even tell the Congress, which delegated this trade power to them, how they have discharged their duty. Those in control do not tell the people and do not want to tell the Congress."

Senator Malone said:

"The State Department has made the Trade Agreements Act a foreign aid program. . . . We have set up a new channel for the making of these arrangements. The Senate of the United States will not be consulted; those who make the agreements will not confide in the Senate."

WHENEVER and however government touches trade, the freedom of trade recedes and withers. You may ask: "How can that be true when the State Department's great economic theme is the liberation of trade? Isn't it holding out to the world the vision of an ideal trade world, one in which all barriers shall be thrown down, even tariffs?"

Yes, that also is true. The bother here is from the fact that similar words are used to mean different things. Free trade and freedom of trade are not the same. Free trade, as we ordinarily understand the term, means to abolish the protective tariffs, whereas freedom of trade means that people shall be free to produce and exchange wealth with other people as they please, and make their own bargains at their own risk, with no direct intervention of government.

The State Department's idea of liberating trade is somewhat like the political aggressor's

idea of liberating people. It does not follow that the liberated people are free. This ideal trade world the State Department imagines, with all trade governed by "multilateral" agreements and all barriers down—that would still be a planned world.

The planners are levelers; they abhor tariffs as the wicked residue of an archaic and selfish capitalism, and because they are planners they do not and cannot believe in freedom of trade. They want to guide any economy they touch, the American economy and the world economy. And they want to impose upon trade a rational pattern. The last thing they could think of would be to let trade alone, to let it make its own pattern, to abandon it to free exchange, free pricing and the free play of competitive forces.

Since planning now has been advanced to a point at which it pretends to be a science, and since so much of the world's trade is already planned, would it be unreasonable to expect that in the exchange of wealth between nations some symptom of a new rationality might begin to appear? Or, if not in trade itself, then in the proposals of the planners concerning the right way to conduct it? The fact is that there is hardly a rational premise left in what we are expected to believe about foreign trade.

IV.

The Dollar Gap

FOR several years the resources of government propaganda have been actively employed to make the people world-trade conscious. This propaganda aims to make everything simple. It begins with the celebrated dollar gap, always stated as a European problem which for our own good we are obliged to solve. Many eminent economists, both here and abroad, agree with Roy Harrod, the British economist, who has the courage to say that "This allegation of a world dollar shortage is surely one of the most brazen pieces of collective affrontery that has ever been uttered." ("Are These Hardships Necessary?" By Roy Harrod, London.)

The American planners cannot look at the possibility that this may be true. They have

sold the European thesis too hard. They have made the American people believe that the world is suffering for want of dollars and that eventually we too shall suffer if we do not provide the dollars; moreover, if what Harrod says is true, it would appear that we had already wasted billions of dollars by the Marshall Plan, in the attempt to cure the dollar gap.

What is it—this dollar gap?

We are selling to other nations, principally European nations, roughly twice as much as we buy from them. The difference may run to \$5 billion a year. That is the dollar gap. If you say that other nations have been buying from us twice as much as they sell to us, the point of view shifts slightly, but the dollar gap remains the same. Until now we have filled the gap by giving or lending them the dollars to pay for the excess of what they buy. That, of course, can hardly be called trade, nor can it go on forever. It leaves this country in the absurd position of *paying for its own exports*. So what shall be done about it? How shall this imbalance of trade be corrected?

If we cannot go on forever giving or lending them the dollars, then it is clear that either—

- (1) They shall have to buy less from us, or
- (2) We shall have to buy more from them.

That is to say, either we shall have to let our swollen exports fall to the level of our imports or increase our imports to the high level of our exports, since only in one of these two ways can our foreign trade be balanced.

The government planners say: "Let us balance it on a high level, by increasing our imports, for if we do it the other way, by letting our exports fall to the level of our imports, the world as a whole will be much worse off, the exchange of wealth among nations will shrink, there will be unemployment in those American industries that now are filling the foreign demand for American goods."

Mr. Hoffman, who administers the Marshall Plan, says we must increase our imports by at least \$2½ billion a year to sustain our exports, even though it means that somebody will get hurt by the competition of foreign goods in the American market.

The Secretary of State says: "It will be of little avail for the government drastically to

reduce trade barriers and for other countries greatly to expand their production for export if the businessmen and people of this country do not really 'go after' imports in the good American way." And the State Department, in its ceaseless evangel for opening American markets to foreign goods, keeps saying: "You cannot sell if you do not buy. Trade is a two-way street."

This simple idea has been tremendously sold. As a generalization it sounds plausible. The fact is that very few sound generalizations can be made about trade and this may not be one of them. That is why planning produces so much chaos. The planner is bound to generalize.

Ask this: "What is it we are going to buy from other nations more than we are buying now? What more do we need from them?"

If you think of trade as an activity to be conducted for its own sake, merely to keep people busy, then you may call it a two-way street; but if you think of it as a division of labor among nations, as a way of exchanging wealth for mutual profit, then trade is a maze of many streets in which all the planners get lost.

FIRST of all, note the fact that roughly six tenths of our imports enter this country free of any duty whatever. Why is that? It is because these are goods we need and want to buy. No people were ever so silly as to put tariffs and trade barriers against the things they want to buy—things they cannot produce for themselves or have not enough of and can afford to pay for. Of these things it must be assumed that we are buying already all that we really need or want; the people who sell them to us have no trouble about "access to the American market." Therefore, the increase of imports the government is talking about, the imports we must "go after" in the good American way, according to the Secretary of State, must fall into the category of competitive things—things we do not really need, things that we produce enough of for ourselves. What are these things? Mr. Hoffman recently said:

"We must go out of our way to encourage imports from Europe. We must in certain instances

be ready to reduce tariffs to make it possible for them to trade with us. The Danes, for example, would like to send us more of their good butter in exchange for United States goods, but an inordinate tariff of fourteen cents a pound prevents them from doing so."

Since Mr. Hoffman said that, the State Department's trade planners at Annecy, France, reduced the tariff on Danish butter to 7 cents a pound. So now we may get some Danish butter. The tariff of 7 cents a pound will not stop it. But why should we import Danish butter 3,000 miles across the sea while the American Government is buying and storing a surplus of American butter to keep the price up? If all that the Danes can offer us is something we do not want in exchange for something they want, that may be good for the Danes, it may be good for Europe because it tends to close the dollar gap, but certainly it is not trade. Just try to project it as trade.

So the first contradiction appears. Not only is the government buying wheat from the American farmer and selling it to the International Wheat Pool at a lower price and charging the loss to the United States Treasury, thus obliging the American taxpayer to subsidize both the American farmer and the bread eaters of Europe—not only does it do that, but it promotes the importation of agricultural commodities into this country while at the same time buying and storing a surplus of American agricultural products, including butter, until all the bins are about to burst, this in order to support farm prices.

Senator Murray says:

"Many people do not realize it, but during the last year we imported \$1,600,000,000 worth of competitive agricultural products. We import more agricultural products than we export or give away. What we are doing at the present time, right or wrong, is supporting not only the production in the United States but we are supporting the price on \$1,600,000,000 worth of competitive agricultural products. I am not talking about non-competitive products like coffee."

Senator Malone says:

"We shall be forced into a position of buying up the products of the world, even though other

nations starve. At the same time wheat, cotton, and other farm commodities will be stored up in the United States. The Senator from New Mexico pointed out that dried eggs acquired by the government under the price-support program were unsalable at \$1.26 a pound. He gave as a reason the fact that American industries using the dried-egg product could buy Chinese dried eggs at \$1.10 a pound. Thus, we find ourselves buying eggs from China, while the people in China are starving."

THE farmer is still protected by subsidies from the government, whereby his prices are supported no matter what else happens. This is not true of American industry, wherein increased imports will directly compete.

Again one must ask what imports? What are the things we must buy more of to help Europe balance her trade account? Well, to enumerate, they are such things as machinery, engines, steel products, motor vehicles, cotton goods, cutlery, rayon goods, shoes, textiles, glass, pottery, razors, chemicals and drugs. In the *London Statist*, October 8, appeared an article entitled, "America, Here We Come." It said in part:

"Yes, America, here we come. This time, we mean it, for it is our last chance. To the Great Emporium of the West we are about to come with our goods which devaluation now renders salable. Before, we have dreamed and talked and planned, and some few of us have acted. Now the time for dreaming, talking and planning is over. With what goods shall we come? We will come with leather in luggage and leather in shoes, and leather in new and captivating forms, in utilities and in fripperies. We will come with all the equipment of the sportsman, whether his quarry be flesh, fowl or good red herring. We will come with a flood of books, a torrent of toys, a Grand Rapids in miscellanies. Our motor cars will come in once more on a rising tide; our motor cycles will advance; our bicycles will roll onward; our lawnmowers will trundle. We will equip your homes with our curtains and carpets; your kitchens shall be cluttered up with our utensils; our knick-knacks—ashtrays, book ends, fruit bowls, nut crackers—shall litter your mantels. You and your children shall nibble our biscuits, gorge our sweets and grow sticky with our preserves. When it rains you shall raise our umbrellas, and when the sun shines you shall take refuge beneath our parasols.

"How shall we come? First, determinedly. Do not think you will be able to hide from us. We will

outflank you in the Deep South and envelop you from the Golden West. If you flee from us, we shall pursue, though it be to the salt fastnesses of Utah or the arid desert of New Mexico. We will invade the Middle West and hold the new-hoarded wealth of Texas' oil empire up to ransom to our wares. We will have your dollars, if we have to chase them into the wilds of Wyoming or gamble for them in the sultry indolence of Louisiana. We will build up such a store of goods in New York as will burst that bottleneck and cascade over the whole of New England and the Eastern seaboard.

"We will, in faith, come aggressively. We will not dangle our wares before you. We will thrust them at you, politely but firmly. We will assail you with promotion that packs a punch.

"And so, indeed, America—if we have but the faith, courage, energy and imagination—here we come at last in earnest. If we have these things, and you, on your part, have the grace and magnanimity."

Grace and magnanimity are not trade terms. It is evident that so long as the British think like that they are not thinking of trade at all, that is, not trade as an exchange of labor between nations for mutual profit; they are thinking only of crashing the American market, not because their goods are wanted but because the American market is the richest in the world. They are encouraged to think like that. Mr. Hoffman, Administrator of the Marshall Plan, says:

"Another way Europeans can increase their sales to us is by letting us see exactly what they do offer. Perhaps a fair train touring this country with displays of European merchandise and taking orders from wholesalers and department stores would help."

Directly or indirectly, such a fair train would be paid for with Marshall Plan dollars.

On October 19 last, came the following news from London:

"The government's plan to encourage British exporters to attack the North American market by guaranteeing a portion of their preliminary losses will go into effect tomorrow. The plan was outlined tonight by H. Somerville Smith, Controller General of the Export Credits Guarantee Department. It will insure exporters against any loss arising from market research surveys that do not pay for themselves, advertising and promo-

tional expenses, and will help them to carry stocks in North America."

Directly or indirectly, this fund for the subsidy of British exports to the American market is supported by Marshall Plan dollars.

Thus the American taxpayer is obliged to promote and subsidize foreign competition with American industry. Such a thing never was imagined before in all the history of trade, and the question keeps rising: Is it trade?

THE second great contradiction is that of all these things now to be pressed upon the American market we not only produce for ourselves as much as we need, but above that an exportable surplus for which American industry would like to find customers abroad.

Always, of course, in the normal way of trade there is the demand for foreign merchandise of special quality, and against goods of that description we put a luxury tariff for the rich to pay. But there is not enough of that to balance Europe's trade account with us, and now the European intention is to enter the American market with things that compete directly with the products of American mass production.

Eugene G. Grace, chairman of the Bethlehem Steel Corporation, has recently said that what with the devaluation of European currencies, the very large expansion of Europe's steel capacity—much of it with American aid—and the lower wages of European labor, the United States may be forced out of the world's markets for both ships and steel. "We are industrializing the whole world," he said, "and deindustrializing the United States." The second principal beneficiary of Marshall Plan aid was France. The money was used very freely to expand French industry, and now France has steel for export and French shipbuilders are underbidding American shipbuilders by as much as nearly one half. Mr. Grace added that when present shipbuilding contracts are completed shipbuilding in the United States may be finished.

Statements like this leave the planners cold.

At Annecy, France, last summer the State Department's trade planners made important

tariff concessions to Sweden, designed to open the American market to such things as steel ingots, steel billets, steel bars, steel plates, steel strips, wire, concrete reinforcement bars, castings, roller bearings, saws, scissors, shears, files, razors, pliers, hand tools, portable stoves and some types of machines. At the same time, with Denmark, they cut the tariff on diesel engines one half.

In its report on what its planners did at Annecy the State Department calls attention to the fact that our imports from Sweden are after all very small. On page 179, "Analysis of Protocol of Accessions and Schedules to the General Agreement on Tariffs and Trade, negotiated at Annecy, France, April–August, 1949," one reads: "Duty reductions were directly negotiated with Sweden on commodities accounting for \$5,832,000 worth of imports for that country in 1948. Reductions of 36% to 50% were made on imports valued at \$4,212,000; reductions of 25% to 35% on imports valued at \$49,000; reductions of less than 25% on imports valued at \$1,571,000."

So, you see, it is nothing—almost nothing. Who could be much hurt by a reduction of tariffs on imports of \$5,832,000 from Sweden, or a reduction of one half in the duty of a few diesel engines from Denmark? But there is something you don't see. The catch is that in each of these agreements there is a *most favored nation clause*, which means that tariff concessions made to one nation run automatically and equally to every other nation that subscribes to the General Agreement on Tariffs and Trade. Thus, the tariff concessions made on imports of engines, machinery, steel products, roller bearings, tools, cutlery, etc., from little Sweden or little Denmark, apply *ipso facto* on imports of the same things from Great Britain, Belgium, France, Italy and other European countries.

NOW appears the third contradiction. We do not need these things from Europe. Normally our buying them from Europe would be for special reasons only, and the total would be much less than enough to close the dollar gap. But Europe does in fact need them. She

needs more engines, more machinery, more steel products, more motor vehicles, more of everything that she now will try to sell to us. She needs them so badly, these self same things, that for several years we have been exporting them to her and giving or lending her the dollars to buy them with. Why then is she trying all at once to sell them to us? The prepared answer is that she must have the dollars to close the dollar gap, and since she cannot expect to go on getting the dollars from us for nothing, she must earn them in trade.

There are seventeen Marshall Plan countries with a population of 270 million. Now if you think of them as one whole, all dependent upon the United States for aid, you get the following spiral absurdity, according to the prepared answer: They must export to us things we do not need and which they need themselves in order that they may earn dollars with which to buy similar things from us, such again as engines, machinery, automobiles, tractors, steel products, even coal. But if you think of them as separate countries you get an answer of this kind:

First, when the Marshall Plan countries sell their goods here they get dollars for them, and not only is the dollar the best money there is, but in Europe it is treated as the equivalent of gold; whereas on the other hand if they sell their goods to one another they get various kinds of artificial money in which nobody has any confidence, all of it subject to competitive devaluation.

Second, statism, meaning control of the economic life by government, has so hindered trade, has so corrupted the money in which trade is transacted, that the normal exchange of wealth among the countries of Europe does not take place. The marvelous power of trade to restore itself, if only you let it alone, has been bound, frustrated and partially destroyed. That fact now is defeating the Marshall Plan.

The theory of the Marshall Plan was to help Europe to help itself—to restore its productive power so that it could provide for more of its own needs out of its own resources and draw less from the United States. Note here a minor contradiction. If the Marshall Plan worked

that way American exports to Europe might be expected to fall. How that could be squared with the idea that what we were trying to do was to sustain our American exports and thus balance trade at a high level may be left for the planners to explain.

However, it did not work that way. What the Marshall Plan countries did was to use Marshall Plan money to develop their productive powers separately, each one obsessed with the thought of producing something it could sell for dollars, whereas they might have thought first of the needs of their own 270 million people and how to balance their trade with one another. So in a little while there was news like this, in an Associated Press dispatch from Geneva:

"Steel experts from the United States and fourteen European countries met here today to discuss Europe's increasing steel surplus in the midst of a continuing shortage.

"The paradox of simultaneous surplus and shortage in Europe of steel, coal, timber, and other raw material has become one of the major problems facing the United Nations Economic Commission for Europe. The problem is caused mainly by currency and balance-of-payments difficulties, and has resulted in huge stocks of coke and coal in Belgium and of wood materials in Scandinavia which cannot find a buyer.

"The steel committee of the ECE, which opened a regular private session here today, is to consider the problem as it affects steel production. Steel furnaces in Luxembourg, Belgium and other countries are facing falling orders and a possible shutdown, while a shortage of steel persists in most European countries."

And oil. Marshall Plan money has been used to expand European oil refining capacity in a prodigious manner, because oil was thought to be a quick, short way to earn dollars, until now the prospect of an oil glut is alarming, and last October the Oil Committee of the European Marshall Plan Council began to urge that no country expand its refining capacity with intent to create an exportable surplus. So far as possible Europe gets her crude petroleum from nondollar sources, which, as a curious fact, American dollars have been helping to develop; and now for the first time the United States buys more crude oil than it sells and at the same time oil that could be produced by American wells is shut in. "The melancholy results," says

Senator Thomas, "are visible through the oil country. Drilling tools are being stacked. Unemployment is evident and the worries of those now working are increasing."

MR. HOFFMAN, the Marshall Plan Administrator, now insists that the Marshall Plan countries shall think first of their own 270 million people, that they shall form themselves into one great integrated trading area, free of artificial trade barriers, using their own surplus to fill their own deficits, and tells them if they fail to have such a plan ready sometime this year the Congress may turn sour on the whole Marshall Plan idea. National planning has failed. Maybe, therefore, international planning, or something like a United States of Europe, will work. The London *Times* says:

"They [the Americans] have naturally in their minds the simple analogy of their own continental country which can make and buy what it needs at home. Even apart from large and deeply rooted issues of history and politics, the European problem is not so simple."

It is extremely complicated. The London *Times* adds:

"Mr. Hoffman seeks to see the debtors of Europe solvent, but, as Mr. Foster suggested in New York, it would still be America's business to do her special part in the grand balancing of accounts upon which Europe's prosperity, and the world's, will depend."

This is to say, the United States must somehow provide the dollars still. Since providing dollars in a direct manner cannot go on, the next thing is that the American markets shall be shared with Europe. From the British point of view, the obligations of the United States are two, namely: One, to maintain high employment and of course high production, in order that the American people may have the buying power to absorb a great quantity of European goods, and, two, it must reduce its tariffs to make it easier for British goods to compete with American goods.

The State Department's thesis is that to sustain our exaggerated exports we must increase our imports of things we do not need.

The only difference between these two remedies is the name of the doctor. Both are meant to cure the same disease and both present the same contradictions.

It is extremely improbable that this country would continue for long to buy a great quantity of foreign goods it does not want and has itself a surplus of, merely for the sake of closing the dollar gap. Many would think it cheaper to write the dollar gap off and forget it. Planned imports on such a large scale would soon begin to hurt, as Mr. Hoffman admits, only that they wouldn't hurt too much; and then at once the voice of Senator Malone would be magnified a thousand times, saying:

"The principal purpose for tariffs in the United States, namely, to put a floor under the workers' standard of living, has been largely ignored. We are now importing unemployment under the Trades Agreement Program of the State Department. We are permitting underpaid and slave labor production from other countries to compete on an unfair basis with our higher paid working men for our own rich domestic markets."

The last contradiction is represented by the statement that very large imports would cheapen the cost of goods to the American consumer, who is finally remembered. This may be so. On the other hand, cheaper goods mean falling prices, falling prices mean deflation, and it is well known that the government is prepared to use, and has pledged itself to use, all the resources at its command to prevent deflation.

THE dollar gap is not the disease; it is a symptom. If it were closed it would open again. It was there before, and only now is very alarming. The cause of it is an imbalance in the world that nobody knows how to cure. This imbalance is from the fact that a single country, with only one sixteenth of the world's population, has roughly one half of the world's industrial power. That country is the United States. Even if it would, it does not know how to turn this power fully upon itself. Its adventures with putting it forth in the world have returned both good and evil, together perhaps

with a great deal of postponed evil. The idea of making very large investments of American capital in foreign countries cannot be regarded as an immediate solution, and besides, first, American capital is feared in the world because of the power that lies behind it, and feared especially by the so-called undeveloped countries who think they are going to be exploited; and, secondly, the world is no longer a safe place for capital to go traveling in.

How other people will accommodate themselves to the incredible reality of American power, or what we shall do with it ourselves, is perhaps for the present quite unforeseeable. Terrific adjustments are going to be necessary. They should have been taking place gradually, but the planners have so long postponed them that when they come they may rock the foundations.

A Lost Language

Sir William Darling
In the House of Commons

I CANNOT understand our foreign policy. I remember the days when we had frequent, easy and regular associations with the people of Russia. During the war, I entertained scores and hundreds of Russians. I found them quite ordinary human beings. They had noses, mouths and voices, throats and palates, and they could consume the liquor of my country as easily as that of their own. I found no difficulty in getting on with the Russians, and I was President of an Anglo-Soviet Society. I cannot understand why His Majesty's Government cannot get on with the Russians.

When we went to Russia with capitalism in our hearts and the slogan of the profit motive on our hatbands, we could talk with the Russians. A company with which I am connected electrified in a practical and technical sense the streets of Moscow. There were hundreds of businesses in Scotland associated closely with Russia. When we go with socialism in our hearts and no profit incentive in our minds, we cannot talk with Russia.

I believe that the British people, who taught liberty to the people of India and the language of Shakespeare and the policies of Edmund Burke, and who Christianized Africa—that out of all the hundreds of thousands of people of Britain we can find someone who can talk to the millions of the U.S.S.R. I do not share the opinion that the Russian problem is insoluble.

Tilting Social Security

If all the programs recommended by the Administration were adopted, the over-all cost of all social security, pensions, health and welfare programs would amount, within the next few decades, to somewhere between thirty and forty billion dollars a year.

—*Representative Kean of New Jersey, in the debate on House Resolution 6000*

Washington Correspondence

THE living must bury the dead because the dead cannot bury themselves. For the selfsame reason, the young must feed and clothe the old, and the employed must support the unemployed. There is no one else to do it. Thus the resources of social security are entirely derived. The people must first produce them. Until a recent time the people also divided them, practicing the virtues of duty and thrift and performing offices of benevolence. Then the government intervened to say:

"You have always somehow done it yourselves, but never very well, never in a way to abolish fear of old age and poverty. Hereafter the government will take your money, a little each week, and give it back to you when and as you need it."

It is still true, however, that youth must support old age, that employment must support unemployment—that people must produce their own social security. To the means the government adds nothing. On the contrary, it is impossible for the people ever to get back all the money the government abstracts from the pay envelope. What they will get back, if they are lucky, will be their own savings, less what it costs to administer social security from Washington. The only way to justify that loss is to assume that the government will do better with the people's savings than the people ever did for themselves, which remains to be proved, or that a time has come when compulsory thrift must be imposed upon the people for their own good.

The first Social Security law was enacted by the New Deal in 1935. That was the beginning of compulsory thrift and the beginning also of the payroll tax—two social inventions which a generation before had been almost unimaginable. Nevertheless the emotional demand for the law was so strong that no politician could afford to resist it. This was supposed to be owing to the fact that the depression had made people so acutely conscious of insecurity

that they were willing to surrender a little freedom for even the delusion of security—specifically, for example, the freedom to do what you like with your own money in your own pay envelope. This surrender of freedom did not seem so serious at the time, and, besides, the amount of money abstracted from the pay envelopes was at first very little.

The depression passed and was followed by such a rise in the national income as was never dreamed of, and yet the demand for social security, especially old age insurance, continued to grow, until one might wonder how it was before that everybody's father and mother had not been buried from the poorhouse.

After thirteen years Congress came to have a further look at social security, and found as follows:

First, all the first ideas about it were very inadequate.

Second, the New Deal law of 1935 had failed to provide what could be called decent social security for anybody; this failure was partly owing to the limitations of the original law and partly to what had happened to the buying power of the social security dollar.

Third, besides its failure to put a floor under poverty, the law worked many inequities between both individuals and classes.

Fourth, the government had abstracted money from the pay envelopes of many people who would never get any of it back.

Fifth, that anyhow the Old Age and Survivors Insurance fund was insolvent. It was insolvent because the original payroll tax of two per cent—one per cent payable by the employer and one per cent payable by the employee—was not enough. Although it was not enough and everybody knew it, still Congress several times had "frozen it" at that figure instead of letting the gradual increase take place that was provided for in the original law.

There was more than \$11 billion in the fund, but if it should have to be liquidated on an actuarial basis it would be \$7 billion short.

Sixth, the notion that a payroll tax was an isolated tax, not payable out of production by everybody, had been destroyed. Mr. Hoover helped to destroy it when he wrote a letter to the Chairman of the House Ways and Means Committee, saying:

"There is an illusion about the whole federal old-age and survivors insurance. Because the taxes on payrolls are paid into a trust fund and paid out without appropriation by Congress, there is an idea that these are neither taxes nor federal expenditures. They are just as much a burden upon our national economy as any other tax or any other government expenditure. Also, payroll taxes, however justifiable, are, like all other taxes, a burden on the standard of living of the whole nation. A considerable part of the payroll taxes paid by employers in the long run is passed to the people as a whole in prices, and a considerable part of the taxes paid by wage earners is passed on by demands for increased wages."

Since payroll taxes are charged to production and added to the price that everybody pays, it follows that those who, like the farmers, are not covered by social security law, help to pay other people's old age pensions, while having none of their own. The logical answer to this of course is to make the law cover everybody alike. Then everybody would be taking care of everybody, all fair enough.

Finally, certain plausible expectations had been disappointed. Arthur J. Altmeyer, Commissioner of the Social Security Administration, said:

"When the Social Security Act was passed, in 1935, the basic idea was that contributory social insurance would be a first line of defense against destitution. It was expected that, as time went on, federal and state governments would have less and less of a burden under the public-assistance laws. Today, however, the number of needy persons receiving public assistance is greater than it has been at any time since the passage of the Social Security Act. Moreover, the number of aged persons receiving public assistance is nearly twice as great as the number of persons receiving benefits under the Federal Old Age and Survivors Insurance system."

The New Bill

Last year the House Ways and Means Committee sat down to write a new social security law, beginning with three bills received from the White House as a basis. It heard 250 witnesses, took 2,500 pages of testimony, and after four months prepared H.R. 6000—a bill of 201 pages, to extend and improve the Federal Old Age and Survivors Insurance. The bill was brought to the House on October 4, under a gag rule which made amendments impossible and limited debate to four days. Members of

the House were free to debate it four days and then to vote for or against it.

Mr. Jenkins, representative from Ohio, said:

"This legislation will endure in perpetuity or until this great nation should ever be called upon to repeal its national obligations. A bad tax law can always be repealed, or any federal project which is undertaken can be abandoned if the facts show that we were wrong. But, under this legislation, the sovereign Federal Government is writing binding contracts with its people. These contracts cannot—and must not—ever be repudiated.

"Approximately 80,000,000 persons have paid some money through social security taxes into this system—approximately 25,000,000 persons are currently insured, and approximately 13,000,000 persons are fully insured, which means that they are entitled to receive their benefits upon reaching 65. Already over \$12 billion of social security taxes have been paid by the American people into the Old Age and Survivors Insurance and under the legislation we are considering today this fund will probably grow to over \$90 billion and the annual cost of this one program alone may well exceed \$10 billion annually. I call your attention to these facts for the sole purpose of alerting you to the seriousness of this legislation and to caution you that a false step today may jeopardize the protection and security of our people for whom this system is so nobly designed."

In half the time permitted for debate under the rule, members were wearied of talking about a bill they could not change a word of, and on the second day it passed—yeas 333, nays 14.

Now it goes to the Senate.

The principal features of the bill are these:

(a) To the 35,000,000 people now covered by the Old Age and Survivors Insurance plan, 11,000,000 would be added, making altogether 46,000,000. Among those to be added, 4,500,000 would be self-employed persons, for whom it would be compulsory.

(b) Insurance benefits would be increased in the average by 70%. The maximum family benefit under the existing law is \$85 per month; that would be raised to \$150.

(c) Lump sum death payments would be paid to all insured persons, whereas under the present law lump sum death payments are made only in case there is no survivor entitled to receive continuing benefits, on the ground apparently that the lonely deceased ought to get something, even if it goes to the undertaker.

(d) All persons covered by Old Age and Survivors Insurance would be insured also against total and permanent disability, benefits under this head would be computed on the same basis as old-age benefits.

(e) The bill would increase the payroll tax, divided equally between employer and employee, to 4% in 1951; to 5% in 1960; to 6% in 1965 and to 6½% in 1970. "These contribution rates," say the authors of

the bill, "will result in building up a fairly sizable trust fund, which will be invested in that soundest investment of all—U. S. government securities."

Here two exceedingly troublesome questions were raised.

Would these taxes on the payroll be enough to keep the fund solvent?

When the government treats the payroll tax money as revenue and spends it, putting in place of the money its own I.O.U.s, is that a trust fund really, or only more government debt?

On the first question Mr. Byrnes of Wisconsin said:

"Would we vote for this bill today if it carried with it 6½ per cent payroll tax, which is necessary to pay actually for the benefits going to be granted by it? If we are not willing to do that, if we are not willing to impose that tax, which is necessary to pay for these benefits, on ourselves and the present generation, how can we vote to place it on the next generation? Yet that is just what we will be doing in voting for this bill. We will be saying that we will charge this generation only 1 or 2 or 3 per cent, but the next generation—and there will be no backing out of it—this is not something that you go into one day and back out the next—we will tax at the rate of 6½ per cent. By voting for this bill you are voting taxes of at least 6½ per cent on the next generation."

And on the second question Mr. Mason of Illinois said:

"The premium you pay for your old-age security insurance—the dollars taken out of your pay envelope each month—goes into the federal treasury and is spent for the general running expenses of the government. Into the Old Age Security Insurance reserve fund—in lieu of the cash collected—are placed government bonds from which future old-age security insurance benefits are to be paid. But government bonds only represent an obligation on the part of the Federal Government to pay out at some future time an equivalent number of dollars. And where will these dollars come from to pay this obligation or debt? From future taxation. There is no other source. Therefore, you are taxed to pay for your old-age security insurance during the time you work, and then when you retire at 65 years of age your children must pay new taxes to redeem the bonds to furnish the cash that the old-age security insurance hands out to you in the form of benefits. It is a fraudulent system, a 'phony' system."

(f) There are still and always will be many people who for one reason or another cannot qualify for Old Age and Survivors Insurance. For these what is needed is assistance; and the bill would help the states to provide assistance in the following manner: "For old-age assistance, aid to the blind and aid to the totally and permanently disabled, federal funds (granted to the states) will equal four fifths of the first \$25 per recipient, plus one half of the next \$10,

plus one third of the next \$15, with a maximum of \$50 as individual assistance aid."

(g) This new social security law would be extended to Puerto Rico and the Virgin Islands.

The sentiment of the House was overwhelmingly in favor of more and better social security. Criticism of the bill was generally on such grounds as that it did not provide enough, that it was discriminatory, that it excluded farmers, that a pay-as-you-go plan would be better, that its definitions were obscure, and that it would not do what the authors promised. One of the few hostile voices was that of Ralph Gwinn of New York, who said:

"A reading of the bill shows that it is no social security bill except in its name. It will take in 11,000,000 additional taxpayers to provide the administration with more spending money. The workers are paid in promises.

"About 35,000,000 workers in this country have been paying social security taxes for as much as 13 years. How much money do they have saved up for the next depression or for the time when the number of aged begins to rise very greatly? We all know the answer. The answer, gentlemen, is 'Not a thin dime.'

"There isn't a penny of real reserves anywhere in all the elaborate machinery we call the social insurance trust funds.

"The elaborate Rube Goldberg machinery of federal social security is designed to hide the fact that when the government spends this money it doesn't put anything in its place."

And that of Mr. Hoffman of Michigan, who ended his speech by saying:

"If we are to have federal social security, let us have it for everyone until we go broke."

Almost nothing was said of the principle of compulsion, a word which was unknown in our political language a generation ago.

Gilded Doghouse

From *The Reporter*

SINCE the 1930's, a most peculiar thing has happened in America: Everyone with a claim to make in the name of liberty has been taken seriously except the men who are running the American economic system—a system so sturdy that it came out of the greatest depression in American history practically unscathed. The business structure remained, but there was no return of the mystical belief that business by itself could solve all the problems of the nation and abolish poverty. In 1932, the political leadership of the country was taken over by men who were, by and large, unfriendly to business and who used their power, not exactly to liquidate the business leaders, or to confiscate their property, but to nag them to distraction.

If We But Stumble

**By the Hon. James F. Byrnes*

Formerly Secretary of State, Justice of the Supreme Court, Director of War Mobilization

THIS week it was stated in Europe that our first line of defense is the River Elbe. I disagree. Our first line of defense is not the Elbe or the Rhine; it is a sound, solvent American economy. And that economy is now threatened.

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I would not bore this group, steeped in the history of our government, by reciting testimony as to the intention of the founding fathers. Madison, Hamilton and Jay, in their letters appearing in *The Federalist*, Jefferson in his many letters, and Jackson in his message vetoing the Clay Bill, proved beyond question the intention and also the fears of the framers of the Constitution. For a century the warnings of these patriots against the centralization of government were heeded by the American people.

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During that century we engaged in wars, foreign and domestic, and suffered serious economic depressions. In these emergencies extraordinary powers were granted the Federal Government, but with the ending of each emergency the powers were withdrawn, so that in 1907 Woodrow Wilson in his *Constitutional Government in the United States*, could accurately write, "Moreover what is vastly more important in contrasting our system with others, we have not concentrated our constitutional arrangements in the Federal Government."

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But today is another day. The spirit of self-reliance that animated the early settlers and for more than a century inspired our people to exercise their initiative and develop this country, while preserving their independence, is unfortunately departing from the people.

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Too many people are asking the Federal Government to perform the functions of state governments. Too many people want to lean upon the government, forgetting that the government must

lean upon the people. Too many people are thinking of security instead of opportunity. They seem more afraid of life than of death.

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We cannot defeat communism by embracing socialism, which is but a step toward communism. No great number of Americans will make the jump from free enterprise to communism. They can more easily be led over a bridge of socialism into a police state.

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You cannot convince people who are inclined to communism of the superiority of our system of free enterprise merely by talking about a high standard of living. We must emphasize the freedom of the individual who by his initiative has made America prosperous. And we cannot very well boast of freedom under the American system if we are going to change that system and force the people to surrender more liberties to a centralized government.

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When we see the states of western Europe and Great Britain, which have embraced socialism, unable to stand on their own feet and the very existence of their governments dependent upon the taxpayers of the United States, it would seem prudent for us to hold fast to our system of government that has proved efficient in war and in peace, and put our financial house in order.

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Instead of that, we are threatened with the concentration in Washington of the powers of local governments, including police powers, and with the imposition of creeping, but ever advancing socialistic programs. To pay for these costly programs we are going to borrow more money.

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It is well to remember that if we but stumble there is no lend-lease or Marshall aid for us. We will be all on our own, like Coleridge's *Ancient Mariner*, "Alone, alone, all, all alone. Alone on a wide, wide

* From a speech before the Conference of Southern Governors, Biloxi, Mississippi, November 21.

sea! And never a saint took pity on my soul in agony."

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It will serve no useful purpose to argue about the repeal of federal aid laws which are in operation and to which operation the states have adjusted their budgets. Nearly forty per cent of all money spent by the states comes from the federal treasury as grants in aid. The people are not apt to repeal these laws. But we can oppose their expansion until our budget permits it. And we can oppose the adoption of new and costly programs that other governments have tried and now wish to abandon.

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It will serve no useful purpose to spend one's time in criticizing the political parties or individuals responsible for the growth of the federal aid system. No party or individual is entitled to a monopoly of the blame or credit.

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Among the advocates of big government there are some who honestly believe that local governments have failed to discharge their responsibilities. The failure of state governments to provide more efficient government is generally due to the fact that the Federal Government has stepped in and monopolized most sources of taxation.

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The governors of the states are conscious of the responsibilities, as well as the rights, of the states. If Congress will withdraw from fields of taxation traditionally regarded as within the jurisdiction of the states, the governors will have the states provide essential services at less cost to the people and less restrictions upon them.

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There is another group—those people who feel that government must play a greater role and yet are opposed to a government doing everything. They do not know where the dividing line should be. To them I suggest that government should stop doing for people those things the people can do for themselves, or which can be done by local governments.

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There is still another group—a dangerous group. They are the selfish men who love power—the power to spend the money of other people. They are in every department and agency and they want to stay there, but they are interested not only in a job; they love power. The bigger the government,

the more money they have to spend and the more power they have.

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We would not have an ever-expanding government if the people were conscious of the taxes they are paying to the Federal Government. When the government required employers to withhold income taxes from employees, the government put the worker to sleep.

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Ask any wage earner the amount of the wage he earns and he will tell you the amount he receives in his envelope or pay check, and not the amount his employer actually pays for his services before taxes are deducted for the Federal Government.

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We are continuing to spend more than our income. Without adopting any of the various new programs urged by those in power, it is conservatively estimated that during this fiscal year, which will end June 30, 1950, we will spend \$5 to \$7 billion dollars more than our income. If Congress adopts those new programs no man can tell exactly how much we will have to borrow, or from whom we will borrow it. We do know the next generation must pay it. All of us should think more of the next generation and less of the next election.

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What a heritage we will bequeath to the children of this day. Our greed for welfare and security will deny to them the opportunities we enjoy.

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We are forced to play a new role in world affairs. The bipartisan foreign policies of the government should continue to receive wholehearted support. Those policies require adequate appropriations for national defense.

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We are properly rendering financial assistance for the rehabilitation of western Europe. It should be continued. But I want Congress carefully to investigate these requests for aid. I have never known a department or agency of the United States government that did not ask for more money than it needed and I do not expect more care on the part of foreign governments.

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The cold war with the communists is given as the excuse for the increased expenditures of the government, but it is not a satisfactory explanation of the

vastly increased expenditure for other purposes. If you eliminate expenditures for national defense, foreign aid, and fixed charges like interest on the debt, you will find that we are spending in one year \$15 billion for civilian domestic functions of the Federal Government.

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In the four years of peace from June 30, 1945, through June 30, 1949, we collected \$159,645,825,033, which is more than \$2 billion in excess of the taxes collected in the 12 years of President Roosevelt's administration from June 30, 1933, through June 30, 1945. That 12 years included the great depression and World War II.

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Today our public debt amounts to more than a quarter of a trillion dollars. I said *TRILLION!* Daily we are adding to that debt. The interest on the debt is \$5½ billion, which is more than all expenditures of government were in 1933.

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Should we have a depression and the people find it burdensome to pay taxes for the \$5½ billion interest, we may hear the demand that the government substitute for the outstanding bonds, the greenbacks of the government that bear no interest. We heard it in 1933. Should we yield to that demand, it would be the beginning of the end.

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To justify spending more than our income, some persons speak of what the government is doing for the "little fellow." Let me show you what the Federal Government is doing to the little fellow. The United States government is making the small man smaller every day.

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If the "little fellow" sends a message by telephone or telegraph he pays a tax. If he travels by railroad or bus he pays a tax. If he buys an automobile, the sale price includes a tax. When he buys gasoline or oil he pays a tax. If he buys cigarettes, he pays a tax. If he goes to a football game or baseball game, he pays a tax. If his wife buys a pocketbook or cosmetics, she pays a tax, and if his children go to a movie, they pay a tax.

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The average working man must work 47 days a year to earn the money necessary to pay his taxes to the Federal Government. That is almost one day

out of every week. If the new programs now seriously proposed should be adopted he will have to pay in taxes the equivalent of his wages for an additional twenty days, making 67 days he will work each year for the government instead of for himself and his family. That is what the Federal Government is doing to the little fellow.

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If the spenders really want to help the little fellow, they should allow him to keep more of the money he gets for his labor to spend as he pleases, instead of having it taken from him and sent to Washington, to let bureaucrats spend as they think it should please him.

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Men intoxicated with power will never voluntarily surrender the power to spend the money of other people. Human nature does not change. The government will not repeal a single war tax now being collected unless forced to do so by public sentiment.

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Dangerous as deficit spending is, it is not as dangerous as increasing taxes would be under existing conditions. And there are reasons why, instead of increasing, we must reduce taxes.

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The Marshall aid appropriations must taper off next year. When that occurs, if we have not reduced taxes, the bureau officials will have more money and will devise new programs to spend it. If we reduce taxes, even the most hardened spender should feel some restraint in adopting new programs which will necessitate borrowing more money.

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The governors of the various states can perform a great public service by demanding a reduction of wartime taxes. They can cause the people to realize that when a dollar is taken from them in taxes, only a small part of that dollar trickles back to the state in federal aid. That is the "trickle back" system. It makes big government in Washington and makes beggars of the states.

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I want to see our governors, as well as our Senators and Congressmen, going to Washington with their hats on their heads, instead of going hat in hand, begging for a portion of the tax money their constituents have been forced to pay.

Forgetting How To Fly

Shall America Succumb to Statism?

By Frank E. Holman

*President of the American Bar Association

THERE is an attitude of acquiescence in the trend toward welfare government on the part of many leaders who actually themselves do not believe in it. This attitude has not only taken possession of the minds of politicians, but it has taken possession of the minds and spirit of many educators and other public leaders.

I recently heard the president of a large university, in a public address as a guest speaker at a State Bar Association, announce that while he did not believe in a welfare type of government and thought that through it the people would lose their liberties and their initiative and even their self-respect, nevertheless, any attempt to oppose it seemed inadvisable until the trend had further run its course; that the best policy for the present was to go along with it and try to guide it so that it would not become too wasteful and lead us into an economic collapse. This, of course, is the voice of "defeatism" and unworthy of the American character.

I believe that the leaders of both parties and many of our educators and others are misreading the sentiment of a majority of the American people. As I have gone about the country this last year I have discovered a real hunger on the part of the people, not only among lawyers but among others, for a leadership that is willing to battle for the preservation of constitutional and representative government as against the drift toward more and more paternalism.

Loss of the Word Republic

Up to a few years ago we had in this country what was known as a representative and constitutional commonwealth—a republic. Contrary to much of the present-day talk, it was not and was never intended to be a democracy or a welfare type of government.

The United States Army Manual still states: "The Government of the United States is not a

Democracy but a Republic"; that the word "democracy" nowhere appears in the Declaration of Independence, in the Constitution of the United States, in Washington's Farewell Address, in Jefferson's Inaugural, nor in Lincoln's Gettysburg Address. As applied to our Federal Government it did not come into general use until Woodrow Wilson's famous pronouncement of World War I, "make the world safe for democracy."

Since that time the tendency has grown to substitute the word "democracy" for that of "republic" in referring to our form of government and thereby obscure the fact that our forefathers established and intended to establish a republic and not a democracy or some other type of government. The fundamental idea of a republic is that by constitutional guarantees and by the certainty and uniformity of law applicable to all persons and classes, no special benefits, political, social or economic, shall accrue to any favored citizen or class of citizens whether it be labor, or agriculture or business, and no governmental impositions, like taxes and burdensome regulations, shall be imposed upon one class of citizens as, for example, business, and not upon other classes as, for example, cooperatives and labor unions.

We all know that the trend in law and government in this country even before World War II was away from a federal republic based on constitutional government and in the direction of a so-called welfare type of government. Let us speak of a few specific trends that have been in operation.

The founders of the republic declared "that all men are created equal" but by this principle they did not mean that all persons, even in the country as it then existed, and certainly not in a country of 140,000,000 or more people, were or could be assured equal mental and physical power and hence an equal social or economic position. The purpose of the announcement "that all men are created equal" was not to create a fictitious equality, social or economic, by government benefits and planning, but to emphasize the fact that all were equal in the eyes of the law and to permit any inequalities other-

* Excerpts from Mr. Holman's address as retiring president at the annual meeting of the American Bar Association in St. Louis, last September.

wise to rest solely on the basis of actual differences in personality and ability.

Now we have before us the phenomenon by which through government fiat and legislative policy it is sought to level out *all* inequalities so that the thrifty and the improvident, the industrious and the shiftless, shall be *made* equal. We have trended so far in this direction, as pointed out some time ago by Mr. Donald R. Richberg—himself an acknowledged liberal—that we have almost a cult claiming not mere equality of opportunity but “superior rights.”

One example of the claim of superior rights and not mere equality of rights is found in the agitation by pressure groups and even government officials in connection with restrictive covenants respecting residential real estate. Any racial or other group has always had an equal right to the residential privacy established by such covenants—a man’s location of residence has always been like his home and his home has been “his castle.” He has had the right to keep those out of his immediate area of residence whom he did not want in. Last year the Supreme Court (*Shelley vs. Kraemer*—334 G.S. 1 92 Law Ed. 1161) in effect announced the doctrine that any group who wishes has the right to invade the private area of any other group—this is, of course, not equality, but a claim of superior right to invade the privacy of others, if one keeps in mind that the covenants in question are not governmental but only private in character and for a reasonably limited area.

The American people have become the victims of catch phrases—all assuming faith in the American system of constitutional and representative government but always leading us further and further into a welfare state and a highly centralized type of government which will inevitably carry the American people into a completely collectivist economy and form of government. The easiest way to sell each new step toward statism has been to work on the emotions of the people through some catch phrase like “social justice,” or “economic equality” or “racial equality.”

A Sitting Duck Economy

The fundamental concept of statism, whether it be communism, state socialism or the welfare state, is to make the citizen dependent upon the state for his social and economic well-being rather than on his own effort and ability.

Several years ago one of our benevolent citizens in Seattle provided in his will a fund, the income from which is used for feeding the ducks on Lake Washington. If you go out today to Seward Park on Lake Washington you may observe the ducks in that area where they are fed through the benefac-

tion of the late Mr. Frederick. They have become so satisfied with their social and economic well-being that they have almost lost the power to fly with the wings that God gave them and sit huddled about in the quiet waters from one feeding to another, waiting for the next distribution of free grain. You cannot build a strong and enduring national life on the basis of turning the citizens into sitting ducks.

One measure of paternalism of which we have heard a great deal recently is federal aid to education. The real issue has been largely obscured by a highly publicized difference of opinion as to how far religious schools should share in the grant of federal funds. The fact is that any allotment of federal funds to the states for education is wrong in principle and can only mean that eventually the central government at Washington will undertake to direct and supervise matters of education throughout this country—both policy and content. The power of the purse is always the power of control and as soon as states and local areas have their school systems geared to these federal grants, it will be simple indeed for Washington to dictate policies in education, and our free educational systems will be gone.

The Case of Mississippi

Suppose there is a deficiency of educational facilities in certain sections of the country. It is better to preserve local control over public education and for religious groups to preserve control over their schools than to have any part of the control vested in the political and governmental pressures of a centralized government in Washington, for with control in Washington, education of the youth in this country will become as great a governmental propaganda instrumentality as within our memory was set up in Germany to indoctrinate the youth of Germany, and as now prevails in Russia.

Beyond all this, the stated urgent need for federal aid to education is largely fraudulent. For example, the state of Mississippi has been listed by the sponsors as the state in the Union most in need of federal aid. Here are the real facts about Mississippi:

In 1946 it had a surplus of \$15,000,000.

In 1947 it had a surplus of \$25,000,000.

In the last eight years it increased its teachers’ salaries by 156%.

Mississippi has no actual indebtedness, for the money in Mississippi’s sinking fund is more than enough to pay all its *outstanding bonds*.

This money in its sinking fund is invested in United States Government securities. This means that Mississippi is actually loaning money to the Federal Government.

I remind you that never before in the course of history prior to the establishment of this govern-

ment had a government been organized on the principle that individuals were endowed with certain inalienable rights, among which was the right to local self-government and that when the Federal Government was set up it was to be a government that would assure and protect these rights even as against encroachments by the officials of that government. Our forefathers feared the power of a central government. Washington said: "Government is not reason, it is not eloquence—it is a force! Like fire, it is a dangerous servant and a fearful master."

Inherent Rights

The previous concept of the scope and power of the state was that the state had inherent rights and functions of its own. By our Constitution and by our Bill of Rights only certain specific and limited functions of government were conferred upon the officials of our Federal Government. It was to be a government of delegated powers only, and the people, by the Constitution, forbade and intended to forbid the Federal Government doing anything not specifically authorized by the Constitution. The government had no reservoir of implied powers to embark upon a welfare and socialistic type of government. To try to make doubly sure that government would not regiment the citizens and invade their rights as free men, a Bill of Rights was added to the Constitution. This was actually a "Bill of Prohibitions," specifically prohibiting the Congress making laws impairing these rights. And then in a further attempt to make absolutely sure that no government official would in the future misinterpret the proposition that the Federal Government was the servant and not the master of the people—the people added two important over-all restrictions that:

1. "The enumeration of certain rights shall not be construed to deny others retained by the people"—and
2. "The powers not delegated to the United States by the Constitution are reserved to the states or to the people."

Thus, the traditional American theory of government was and is that the rights of the people as to their individual freedoms are personal and inalienable; that these are *retained rights* and not grants from government, and therefore are not subject to change or modification unless the Constitution be changed by the people themselves.

The American concept of a constitutional and representative republic is a complete antithesis to a welfare or paternalistic type of government. From what is being said by many of our reformers today, one would think that the founders of the republic

were so ignorant that they did not understand the supposedly new and noble principle of government which makes man a ward of the state, dependent upon the state for his social and economic well-being. Our forefathers understood all this thoroughly, and they knew and understood from experience the effect of centralized and bureaucratic controls.

Materialism of Welfare

Moreover, the new concept of government in this country is purely materialistic. Its sponsors seem to think it is idealistic, but in spite of the noble phrases under which it has been sold, such as social justice, planned economy, humanitarianism, etc., the whole program may be characterized as materialistic in the sense that it stems from policies of vote-getting and expediency and has for its object material comforts rather than the preservation of political and moral standards and ideals. As a matter of fact, long before the era of welfare government in this country, Americans had already attained the highest standard of material living in the world, the highest wages, the best working conditions and the most leisure. They had achieved this by their own efforts and not as a grant from a "welfare state."

Now we are beset by pressure groups out to get more and more social and economic benefits without work. The pressure groups have little interest in the philosophy of sound government and the rest of us have become apathetic. One foreign observer recently stated that Americans have the best food, the best houses, the best plumbing fixtures, and the best automobiles and the best soap, but that they are no longer concerned with the philosophy of religion or the philosophy of government.

The form of government and the morals of a people in the last analysis control the kind of economics operating among the citizens. The new economic planners have made us believe the reverse, that economics should shape the form of government and the morals of a people. These planners know full well that they could not possibly impose a planned economy or the morals of expediency merely by talk and persuasion. They must first exercise over the people political and governmental control. They must regiment us politically in order to regiment us economically.

The problem, therefore, basically is—what kind of government do the American people really want—do we want a republic, a constitutional and representative commonwealth, a society of free men and a free economy—a return to thrift and common honesty, or do we prefer the regimentation of some form of statism?

Many citizens who are devoted to the American Constitutional system of government—and these

still constitute a majority of the American people—are too tolerant of the views and activities of those who attack and undermine our institutions. Tolerance ceases to be a virtue in a time of crisis. History may record that the American people succumbed to statism due to their tolerance and apathy.

The Perils of Tolerance

Take, for example, the menace of communism. Why does it continue to be a primary threat? Certainly the Communists are in the minority, but history discloses that an active, energetic, persistent, infiltrating minority can undermine and weaken and eventually control a large but apathetic majority. During the last year the tolerant naiveness of many of our citizens, including lawyers, has amazed me. That known Communists have infiltrated our colleges and universities, there is no doubt.

When on one occasion during the year I mentioned the names of two Communist professors at a leading college and asked a lawyer who was a trustee of that college why they were allowed to remain, he shrugged his shoulders and said, "Well, we must be tolerant of differences of opinion."

A prominent lawyer in New York City justified the employment of a few Communists in colleges and universities on the same ground. The president of a New England college in a public address stated that "the book of human knowledge must be kept wide open and since Communism is a part of human knowledge it is proper at a liberal college for the students to be exposed to this philosophy of government and to have somebody who can teach it."

Another type of tolerant naiveness is exemplified in the so-called liberal attitude on the part of officials of colleges and universities, bar associations and service clubs in inviting persons who confessedly do not believe in our form of government to address these institutions and groups.

Why a person committed to the doctrines of statism should be given a platform by those who believe in the American form of government to sell his ideas of statism baffles intelligent answer.

As lawyers, we need to begin to meet the attacks against our form of government and the Constitution affirmatively and not remain merely negative or casual. To protect our great heritage both as individuals and as a nation we must take the time and effort to be active and affirmative in our citizenship. That we do so is more important by far than that we get fees or wages or even that the people have better houses or clothing or even better food. We will have none of these and little opportunity to get them for ourselves and our children if we lose the freedoms and the rights we enjoy under our Constitution and Bill of Rights.

Among other things, the study of American history has been so far ignored in our public schools for the last 20 years that it has become necessary for the legislatures in various states to pass acts *compelling school authorities to teach American history*. Such an act was passed in the state of Missouri two years ago and similar legislation has been necessary in other states. The "welfare state" and many other so-called new concepts—even the concept taught in certain law schools—that the courts should be instrumentalities of social and economic policy rather than courts of law—all stem from the lack of adequate teaching of American history in our schools and colleges.

The Christian religion grew and developed and has been sustained by the constant reading of its sacred book, the Bible. In order to preserve our freedoms, it is necessary that similar attention be given to American history, especially American Constitutional history, and that each generation be taught to read and reread and to understand it—with such an understanding that it will be as difficult for communism or the welfare state or any other alien ideology to supplant the American concept of government as it would be for paganism to supplant Christianity in the minds and hearts of Christians.

Loyalty is Everywhere

During my year of office I have traveled and spoken in 32 states not only to Bar Associations but to service clubs and other citizen groups. Statism and its dangers are being everywhere discussed and pondered. I have found, regardless of party affiliations, an almost universal loyalty to the principles of American constitutional government and an outspoken opposition to all forms of statism. Lawyers are in posts of influence in every phase of activity in this country. If in these various posts—as members of governing boards of colleges and universities, as members of local school boards, as advisers to corporations and labor unions, and yes, even as members of the judiciary—we could forget about party labels, refuse to be moved by arguments based on expediency, put the long-range good of our country and its people above personal ambition, we could actually work the miracle of restoring the Constitution and its guarantees of liberty and property and preserve the rights of the people and the rights of the states against centralized powers.

History would then be able to record that the good sense and courage of the American people under the leadership of a courageous bar had withstood and defeated statism at a time when nearly all the rest of the world had succumbed to it.

Germany in the Balance

By Felix Morley

In *Human Events*, 1710 Rhode Island Avenue,
Washington 6, D. C.

Trained political observers returning from Europe give a picture of the struggle for Germany which one does not get from the daily press. So far as facts go, the newspaper reporting on Germany is good enough; but to impart the meaning of facts, with no tenderness for the mistakes of our bipartisan foreign policy, is another matter. One very competent observer recently returned is Felix Morley, formerly editor of The Washington Post, then president of Haverford College, and now editor of Human Events. He has just written a series of articles on Germany, one of which is reproduced below.—Editor.

I

WHEN Secretary of State Acheson hurriedly decided to visit Bonn, as an invited guest of the West German Republic, he pointed up the ironic struggle for German affections now being waged between the conquerors of that country.

The Russians are furnishing further evidence of this extraordinary competition. Their current counterstroke is to have the East German Government restore full citizenship, including the right of holding public office, to all Nazis in the Soviet Zone who are not already in jail for "war crimes or other Fascist acts." The intimation that only Fascists commit war crimes is the more suggestive because of the current Russian effort to stigmatize the United States as a Fascist nation.

Along with the vindication of former Nazis, the East German Government is now making a decided play for the support of all Germans who believe in free enterprise. Deputy Prime Minister Hermann Kastner asserted in Berlin that it is impossible "to transfer the economic structure of the Soviet Union to Germany." His remarks are the more important because Herr Kastner is the East German leader of the same political party (Free Democrats) that is headed in West Germany by President Theodor Heuss, at Bonn.

Herr Kastner also said in print—of course with Russian permission—that when Germany is reunited it "cannot and will not be a Communist unity." Simultaneously the East German National Democratic Party, largely composed of former Nazis and therefore without a counterpart in West Germany, came out with a resolution for governmental support of private retail business in the Soviet zone as "an important precondition for strengthening and broadening the National Front."

It is no longer possible to ignore these indications of a wholly new Russian policy toward Germany,

based on a belief that the Reich can be reunited and rebuilt as a quasi-independent ally rather than as a Communist dependency of the Soviet Union. Unfortunately our correspondents in Germany seem for the most part to have remained blissfully unaware of what was happening under their noses. The failure to report on the headway which Russia—as contrasted with Communism—is making there is understandable. Many American reporters in Germany speak no German.

II

It does not take a long stay in Germany, assuming some disposition and ability to ascertain the German viewpoint, to realize that the Western Powers, especially the United States, have fumbled at least as often as have the Russians. A good football coach analyzes the mistakes of his own team. And it is well to realize now that something much more serious than a football game can be lost in Germany, as it has already been lost in China.

In Germany we have fumbled, in the sense of playing directly into eager Russian hands, at least the following major issues:

- (1) Dismantling
- (2) Deportations
- (3) Re-education
- (4) War criminals

While these are cited in what seems to me their order of importance, as cardinal blunders, it is important to emphasize that the mistakes made interact and aggravate each other. The issues were part of an integrated policy of vengeance. They supported each other when a policy of vengeance toward Germany could be said to make some sense. They still support each other.

With the successful Russian manufacture of the atomic bomb it should have become apparent that

the Kremlin has made effective use of German technical skill. That is as obvious, in retrospect, as the evidence that at Yalta the Russian leaders successfully prepared their eventual victory in China. And there is certainly nothing pleasant, from our viewpoint, in the tendency toward an amalgamation of Chinese manpower and German technology, under Communist leadership.

In short, when Stalin revealed his hand, American intelligence should immediately have revised our policy to follow suit. We are just beginning to do so.

Approximately one thousand industrial plants in the Western zones, making everything from steel to soap, have now been completely dismantled, and this fatuous policy still goes on.

The immediate economic effects of dismantling have been less than might be expected, partly because the United States in the last analysis pays all the financial cost involved; partly because most of those actually thrown out of work can be reabsorbed in the repair and rebuilding of houses and bridges. But the psychological effects of dismantling have been disastrous. As Minister-President Karl Arnold of North Rhine-Westphalia, said to me: "You are dismantling men as well as machines."

III

The full force of this remark did not come home until I talked with some tragic representatives of the eight million or so expelled persons who have been crowded into Western Germany. Perhaps our collective conscience need not be disturbed by the indescribable misery in which these wholly dispossessed people are living. But we should at least be aware of the bitterness and hatred with which they regard those responsible for dismantling.

To the unemployed and completely dispossessed workman from East Prussia or the Sudetenland, dismantling is taken as proof that American vindictiveness still rules, dooming him to be the goat in a highly unsavory goat pasture. And these people, who with any sort of a fair deal would have been ardently pro-American, are now saying openly that if they have any future, it seems to lie in working with and for Russia.

Before my visit there I was told that no other American had ever been inside a foul air raid bunker in Hanover, where nearly a thousand men, women and children are living in conditions to which most of us would not condemn that many dogs. But if we do not know of the ghostlike tubercular children who haunt these cellars, the Germans do. And their knowledge makes our "re-educational" preaching, about the opportunity of America, and the virtues of Americans, exceedingly sardonic. Here again we

are compared unfavorably with the Russians. "At least they are not hypocrites."

And on that note the average German, if you show any interest in his thinking, is likely to turn to the "war criminals."

"After all," say those who are living like rats amid the ruins, "our generals fought to save us from this."

"After all," say the lawyers who have watched these trials, "the Russian method of shooting and getting it over quickly is a preferable application of victor's justice."

"After all," in the words of a leader in the Resistance Movement, "the Russians don't camouflage their spiritual desolation with the fake morality which you Americans like to assume."

The upshot of it all, whether or not reported, is that to many Germans, and by contrast with our prattle about democracy and freedom, a working relationship with Russia begins to look quite reasonable. If that is reprehensible on the part of the Germans, at least it is not unnatural. If forced to the choice, many of us might conclude that honest pagans are more congenial than fraudulent Christians.

IV

How Germany will go now seems to me to hang in the balance, but two conclusions from the obvious failure of our policy there seem to me inescapable and important.

The more obvious of these is the responsibility of the much-advertised "bipartisan" attitude for what has happened. Politics should stop at the water's edge only when policies stop at the water's edge. If isolationism is abandoned, a critical attitude in foreign policy must immediately be adopted. The Opposition in Parliament never pulled any punches, in the days when Britannia ruled the waves. Edmund Burke and Charles James Fox are remembered; not so those Whigs who said: "me too."

In practice, a bipartisan foreign policy simply means that it is nobody's business to point out blunders while they are being made. Worse than that, the bipartisan attitude explains why it is considered "bad form" even to mention these blunders until too late. Under our system of government, never designed for imperial duties, it was natural that third-rate political sychophants should be assigned world-wide proconsular responsibilities. Under a bipartisan foreign policy it was inevitable that their stupidities, when nothing worse, should go undetected by the long-suffering taxpayers at home. But the burden of proof for continued "bipartisanship" now rests on those who defend it.

In all the abundant evidence of Republican incompetence, the Dewey-Vandenberg-Dulles support of bipartisan foreign policy is probably the

most glaring, as historically it will prove the most costly and disastrous. And, behind this inanity, now becoming fairly clear, there lurks an even more disturbing specter.

This is the evidence, from which the Russians have drawn appropriate conclusions, that bureaucratic government will only work when it pays no attention whatever to public opinion—to what we loosely call “democracy.” The Kremlin can make a marriage of convenience with Germany today as easily as it did with Hitler in 1939. And all that blocks the consummation of this marriage is the lingering German hope that when we talk of unity

in western Europe we do so with some real conviction, and some intention to promote it.

Our Federal Government today exhibits the many weaknesses of a hypertrophied bureaucracy—clumsiness, extravagance, irresponsibility and inefficiency. It also has the weakness of democracy, which is that the elected leadership does not dare to reverse a foolish policy until its total bankruptcy stares a majority of the voters in the face.

Soviet Russia is free from that weakness. That is why the Kremlin won in China, and could very possibly win an even more devastating victory in Germany.

Why Communists Should Not Teach

**By Robert G. Sproul*

President of the University of California

A CONTROVERSY is raging today in American university circles, and not least in my own university, over the question whether academic freedom entitles Communists to be faculty members. The Regents of the University of California have declared that membership in the Communist Party disqualifies a man for service, because such membership is incompatible with the objectives of teaching and with the search for truth. With this policy of the Regents I am in complete accord. Indeed, I played a part in formulating it because, as a liberal, I believe that the totalitarianism which the Communist Party both advocates and practices, whenever it has the opportunity to do so, cannot be reconciled with individual liberty or with human dignity.

Surely the American guaranties of personal freedom cannot be stretched to the point of license to undermine, through indoctrination, the American system of political democracy combined with capitalist economy—a partnership which has advanced human rights and provided for human needs to a degree which no other political or economic system in all history has even approached.

Historically, Americans have taken their freedom

for granted. In recent years, we have learned that we were wrong—that freedom is always vulnerable. We have learned, too, that our particular kind of freedom is seriously threatened by the power philosophy of that international conspiracy mislabeled as the Communist Party—a philosophy that sterilizes the minds and distorts the morals of men, that sets class against class, brother against brother, and man against God. If this philosophy were confined to one nation, or even to a group of nations, and practiced only within their borders, it might be of little more than academic concern to us. The fact is, that the philosophy is being used as the basis of a power and propaganda drive for the creation of police states and the establishment by any means, including violence, of a new science of economics and a new form of society. Already this power drive has reduced to the level of satellite states the once proud nations of Bulgaria, China, Czechoslovakia, Hungary, Manchuria, Poland, and Roumania. Are we to sit idly by while it works its will with us?

Nowhere is the philosophy of communism more harmful than in a university, for it is a philosophy of ironclad orthodoxy, which circumscribes every field of the intellect, whether in science or economics or art, with an adamantine authoritarianism. In such barren soil there can be no flowering of the human

* From an address before the American Bankers Association at San Francisco.

spirit; it can only wither and die. Four hundred years ago, Galileo shook the world with the question: Who is willing to set limits to the human intellect? Well, the Communist Party is not only willing to do it; they are eager to do it. What place in a university can be given appropriately to such purblind fanatics as these? Why should our institutions offer hospitality to those who use a false and brutal hope to persuade the young and gullible to sign away their birthright? Why should they cooperate, even passively, in a program of insidious infiltration of the free governments of the world?

That such infiltration of the educational system of the United States, and especially of its universities, has been and is being attempted, is all too clear. Under the guise of academic freedom, the Communists have persistently, through all the years of my academic experience at least, sought to carry out in American colleges a program of indoctrination and propaganda against the spiritual as well as the material values of democracy.

The Disguised Intent

The official organ of the Communist Party, *The Communist*, has said, and I quote: "Communist teachers must take advantage of their positions, without exposing themselves, to give their students, to the best of their ability, working class education. To enable the teachers in the Party to do the latter, the Party must take careful steps to see that all teacher comrades are given thorough education in the teaching of Marxist-Leninism. Only when teachers have really mastered Marxist-Leninism will they be able skillfully to inject it into their teaching at the least risk of exposure and at the same time conduct struggles around the schools in a truly bolshevik manner."

Nor does it meet the issue to say that a communist may be a perfectly satisfactory teacher of astronomy or accounting. In the first place, the Party has decreed that the class struggle affects every field of knowledge, that the Party line enters every field of thought. In the second place, a professor is not merely a teacher of a subject; he is also a member of a community of scholars. He serves on committees; he votes in faculty meetings; he may even become a dean. In these and other ways, he has a part in the determination and, perhaps, the execution of educational policy. Regardless of his ability, anyone who joins a group whose long-held and oft-published principles justify lack of confidence in his integrity, intellectual and otherwise, is unfit for membership in a university.

The survival of every form of society rests upon the education it receives. Nowhere is this recognized

more clearly than in Soviet Russia, where Lenin announced the policy of the state in these words: "In the field of public education, the Communist Party sets itself the goal of concluding the task begun by the October revolution of 1917 of converting the school from a weapon of class domination of the bourgeois into a weapon for the destruction of this domination, as well as for the complete destruction of capitalist society. The school must become a weapon of the dictatorship of the proletariat."

Education As a Weapon

Stalin put the matter even more bluntly when he said, "Education is a weapon whose effect depends upon who holds it in his hands and at whom it is aimed."

These statements form the very foundation of the educational philosophy of the Communist Party. They are quoted again and again in Party literature. The all-powerful Central Committee clearly regards education as a weapon of politics. The idea of freedom in education, according to Lenin, is "bourgeois hypocrisy." Moreover, the Party has demonstrated that educational institutions can be forged into mighty instruments of despotic rule, and that universal literacy can become a chief support of universal tyranny.

Such a system of education seems to me quite inappropriate for a free society, and I cannot feel any compulsion to welcome its advocates into the University of California faculty. On the contrary, I believe that our American universities must take an affirmative attitude toward the basic American value of responsible freedom. They must be the chief protagonists of our civilization, aggressive in their defense of our traditions, and vigorous in their opposition to those who would destroy them.

When I speak of those who would destroy them, I am not thinking, of course, of men who merely hold unorthodox political or economic views, but of members of that close-knit, rigidly controlled conspiracy mislabeled Communist Party, every member of which is thoroughly indoctrinated and cannot possibly be ignorant of the obligations he has undertaken and the discipline to which he has committed himself.

No man can be a member of this subversive conspiracy without taking on the coloration of its leaders and sharing in their guilt.

As Professor Joel H. Hildebrand, of the University of California faculty, has said, in commenting upon the contention that a man may join the Communist Party without actually accepting the Party doctrine: "This seems to me to represent a positive hostility toward evidence. One might as well say

that he could not know whether a person who joins the Ku Klux Klan approves of terrorizing Negroes . . . joining the Communist Party is not the innocent or ignorant association to which guilt is ascribed by a Thomas Committee but an association entered into deliberately and with full knowledge of its nature."

The question is not whether a teacher has a right to be a member of any legal party. A man may have the constitutional right to be a member of the Communist Party, but he has no such right to be a college professor unless he is free to accept the duties as well as the privileges of academic freedom.

As Professor Arthur O. Lovejoy has said, "the conception of freedom is not one which implies the legitimacy and inevitability of its own suicide. . . . The defender of liberty of thought and speech is not morally bound to enter the fight with both hands tied behind his back. And those who would deny such freedom to others, if they could, have no moral or logical basis for the claim to enjoy the freedom which they would deny. Anyone who would set up such a claim must come into court with clean hands; but no one who is lending aid to an international political movement which has already destroyed the freedom of universities wherever it has attained its objectives, and must be expected to do so wherever it may attain them in the future, can come into the academic court of equity with clean hands."

But, it has been said, if we now proscribe the member of the Communist Party, we shall soon be barring from our universities men who belong to this or that true political party, to this or that church or lodge. The trend seems to me to be clearly in the opposite direction. At the same time that our community is proceeding vigorously against the Communists, it shows increasing tolerance for other critics and dissenters. The literature of criticism and protest in the United States rolls off the presses in an over-swelling flood. The number of rebels and dissenters of all kinds is large; and it is taken for granted, at least in the parts of the world, both academic and nonacademic, in which I walk, that no value, no practice, no institution shall be above criticism.

It is undoubtedly part of the Communist strategy to try to frighten Americans into a belief that their democracy is part of an outmoded and rigid pattern of social thinking, but this is the very antithesis of truth. Our national life has been, and will continue to be, healthy and vigorous just because dissenters have been encouraged to think critically and to speak trenchantly of the society in which they live and the country which they love. But the struggle between communism and democracy is not a debate; it is a war. We who enlist on the side of democracy are but aligning ourselves with Thomas Jefferson in

"eternal hostility against every form of tyranny over the mind of man."

I do not believe, of course, that barring members of the Communist Party from university faculties will settle the ideological conflict which today threatens not only the peace of the world, but also the destiny of mankind, nor even that it is the most effective way for a university to serve democracy. That way, I am sure, is by giving our young people a far better understanding than they now have of the philosophy behind our own way of life and of the principles in accord with which our institutions have developed. At the same time, they should be encouraged to examine the discrepancies between our ideals and their fulfillment, and to consider constructively ways and means by which our democracy may be perfected. They should be given, also, a clear, unbiased exposition of Marxian philosophy, which stands out as conspicuously challenging our own. No ignorant chauvinism, no passive acceptance of material advantages, and no shielding from evil influences will be sufficient to immunize our youth against the virus of fanatical beliefs sincerely held and pursued with flaming zeal. Only convictions based upon knowledge can provide this prophylaxis.

Will You Will Your Wife to Social Security?

From A. B. Genung's *Country Almanac*

MEANWHILE, the planners are always reaching for new powers over the people. Truman's present messages are rather restrained, calling merely for new controls over credit, exports, commodity exchanges, etc.; that is, over money, trade and work. The sardonic note in all this is that the new controls are demanded in the name of controlling inflation, which is itself the supreme achievement and vehicle of the planners and without which they couldn't stay in power overnight. Real deflation would utterly wreck them.

*

So we find ourselves with money that is worth less permanently. The value of every fixed salary or income, every rent collected, every pension, every insurance policy has been, roughly, cut in two.

*

We aren't saying anything about life insurance policies, though they're in the picture at exactly the same size. Maybe you're already worth more dead than alive. Or maybe you intend to will your wife to the social security system.

Review

A New Philosophy of Laissez Faire

THE success of an intellectual counter-revolution will depend on the ability of the advocates of capitalism convincingly to answer the question: "Why should men be free?"

The leftists, the planners, all advocates of social tyranny in the name of general welfare offer numerous reasons why we should not be free, and the plausibility of their arguments is testified simply by their overwhelming popularity. If this popularity were limited to the uneducated, the libertarians could well defend their failure. They could say the masses were unable to understand their position. But this isn't the case. Too many intellectuals now disparage freedom.

If the leftists do not always say outright that less freedom is good for people, it is only because they have been so successful in garbling the vocabulary. Their trick has been, while preserving the jargon of the old liberals, to change the meaning of words. They confuse freedom with *freedoms*, and from this confusion freedom may come to mean only one's freedom to exchange freedom for status, welfare or security. Suddenly we might find that we were all participating in a preposterous race to reduce each other to serfdom.

This socialist achievement with words is less significant as a matter of successful sophistry than as a demonstration of the helplessness of the libertarians. They cannot take comfort in the conclusion that they have been sandbagged by a superior propaganda machine. They must ask themselves whether they have consistently defended *laissez faire* for the right reasons. It is time we found out.

It has become a habit to turn to Adam Smith and the old liberals for the justification of liberty. Their achievement was to discover a law of human association that was fundamental and revolutionary. Nations that embraced the philosophy found themselves catapulted into a dream world of material magnificence. They were right about *laissez faire*. Nevertheless, in their rationalization of the ideal there were some troublesome flaws. In spite of that fact, liberals ever since have dutifully parroted the classical catechism, flaws and all.

The classical *laissez-faire* economists discovered that men had made a mistake in their judgment of

themselves and consequently of society. For centuries people had thought freedom was a dangerous thing. It was simply assumed that men left to pursue their own interests would violate the interests of other men, or of other classes of men, or of society. It seemed evident that one man's gain was another man's loss, or that what was to the advantage of one nation was to the disadvantage of another. Ambition was baneful; achievement meant exploitation.

So means had been devised to protect society against the ravaging of selfish individuals. Omnipotent rulers, whose function it was to champion the social interest, suppressed individuals and defended national societies against foreign aggressors. And if the premise was true, this method was thoroughly practical and necessary.

But the old liberals, questioning the premise, found it to be quite false. They were able to demonstrate that there was harmony in the interests of free men, not conflict. Of course they did not say that man's interests were or should be identical. What they did say was that individuals and nations pursuing their own satisfactions were bound to assist others in the pursuit of theirs.

When the liberals found this truth, they had discovered the rationale of the market. They had found that the measure of the social interest was not the judgment of a potentate, but the market, whereby men could find out what they had to do for other men in order to maximize their ability to satisfy their own wants. They found that conflict resulted when this coordinator—the market—was interfered with, but that if it was left unhampered there could be cooperation and harmony.

Of course they had to spell this out. It was not enough simply to show in general that consumers ruled the market. Having indicated the principle, it was necessary to show more precisely how the coordination process took place. But that attempt was not completely successful. The liberals had given the conflict dogma a severe shock, and it tottered precariously for a few decades, but then recovered itself as the skeptics began to find the soft spots in classical theory.

What the old liberals had discovered was not just another science, but an entirely new area of inquiry. Before that all science had been built around the observable regularity in natural phenomena. These liberals discovered a regularity in the phenomena of human action, and thus were able to develop laws of social cooperation. But because of a fundamental error in their reasoning they were able to elaborate only part of the new science. They had not found all the laws.

In their attempt to explain market prices they made a mistake about value. They asked a question they couldn't answer. It was this: "If usefulness is what determines value, then why is gold more valu-

able than iron?" They couldn't think why, and so they could never trace the determination of value to the final choice-makers, the consumers. They substituted a theory based, not on consumer choice, but on the propensity of businessmen to buy on the cheapest market and sell on the dearest. That was why the new science had to be called just "economic" science. The old liberals' attempt to develop a general theory of human action was stopped cold.

And so economic theory went off in all directions. There were those who remained convinced that the conflict dogma was true. They dismissed liberalism as a blind, designed to obscure the deceitful operations of the capitalist exploiters. The prosperity that had come with liberalism they dismissed as an historical accident. Pretending to use the tools of the new science they tried to rationalize their own convictions about class conflict and exploitation. Starting with the liberal concept of the ideal state, a state that was only concerned with protecting the welfare of its citizens, these radicals conceived utopias at random. They assumed first that the state knew what was best for its citizens, and secondly, that having decided what this was the state could somehow do what it had decided. They were wrong on both counts. Means were never considered. They regarded the laws of *laissez faire*, which the old liberals had formulated as a limitation on their aspirations, and so dismissed them as a nuisance. That attitude is still rather general.

There were then the fact finders, who suspected that the missing laws of human action existed, yet never knew how to look for them. They tried to fit the new science into the pattern of the physical sciences and became confused about the nature of fact. It seemed that the way to find regularity in social phenomena was to watch society and observe the facts, like the workers in physical science. So economic history was substituted for economic theory. Economists worked endlessly, just observing. And when they failed to find the laws, they did not see that the trouble was with their method; they thought only that their researches had not been exhaustive enough, and they looked for other things to observe. When they have observed everything they will have to start all over again, for everything will be different. There is no end to it. With history you can prove everything and nothing.

Always there have been the bitter-enders, stoutly defending the theories of the old liberals. Where contradictions occurred they made concessions; but they failed to solve the real problems. They are still with us. They continue to elaborate only the "economic" part of human action. They continue to generalize about an empty-headed robot called the economic man who knows only that he must buy in the cheapest market and sell in the dearest. When critics of this neoclassicism say that it is unrealistic,

that men do not behave in that way, and that the validity of classical theory depends on the existence of all sorts of impossible conditions, they are quite correct. Yet almost always capitalism has looked to this group for its defense.

Wanting all this time was someone who could crack the value paradox, precisely define the problem, indicate the method appropriate to the discovery of social law, and so develop a science of *all* human action. The Austrian school, represented by Menger, Böhm-Bawerk, Clark, and Jevons, had been moving in that direction. Now its work is completed by Dr. Ludwig von Mises in **Human Action*,* which carries economic thought into a new dimension.

This is a very important book. It is a devastating refutation of the claims of socialists and interventionists. It is a powerful rationalization of *laissez faire*.

Dr. Mises has perfected a theory of value suggested by his Austrian predecessors. It provides the resolution of the value paradox.

"Value," he says, "is not intrinsic;" it is not in things. It is within us; it is the way in which man reacts to the conditions of his environment."

In that light the question why gold is more valuable than iron becomes unreal.

"Value," Dr. Mises continues, "is the importance that acting man attaches to ultimate ends. Only to ultimate ends is primary and original value assigned. Acting man is not in a position in which he must choose between all the gold and all the iron. He chooses at a definite time and place under definite conditions between a strictly limited quantity of gold and a strictly limited quantity of iron. His decision in choosing between 100 ounces of gold and 100 tons of iron does not depend at all on the decision he would make if he were in the highly improbable situation of choosing between all the gold and all the iron."

Having found this solution of the value paradox—a paradox that was, to begin with, "the outcome of a vicious formulation of the problem"—Dr. Mises goes on to develop a complete science of human action. It is much more than merely a theory of the "economic side" of human endeavors and of man's striving for commodities and an improvement in his material well-being. Dr. Mises defines it as:

"The science of every kind of human action. Choosing determines all human decisions. In making his choice man chooses not only between various material things and services. All human values are offered for option. All ends and all means, both material and ideal issues, the sublime and the base, the noble and the ignoble, are ranged in a single row and subjected to a

**"Human Action,"* by Ludwig von Mises, Yale University Press, New Haven.

decision which picks out one thing and sets aside another. Nothing that men aim at or want to avoid remains outside of this arrangement into a unique scale of gradation and preference.

"The modern theory of value widens the scientific horizon and enlarges the field of economic studies. Out of the political economy of the classical school emerges the general theory of human action, *praxeology*. The economic problems are embedded in a more general science, and can no longer be severed from this connection. No treatment of economic problems proper can avoid starting from acts of choice; economics becomes a part, although the hitherto best elaborated part, of a more universal science, praxeology."

As a science, praxeology is not concerned with ends as such. It can only tell which means are appropriate to the attainment of given ends and which are not. Dr. Mises says:

"It is fashionable nowadays to find fault with the social sciences for being purely rational. The most popular objection raised against economics is that it neglects the irrationality of life and reality and tries to press into dry rational schemes and bloodless abstractions the infinite variety of phenomena. No censure could be more absurd. Like every branch of knowledge economics goes as far as it can be carried by rational methods. Then it stops by establishing the fact that it is faced with an ultimate given, i.e., a phenomenon which cannot—at least in the present state of our knowledge—be further analyzed.

"The teachings of praxeology and economics are valid for every human action without regard to its underlying motives, causes, and goals. The ultimate judgments of value and the ultimate ends of human action are given for any kind of scientific inquiry; they are not open to any further analysis. Praxeology deals with the ways and means chosen for the attainment of such ultimate ends. Its object is means, not ends.

"In this sense we speak of the subjectivism of the general science of human action. It takes the ultimate ends chosen by acting man as data, it is entirely neutral with regard to them, and it refrains from passing any value judgments. The only standard which it applies is whether or not the means chosen are fit for the attainment of the ends aimed at."

In looking for the method appropriate to the discovery of the praxeological law he says:

". . . the sciences of human action differ radically from the natural sciences. All authors eager to construct an epistemological system of the sciences of human action according to the pattern of the natural sciences err lamentably.

"The real thing which is the subject matter of praxeology, human action, stems from the same source as human reasoning. Action and reason are congeneric and homogeneous; they may even be called two different aspects of the same thing. That reason has the power to make clear through pure ratiocination the essential features of action is a consequence of the fact

that action is an offshoot of reason. The theorems attained by correct praxeological reasoning are not only perfectly certain and incontestable, like the correct mathematical theorems. They refer, moreover with the full rigidity of their apodictic certainty and incontestability, to the reality of action as it appears in life and history. Praxeology conveys exact and precise knowledge of real things. . . ."

It is important that praxeology can be concerned only with individual action. This is not because of any preconceived idea about the morality of individualism, but simply because any other approach is logically impossible. Dr. Mises continues:

"Praxeology deals with the actions of individual men. It is only in the further course of its inquiries that cognition of human cooperation is attained and social action is treated as a special case of the more universal category of human action as such. . . . We must realize that all actions are performed by individuals. A collective operates always through the intermediary of one or several individuals whose actions are related to the collective as the secondary source. It is the meaning which the acting individuals and all those who are touched by their action attribute to an action, that determines its character. It is the meaning that marks one action as the action of an individual and another action as the action of the state or of the municipality. The hangman, not the state, executes a criminal. It is the meaning of those concerned that discerns in the hangman's action an action of the state. A group of armed men occupies a place. It is the meaning of those concerned which imputes this occupation not to the officers and soldiers on the spot, but to their nation. If we scrutinize the meaning of the various actions performed by individuals we must necessarily learn everything about the actions of collective wholes. For a social collective has no existence and reality outside of the individual members' actions. The life of a collective is lived in the actions of the individuals constituting its body. There is no social collective conceivable which is not operative in the actions of some individuals. The reality of a social integer consists in its directing and releasing definite actions on the part of individuals. Thus the way to a cognition of collective wholes is through an analysis of the individuals' actions.

"There is no need to argue whether a collective is the sum resulting from the addition of its elements or more, whether it is a being *sui generis*, and whether it is reasonable or not to speak of its will, plans, aims, and actions to attribute to it a distinct 'soul.' Such pedantic talk is idle. A collective whole is a particular aspect of the actions of various individuals and as such a real thing determining the course of events."

And so on this foundation, Dr. Mises builds his theories of human action. He starts with the market:

"The market economy is the social system of the division of labor under private ownership of the means of production. Everybody acts on his own behalf; but everybody's actions aim at the satisfaction of other

people's needs as well as at the satisfaction of his own. Everybody in acting serves his fellow citizens. Everybody, on the other hand, is served by his fellow citizens. Everybody is both a means and an end in himself; an ultimate end for himself and a means to other people in their endeavors to attain their own ends."

This system is steered by the market. The market directs the individual's activities into those channels in which he best serves the wants of his fellow men. There is in the operation of the market no compulsion and coercion. The state, the social apparatus of coercion and compulsion, does not interfere with the market except to create and preserve the environment in which the market economy can safely operate.

"The market is not a place, a thing, or a collective entity. The market is a process, actuated by the interplay of the actions of the various individuals cooperating under the division of labor. The forces determining the—continually changing—state of the market are the value judgments of these individuals and their actions as directed by these value judgments. The state of the market at any instant is the price structure, i.e., the totality of the exchange ratios as established by the interaction of those eager to buy and those eager to sell. There is nothing inhuman or mystical with regard to the market. The market process is entirely a resultant of human actions. Every market phenomenon can be traced back to definite choices of the members of the market society.

"The market process is the adjustment of the individual actions of the various members of the market society to the requirements of mutual cooperation. The market prices tell the producers what to produce, how to produce, and in what quantity. The market is the focal point to which the activities of the individuals converge. It is the center from which the activities of the individuals radiate.

"The market economy must be strictly differentiated from the second thinkable—although not realizable—system of social cooperation under the division of labor: the system of social or governmental ownership of the means of production. This second system is commonly called socialism, communism, planned economy, or state capitalism. The market economy or capitalism, as it is usually called, and the socialist economy preclude one another. There is no mixture of the two systems possible or thinkable; there is no such thing as a mixed economy, a system that would be in part capitalistic and in part socialist. Production is directed either by the market or by the decrees of a production tsar or a committee of production tsars. . . ."

Then, summarizing the operation of the principle of consumer sovereignty, Mises says:

"The direction of all economic affairs is in the market society a task of the entrepreneurs. Theirs is the control of production. They are at the helm and steer the ship. A superficial observer would believe that they are

supreme. But they are not. They are bound to obey unconditionally the captain's orders. The captain is the consumer. Neither the entrepreneurs nor the farmers nor the capitalists determine what has to be produced. The consumers do that. If a businessman does not strictly obey the orders of the public as they are conveyed to him by the structure of market prices, he suffers losses, he goes bankrupt, and is thus removed from his eminent position at the helm. Other men who did better in satisfying the demand of the consumers replace him.

"The consumers patronize those shops in which they can buy what they want at the cheapest price. Their buying and their abstention from buying decides who should own and run the plants and the land. They make poor people rich and rich people poor. They determine precisely what should be produced, in what quality, and in what quantities. They are merciless egoistic bosses, full of whims and fancies, changeable and unpredictable. For them nothing counts other than their own satisfaction. They do not care a whit for past merit and vested interests. If something is offered to them that they like better or that is cheaper, they desert their old purveyors. In their capacity as buyers and consumers they are hard-hearted and callous, without consideration for other people.

"Only the sellers of goods and services of the first order are in direct contact with the consumers and directly depend on their orders. But they transmit the orders received from the public to all those producing goods and services of the higher orders. For the manufacturers of consumers' goods, the retailers, the service trades, and the professions are forced to acquire what they need for the conduct of their own business from those purveyors who offer them at the cheapest price. If they were not intent upon buying in the cheapest market and arranging their processing of the factors of production so as to fill the demands of the consumers in the best and cheapest way, they would be forced to go out of business. More efficient men who succeeded better in buying and processing the factors of production would supplant them. The consumer is in a position to give free rein to his caprices and fancies. The entrepreneurs, capitalists, and farmers have their hands tied; they are bound to comply in their operations with the orders of the buying public. Every deviation from the lines prescribed by the demand of the consumers debits their account. The slightest deviation, whether willfully brought about or caused by error, bad judgment, or inefficiency, restricts their profits or makes them disappear. A more serious deviation results in losses and thus impairs or entirely absorbs their wealth. Capitalists, entrepreneurs, and landowners can only preserve and increase their wealth by filling best the orders of the consumers. They are not free to spend money which the consumers are not prepared to refund to them in paying more for the products. In the conduct of their business affairs they must be unfeeling and stony-hearted because the consumers, their bosses, are themselves unfeeling and stony-hearted.

"The consumers determine ultimately not only the prices of the consumers' goods, but no less the prices of all factors of production. They determine the income of every member of the market economy. The consumers,

not the entrepreneurs, pay ultimately the wages earned by every worker, the glamorous movie star as well as the charwoman. With every penny spent the consumers determine the direction of all production processes and the minutest details of the organization of all business activities."

There is of course nothing new in the idea of consumer sovereignty. The *laissez faire* economists have always insisted upon it, and indeed, various expressions of it now are common in popular language. But as it has hitherto been understood its significance was limited. Its weakness was that it did not account for all of human action, and this the liberal economist was obliged to admit, to his great embarrassment and to the hurt of his doctrine.

Now what Dr. Mises does is a simple thing. He raises the incomplete idea of consumer sovereignty to the plane of a philosophical concept and names it *choice*. His thesis is that choice is the entirety of life and does account for the whole of human behavior.

In that case the first question is answered—the question set out in the beginning: Why should men be free? If they are not free to choose they are neither whole nor real; and moreover, if they are not free, that great machine which in their freedom they built to multiply the wealth of the world will not go on working.—R. C. C.

Machines That Are Buried Alive

WE are the machine people of the world, and yet how little we commonly know about machines. The ones we live with, and can no longer live without, we take for granted. We think we operate them when we push a button. If the expected thing does not happen when you push the button you are helpless and call frantically for service. When the service man finds the trouble the push button works again, and life may proceed. There are millions of people driving automobiles who have no intelligent idea of what takes place under the hood. These machines we live with—how are they made? By other machines of course. You know that must be so, and one day perhaps you go to look at an automobile plant and gaze with awe at the machines that make your car, and at the method by which the parts arrive on the assembly line with such precision of timing that each part is automatically delivered at the right place at the exact moment, the car itself as it is built up moving all the time. At the

end of the assembly line finished cars are cut off like sausages—one a minute. So now you think you know how your automobile is made. But what of the machines that you have seen making it? Where do they come from? Back of them is another world where inventors, technicians, engineers and scientists are continually making, from idea to begin with, the machines that make the machines that make the automobile.

Somebody once said to Henry Ford: "Your competitors have overtaken you in service. Other cars now are serviced everywhere as only the Ford car was at first. What are you going to do about that?"

He replied: "We are going to do away with service. We are going to make a car that will need no more service than a bar of soap."

He never did. But suppose he had. The comfort of the car owner would be that his automobile would perform perfectly and uncomplainingly to the very end of its life. Then he could buy a new one—provided the machines that make it and the machines that make the machines that make it had not also been permitted to wear out. Nobody needs to be told that every kind of machine will wear itself out. If that were all, it would be relatively simple. Worn-out machines would be replaced by new ones. In that case, however, you would come to have a static industry, with nothing new happening in it and the danger in this competitive world is that a static industry will wither and die.

The strange fact is that every machine has two kinds of life and two kinds of death. One is physical and one is economic. A machine may die in the economic sense long before it is worn out. Indeed, in the Carnegie days of the American steel industry there were instances of new machines dying before they could be installed, because better ones had just appeared. In that little-known world where the machines that make machines are made, men are continually getting new ideas. Their job is to think up machines that will accomplish work in less time, for if you save time you save labor, and if you save labor you reduce costs. Time, therefore, is the primary factor of cost; almost you might say it is the single factor. This may be called the race of technology against time. It is intensified and sometimes made desperate by the ceaseless pressure of labor for higher wages. You can afford to pay more for an hour of labor only provided you are able to increase the hour's output of work, by beating time with better machines.

American industry has never lost that race. Thus is explained the seeming contradiction so puzzling to the rest of the world, that this is a country of high wages and low costs. British industry lost the race a long time ago. Until about fifty years ago Great Britain had the best-equipped industry in the world. It is probably today still as good as it was then, but

in comparison with American industry a large part of it is economically dead. Competition did it. First German competition and American competition combined, and now American competition almost alone. A recent expert study of technological stagnation in Great Britain arrived at the following conclusion:

"So far as we may judge from the territory surveyed by the working parties and others, it is safe to say, with only slight risk of exaggeration, that Britain knew how to build great industries but never learned how to rebuild them. At their inception, they were the last word in modernity and efficiency, a model to the world. But they became decrepit with age. What happened was a failure of re-equipment policy.

"No live industry can keep abreast of technology without continuous renewal and transformation of its productive facilities. Existing equipment must be kept on the defensive, compelled always to justify its tenure against the challenge of currently available alternatives. If it fails to meet this challenge it must be displaced, regardless of its age or condition, regardless, therefore, of whether it is physically 'worn out.' A re-equipment policy that fails to give full recognition to obsolescence is bound to lead to bad mechanization and inefficiency."

American industry more than any other in the world buries its machines at the end of their economic life, and buries many of them alive. It has always done this more or less, but by intuition, by imagination and by the engineer's rule of thumb, with no exact science about it, with the result that there is still a great deal of permitted obsolescence in our own industry, partly owing to the fact that standards of determination are wanting. It gets rather complicated. You cannot tell if a machine is economically dead by holding a mirror to its breath. Here is a plant with a thousand machines, all of them very much alive, all of them doing perfectly what they were built to do, and yet some of them are economically dead. Which ones? The machinery salesman says: "All in this row are dead. Send them to the graveyard." The engineer says: "Not all of them; only these." The management gets the engineer's report and groans at the capital cost of replacing so many machines that look to be perfectly good; and there is a compromise. Who knows for sure and how does one know which machines are dead?

The purpose of this book,* "Dynamic Equipment Policy," is to provide scientific formulae, by use of which that question may be answered definitely in a specific case. If the machine people of the world—that is all of us—would know more about why they are what they are they ought to read this

* "Dynamic Equipment Policy," by George Terborgh, research director of the Machinery & Allied Products Institute. McGraw-Hill Book Company, Inc., New York.

book, especially the foreword and first chapter and those parts where the drama of machine craft comes through, notwithstanding the technical intention. One with a little imagination will be struck with the fact that the drama does break through in the most unlikely places, as, for example, in the instance of a great beautiful planing lathe performing its work with more than human skill and precision, marvelous to the eye of wonder. But there is a better and faster machine; and there is a table of figures to show what it will cost to keep this machine at work as against what can be saved by putting the new one in its place, and under the figures an algebraic equation which includes all of the factors. Notice that over one row of vertical figures stands the word, *Defender*. That is the beautiful machine you see working. Over the other row of figures is the word *Challenger*. That is the new machine. The machine at work is literally defending its life. The new one offers it mortal combat. Do we know yet all there is to know about the nature of machines? Maybe we are just beginning to see them. What if they were more alive than we think? Who knows that nature has not a manual of dynamic equipment policy referring to us, which we no more can read than the machines can read ours?—G. G.

Definitions

From the Colorado Department of Agriculture

Idealism: If you have two cows, you milk them both, use all the milk you need and have enough left for everyone else.

Socialism: If you have two cows, you keep one and give the other to your neighbor.

Communism: If you have two cows, you give both of them to the government; then the government gives you back some milk.

Sofa-pink Communism: If you have two cows, you're a capitalist.

Fascism: If you have two cows, you keep the cows, but give all the milk to the government.

Imperialism: If you have two cows, you steal somebody's bull.

Capitalism: If you have two cows, you sell one cow and buy a bull.

New-Deal(ism): If you have two cows, the government shoots one cow; you milk the other, then throw part of the milk down the sink.

Anarchism: If you have two cows, your neighbor shoots one and takes the other.

Nazism: If you have two cows, the government shoots you and takes both the cows.

Realism: If you have two cows, they're both dry.

If We Had Not Saved Europe

IN the September-October number of *Ordinance*, journal of the American Ordnance Association, there is an article on "Unstrategic Bombing and World Ruin," by Major General J. F. C. Fuller, who is identified as "noted British soldier-author," and "one of the outstanding military analysts and historians of the present day." Unstrategic bombing, he writes, was a large part of the joint Anglo-American effort of the last war, and:

"Should such bombing be resorted to in the next war on the scale it was in the last, though again the enemy may be defeated Europe will be economically destroyed and America morally, mortally wounded, because all the high ideals she stands for will, spiritually, be pulverized."

To the question, "When an opponent kicks us in the groin can we afford to keep the Marquis of Queensberry rules?" his answer is:

"If we are fighting for the maintenance of Queensberry rules—certain moral values which we hold dearer than life itself—then, whatever our enemy may do, we dare not set them aside; for if we do, our war will become amoral. Either we fight for them or we do not. If we do, we shall show the whole world that morally we are superior to our enemy, and if we do not, that morally we are no better than he."

Looking then at the ruins in Europe, for which American power was largely responsible, he comments bitterly on the consequences of American interference at all in Europe's quarrels, saying:

"We Europeans are a truculent congeries of nations who have been fighting each other for upward of 2,000 years, and we dislike outside interference. In 1917, you Americans stepped into the war to save one side, and whatever at the time we may have asked for as Englishmen and Frenchmen, as Europeans we did not want to be saved by a non-European power; instead what we really wanted was to settle our quarrels in our own historic way.

"Had you not stepped in, we should have been forced to come to terms between ourselves, as we have done scores of times before. Without your aid, and it was generous, we Europeans would have concluded the first World War, probably in 1917, by a negotiated peace which could not have been worse than the one established.

"Again in the last war, what with your lend-lease, etc., you got entangled in the European brawl, and between 1942 and 1945, backed by your enormous industrial power, you laid the greater part of Central

Europe flat. But for lend-lease the war could not have continued for long. Again there would have been a negotiated peace, which could not possibly have been as bad as the present so-called one. Though it is true that it would almost certainly have been followed (if not preceded) by a war between Germany and Russia, nothing could have been more beneficial to the world at large; for in it the two dictatorial powers which were threatening the Western way of life would have bled each other white. To imagine that Hitler, had he conquered Russia in Europe, could have held it for long, is a joke.

"It needed no hindsight to see these things, only a modicum of foresight; but, sad to say, this was lacking. Europe is now impotent either to make peace or wage war, and today she is hanging round your neck like the Ancient Mariner's albatross. If you abandon her, she will be turned Red; if you do not, there is a high probability that there will be another war. And now comes the question: Next time, are you going to resort again to unstrategic bombing? If you do, the probability is that Europe will end by becoming a scarlet jungle.

"Thus we return to the opening sections of this article. What are your moral principles; what is your political aim? Are you going to fight in accordance with Queensberry rules or are you bent upon winning another total victory?"

What Soviet Russia Really Fears

Senator Harry F. Byrd

I CONTEND that the best way to keep Russia from undertaking an attack is to have her know in advance that she is attacking the United States if she attacks France or Belgium. The fear which Russia entertains is that the great mass production of this country will be thrown into the war. That is a much greater deterrent than sending billions of dollars worth of arms to Europe, much of which may be obsolete next year.

A high official of the State Department told us in committee that Russia had completely failed to adapt Soviet labor to mass-production methods. He cited as one example the production of steel. He stated that Russia is now producing 19,500,000 tons of steel a year, while her satellites are producing 4,500,000 tons a year. The United States is producing 90,000,000 tons annually, and her allies are producing 30,000,000 tons a year, giving Russia an adverse ratio of about five or six to one in the production of steel, which, as every Senator knows, is the prime base of all war matériel. This official

felt—and certainly I feel—that so long as we and our allies can outproduce Russia in steel, on a ratio of five to one, it is not likely that Russia will undertake another global war without giving consideration to that factor.

But what is significant to me is that the Russians themselves—and this is information which I feel is definitely correct—because of their system of government, because the Russian citizen is subordinate to the state, and because he is an automaton who is told what to do, have been unable to institute methods of mass production, while we in this country, by reason of the freedom of America, by reason of the private-enterprise system, and competition, are able to produce nearly five times as much steel as does Russia.

Russia has a larger population than has this country. With only six per cent of the population of the world we are producing more steel and can produce more equipment of war, if need be, than all the rest of the world put together. That is what other nations fear.

But if we destroy the private-enterprise system and go to semisocialism, as England has done, and destroy the capacity of the country to produce, as England is destroying her capacity to produce, then we shall be the target of every other nation, because we shall be weakened in the strongest weapon we have.

In my judgment, there are two things which would prevent another world war. The first is an impregnable national defense at home.

The second thing is a continuation and strengthening of the free-enterprise system, which has made possible mass production on a scale never before known in world history.

Russia fears this production potential much more than she fears the sending of arms to European nations. She fears it much more than she fears the money we have been sending abroad to combat communism. She does not care about that. She knows that every dollar she forces us to add to the public debt is a step closer to the day when an impairment of the free-enterprise system will show its effect. We cannot continue to pile up deficit after deficit and maintain the form of government we now have.

I predict that the deficit will be not less than \$8 billion for the current fiscal year. It is already \$3.3 billion. That is the deficit today, since the first of the fiscal year, beginning July 1.

What will happen? Within three or four years we shall have a debt of \$300 billion. I ask, what democracy can survive unless it balances its budget in time of peace and prosperity? We have the greatest prosperity the country has ever known. We are at peace. Yet we have again embarked upon a period of deficit spending.

How The Americans Do it Faster

THE British are now digesting the first of their reports on how the Americans do it. In the November issue of Scope, a British magazine of industry, there is the following summary of what has already been learned:

SENSATIONAL results have already been produced by the visits of British industrial teams to factories in the United States. The published report of the steel foundry team, and the first impressions of the rayon team, make stirring reading.

The first thing that strikes one is that the visitors have exploded the traditional belief that higher American productivity is a matter of machinery. The fundamental causes, reports the steel founders' team, are "mainly psychological." The deepest impression, stated the rayon team at the end of its tour, was "the way the American workers work." Both express their amazement at the incessant striving for higher output per man-hour at all levels of industry, from unskilled laborer to management. Both stress the importance of the more logical organization of work in American mills, by which skilled labor is strictly reserved for skilled tasks. Both have returned with the conviction that profound changes are necessary in their respective industries at home, and in the present outlook of both managements and unions, if Britain is to hold her own in the competitive struggle for trade.

The impact of American mass-production methods—which do *not*, as is usually supposed, require a vast scale—on the British visitor is intoxicating. The way in which even a mill of moderate size speeds along as smoothly as a first-rate fire brigade on inspection day looks miraculous. Men seem transformed into machines: they arrive, take over, and "get cracking" on the stroke of the clock, without turning left or right. At a signal they rise, run, perform complex tasks in perfectly timed teamwork, and fall smoothly into line again. And all the time the real machines do a multitude of operations which we are used to seeing done by hand. Production, handling, shifting, testing, packing—wherever a machine or a gadget can replace a pair of hands it does.

To be fair, the foundrymen did not suggest that American practice could be transplanted to this country without other important changes. In America, they say, high productivity pays everybody. Pay is high and steeply graded; taxation is not so severe as to take away most of the reward of extra effort; there is plenty to buy in the shops for the man who earns more.

A profound observation is that American women exert constant pressure on their men to raise their standard of living; sociologists have long suspected that the main danger of industrial stagnation in Britain comes from lack of social ambition among working-class women.

Whose Point Four Will It Be?

Washington Correspondence

Washington, D. C.

LEGISLATION to implement President Truman's famous Point IV Plan will presently be laid before Congress. The problem will be how to reconcile it with a parallel program of the United Nations. Mr. Truman's original proposal of Point IV appeared in his inaugural address, January 20, 1949. He said:

"We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. . . .

"Our aim should be to help the free peoples of the world, through their own efforts, to produce more food, more clothing, more materials for housing, and more mechanical power to lighten their burdens. . . .

"This should be a cooperative enterprise in which all nations work together through the United Nations and its specialized agencies whenever practicable."

What he evidently was thinking of then was primarily technical assistance, for he said:

"The material resources which we can afford to use for the assistance of other peoples are limited; but our imponderable resources in technical knowledge are constantly growing and are inexhaustible."

Then on June 25, 1949, in a message devoted entirely to Point IV, he began to talk about capital. He believed American investors would be willing to send their capital abroad in a large way if only they were protected against "risk and loss through expropriation without compensation, unfair and discriminatory treatment, destruction through war and rebellion." Since many of the conditions of instability in underdeveloped countries were in themselves a consequence of the lack of economic development, and since it could not be expected that they would cure themselves, therefore it seemed to Mr. Truman "appropriate to use the resources of government to accelerate private efforts"; and he recommended that the Export-Import Bank be authorized to guarantee the safety of private American capital invested in backward countries.

Up to this point Mr. Truman's plan rests upon two legs, namely, the export of American know-how

to underdeveloped countries and the guarantee by the government of the American capital that might be expected to follow the know-how.

Since then the United Nations has seized the idea in a proprietary manner, somewhat embarrassing. On November 16, the General Assembly of the United Nations unanimously approved four resolutions on the economic development of technically backward countries. "This program," said the president of the General Assembly, "is one of the most constructive acts of international statesmanship ever undertaken under the auspices of the United Nations."

The first resolution provided for an expansion of technical assistance, the second referred to the permanent organization of the work, and the third announced that the Assembly was looking forward to recommendations from the Economic and Social Council "concerning the urgent problems of financing, in all its aspects, of economic development in underdeveloped countries," with no reference whatever to President Truman's proposal that the American government should guarantee the safety of American private capital for that purpose.

The fourth resolution adopted by the General Assembly expressed the idea that too much attention had been given to thoughts of technical assistance and capital, whereas nobody had thought enough about the political consequences of the development of backward countries—such consequences as might involve international economic and commercial policies.

The debate on these four resolutions was reported in the *United Nations Bulletin* of December 1, 1949, and in all the debate, as there reported, the only reference to President Truman's Point IV was by Amazasp Arutiunian of the U.S.S.R. whose speech was paraphrased in the *Bulletin* as follows:

"Mr. Arutiunian warned against a move to use the United Nations to create more favorable conditions for the export of private capital and thus swell the profits of capitalist banks, corporations, trusts and monopolies. Certain states, particularly the United States, were developing a vast program to export capital in order to obtain control at little cost of the underdeveloped countries, the colonies of the European states, and other areas of the world. The 'Point Four' program was such a program, and it was linked to the question of safeguards for foreign capital.

"There was a fundamental difference between this program and the United Nations technical assistance program, he emphasized. The latter was based upon principles that respected the independence and sovereignty of underdeveloped countries."

Here the conflict begins. It is evident that the United Nations intends to control the program for the development of backward countries, with the

idea that the capital should be provided by governments acting through the United Nations, not by private investors, whereas President Truman had emphasized the role of private capital and said the program was one that might be conducted either "through the United Nations or directly by the United States," the American government acting in collaboration with private American investors.

The crucial point of difference in the two points of view may be stated thus: President Truman's idea was both political and economic, based on the hope that improving the condition of backward countries would help to contain communism and at the same time increase the prosperity of the world, whereas, when the United Nations thinks of a program of assistance to underdeveloped countries, it imagines a redistribution of the wealth of the world from the rich nations downward, mainly of course the wealth represented by American know-how and American dollars.

Who are the backward people of the world? Mr. Truman speaks of them as people of the underdeveloped parts of Africa, the Near East, the Far East and certain regions of Central and South America, and says they "constitute one of the greatest challenges in the world today."

All of these would be included in that part of the human race described by Dr. Jaime Torres Bodet, director general of UNESCO, when he says:

"About two thirds of the human race are forgotten men—and the most forgotten thing about them is their minds. About half of the human race is totally illiterate. A very small percentage of all the adults in the world have had the equivalent of a full high-school education. A much smaller fraction can be considered really educated men and women. The fact that this handful of intellectuals has attained a level of education unprecedented in history does not lessen the gravity of the situation. On the contrary, it increases it.

"I know that you do not need to be convinced that the unequal distribution of food and material wealth in the world is a menace to peace. But, inequalities in the access to knowledge and to technical skills may be as great a menace to peace as those inequalities in the access to raw materials about which we used to hear so much. Stunted minds breed war."

Mr. Truman speaks of these as "free people." When he first announced the Point IV Program he said: "*Our aim should be to help the free peoples of the world.*"

But what do they know of freedom? How can they be made to believe that if the American people are rich enough to be able to export know-how and capital that it is only because for a long time they have been free? Who will be able to make them believe that when their own leaders in the United Nations are telling them to distrust free private capital because it is imperialistic and means to deprive them of their freedom?

Use of Point IV In a Vacuum

By John Abbink

Engineering Consultant to the State Department

At a meeting of the United Nations Scientific Conference on Conservation and Utilization of Resources, Mr. Abbink made the following statement about the ideas of one group of undeveloped people to illustrate how Mr. Truman's Point IV might be expected to work in an economic vacuum.

THIS group would like to expand its operations, and estimated that the provision of \$500,000,000 in modern machinery would meet its requirements.

This would mean the investment of at least \$1,000,000,000 when the necessary shops and buildings were erected. As we discussed the proposal, it became evident that not only must the machinery be imported, but skilled labor and management engineers as well would be required from abroad for a period of years and, more seriously, practically all of the estimated 100,000 operatives who would be needed must be recruited from agricultural regions where labor was already scarce.

Coal for heat processing was expensive and poor in quality. Besides, the local demand for products which would come from the new machinery was insufficient to insure capacity operation for more than a few weeks each year and a large export market would need to be developed in the face of competition from manufacturers in other countries who have had long experience in supplying the world's wants.

This last difficulty was waved aside with the suggestion that the United States should be prepared to take any surplus which developed, whether there was a demand in this country for such products or not and even though the prices, under circumstances as I have described them, might be far higher than those of comparable products obtainable elsewhere.

In other words, the United States, they felt, should provide the machinery on a long-term basis, install and operate it for a period of years until local technicians were capable of taking over, and be prepared to absorb any production not salable elsewhere.

The representative of this group of manufacturers was naive enough—or stupid enough—to insist that the proposal was a reasonable one, and that the United States "owed" it to its associates to support it.

The Intimidation of Private Medicine

Washington Correspondence

Washington, D. C.

THE bitter feud between welfare staters and the private medical profession assumed suddenly an extraordinary political aspect when in October the American Medical Association accused the government of using the police power of the Department of Justice to intimidate the enemies of socialized medicine. This charge, still unanswered, was made in a formal manner, and attracted less attention in the press than many would think it deserved.

On September 21, 1949, the secretary of the American Medical Association received the following letter:

DEPARTMENT OF JUSTICE

Washington, D. C.

In connection with an investigation by this Department of alleged violations of the federal antitrust laws in the medical field, it is requested that you make available for examination by the bearer, an agent of the Federal Bureau of Investigation, such of your files as he may request. Your cooperation in this investigation will be very much appreciated.

*(Signed) Herbert A. Bergson,
Assistant Attorney General*

The American Medical Association is national. Inquiry developed the fact that within thirty days fifteen state and county medical societies had been brought under investigation, namely these:

New York State Medical Society, Utah State Medical Association, Washington State Medical Society, Arkansas Medical Society, Oklahoma State Medical Association, Los Angeles County Medical Society (California), Beckman County Medical Society (Oklahoma), Wayne County Medical Society (Michigan), Harris County Medical Society (Texas), King County Medical Society (Washington), New York County Medical Society (New York), Nassau County Medical Society (New York), Queens County Medical Society (New York) and the Michigan Medical Service (a Blue Shield prepaid medical care plan).

On October 6, the trustees of the American Medical Association published their case against the government, as follows:

"This is an official statement of the Board of Trustees of the American Medical Association, protesting the use of a police arm of the government—namely, the

Anti-Trust Division of the Department of Justice—in a campaign to discredit American medicine and terrorize physicians into abandoning their opposition to compulsory health insurance.

"The AMA has opened its records to the Justice Department, without reservation, and medical societies throughout the country undoubtedly will do likewise, but we intend to keep the public fully informed of developments, as we are convinced that these are not bona fide antitrust investigations, and that the American people will not tolerate police state methods in this country.

"We would be naive, indeed, if we ignored the political implications of this sudden rush of investigations, attacking medical societies, at a time when the Administration is doing its utmost to stifle opposition to its proposed system of government-controlled medical care.

"This scheme, it is specifically provided, would be a government monopoly, to which every citizen would be compelled to contribute, and which would destroy all the hundreds of voluntary health insurance systems which now provide prepaid health care for more than 61,000,000 of the American people.

"Certainly it will be a travesty on justice if the Anti-Trust Division of the Justice Department can be used to silence opposition to the creation of a government trust in medicine.

"The chronology of events, since the American Medical Association decided to make a nationwide campaign against compulsory health insurance, and in behalf of voluntary health insurance, is, we believe, of real significance.

"In November 1948, the AMA, at its midwinter meeting, voted to collect funds from its members to finance a campaign of public education on this issue. A public announcement was made to that effect.

"Only a month later, in December, agents of the Department of Justice called on the Chicago Medical Society, seeking to check the society's records in connection with an alleged antitrust investigation.

"During the February session of the Board of Trustees of the AMA, in the early hours of February 10, the Board Room was broken into and records of the board were thoroughly searched by persons unknown. Brief cases of the trustees, left in the room, also were searched. Entrance was gained through a window. The facts indicate this was a search for information, rather than an ordinary burglary. Certainly no friends of medicine would take this means of obtaining medical data.

"On February 28, 1949, one of the national press associations carried a dispatch from Washington quoting government officials as stating that antitrust actions would be started against 'several' medical societies soon after the compulsory health insurance drive was started in Congress.

"The implication was plain that the 'investigation' would be part of the Administration's campaign for its socialized medicine scheme.

"The threats made then are now realities. An epidemic of 'investigations,' aimed at medical societies and voluntary medical care plans, has broken out in widely separated states and cities all over the country.

We believe it to be an outrageous abuse of public power which far transcends in gravity the issue of compulsory health insurance, vital as that issue is."

London

After a week in London Oscar R. Ewing, the American Federal Security Administrator, called a press conference at which he said that socialized medicine was "working remarkably well" in Great Britain, and attacked the British Fellowship for Freedom in Medicine as a small group of die-hards

who had been receiving money from the United States. The British Fellowship for the Freedom of Medicine was founded by Lord Horder, the King's physician, and represents nearly 3,000 British doctors. Its reply to Mr. Ewing was that he and his associates, who evidently were seeking British testimony in support of the American Administrations national health program, had reached their conclusions without visiting a single doctor's surgery, nor, so far as could be learned, a single British hospital.

How Shall **A Welfare State Get Rid of Its Unfit People?**

Foreign Correspondence

London

SINCE it holds itself out to be the world's first example of the true welfare state, one might reasonably expect Great Britain to foresee some of the ultimate problems. For example, what will the welfare state do with the unfit, the incorrigible wasters and all those whose enthusiasm for it in the first place was for parasitic reasons? And what shall it do with an excess of population? In a speech before the Rotary Club of Birmingham, the Reverend Dr. Barnes, Bishop of Birmingham, faced these questions grimly. The welfare state, he thought, would have to rid itself of burdensome people. First, it could stop them from coming in, if they came from outside, and then inside it might have to see that they did not get born. *The (London) Times* reported his speech as follows:

The creation of the welfare state was a great achievement, and would doubtless be followed elsewhere, but social reforms created new situations in which new and sometimes troublesome problems arose. Those who could claim British citizenship, for example, were coming to Britain in large numbers from the West Indies to enjoy the benefits of the welfare state, and eastern peddlars thronged our street markets.

There was, however, another side to the picture. The population of England and Wales had risen from rather more than 4 million in Elizabethan times to more than 44 million today. We were overpopulated and the task of buying ever-larger quantities of food from abroad was most difficult for a virtually bankrupt country.

We look like being permanently the paupers of the English-speaking world. We need to restrict our population. Will it fall under the working of the welfare state? Obviously not, without teaching which will be unpopular coupled with practical measures which arouse indignant opposition. The Bishop said:

"In reducing the population we must preserve the better stocks in population and hinder the increase of the worse. I do not mean preserve the rich and get rid of the poor. We need to preserve the good-living, honest, hard-working classes in our people, whether they be rich or poor, but we must get rid of the slovenly, vicious, idle wasters of the community. Unfortunately, the welfare state is only too likely to encourage their increase. At least ninety per cent of the feeble-mindedness is inherited and there is much more of it in the community than the average citizen realizes.

"What is to be done? I merely put the problem, I cannot give a solution. We must, I think, limit immigration, whether from India, South Africa, the West Indies, or east Europe. We must educate our citizens to have smaller families. We must have medically controlled sterilization of the grosser forms of unfitness."

The Times received some indignant replies denouncing the Bishop of Birmingham for his proposed solution. One correspondent wrote:

"What exactly does the Bishop mean when he states that 'we must get rid of the slovenly, vicious, and idle wasters of the community'? By what means does he suggest we do so? In the same address he refers to the medically controlled sterilization of the unfit on a large scale and the medically controlled euthanasia of defective infants. Are we to visualize the prison padre, on his errand of mercy, armed with a hypodermic syringe, and doctors, having recognized an abnormal infant at birth, calling upon the padre to baptize it and thereupon pronouncing the death sentence?"

If a logical solution is not feasible, then it may be that the welfare state will have to carry its own burdensome people, only not in the fringe, as human societies have generally done, but within the guarantee of a full and equal life for all, which of course will make them all the more burdensome.

Labor

The New Gimmick in Welfare Funds

Clarence E. Bonnett

Professor of Economics, College of Commerce and Business
Administration, Tulane University

PHILLIP MURRAY and John L. Lewis, like magicians, have misdirected the attention of the American audience away from the vital issue in the current conflict as reflected in the steel, coal, and other strikes. What is the vital issue in the conflict over welfare funds?

Welfare funds are not new in operation or as a source of conflict. The welfare plan of the Lake Carriers' Association (of iron-ore carriers) was bitterly opposed by unions as a "hell-fire plan" over thirty years ago. Welfare plans (often called industrial betterment activities) had been urged strongly, for instance, by the mediatory National Civic Federation and the belligerent National Metal Trades Association, years before the panic of 1929. The depression of the Thirties put an end to many of these plans. Unions tried to offset them with union benefits. Why do we now have the current revival of welfare plans, and why are unions advocating and employers opposing a certain type of such plans?

Before the long depression, many unions had benefit features, but these proved too expensive for their badly depleted treasuries and decreased dues-paying membership. Unions, under the New Deal, turned to government social security measures to carry the load. But the benefits, especially old-age pensions, proved to be very inadequate, and could be made larger only by further levies on the worker as well as on the employer. Attempts politically to make the employer alone carry the tax met with highly effective opposition. Union strategists, knowing employer opposition to further government extension in this field, made a diversionary movement to induce employers to concede corporation-financed welfare plans. As corporations frequently had some form of old-age retirement, it seemed logical to unionists that further extension and modifications of those plans were attainable while corporation earnings were large. Corporations, by providing very liberal old-age pensions for management, sup-

plied union officials with a very strong argument and a diversionary attack.

Corporations are now finding themselves at a great disadvantage in arguing against employer-financed old-age pensions for workers. The American public has been thoroughly sold on "security," especially against old age. Typical questions raised by the unions are:

If management receives such pensions, why should not the workers? Why treat the two differently?

Do not the corporations provide for depreciation of machinery? Why not provide for the depreciation of workers?

The real issue is thus being concealed from the public while corporations fear to bring it out into the open.

The vital issue is simply this: Should corporations be made to finance welfare plans providing, among other things, old-age pensions to *loyal union members*?

Corporations have used old-age pensions to repay loyalty of their employees to the company. Employees who have remained with the company over the years have reduced the costs of labor turnover, have helped to train new workers, and have counseled these against strikes and other practices which cost the corporations large sums of money. Pensions to such employees actually do not add to the cost of production of the corporation; there is no extra cost to be passed on to the public in higher prices. It is one thing to pay an old-age pension to a worker for his loyalty to the corporation and for the savings he had made to it but quite another matter to pay it for loyalty to a union.

Union demands for corporation-financed welfare funds place membership in the union as the first requirement for eligibility. No worker is eligible for the old-age pension unless he is in "good standing" in the union. Under Lewis' coal welfare plan, for example, a newly organized and unionized coal-mining corporation with no employees over 21 years of age will pay for years the 20 cents (or more) a ton royalty to the fund of the United Mine Workers of America, although no employee will be eligible for a pension for 39 years. Prospective pensioners need not remain with a coal-mine employer for any specified time; there is nothing in the pension plan to reduce labor turnover and the costs arising therefrom. As to strikes, that pension plan, with its "good-standing-in-the-union" requirement, makes doubly sure that the miner will strike at the slightest hint from Lewis.

Loyalty oaths are required of all members in the three great unions demanding employer-financed pension plans: the United Mine Workers of America, the United Steelworkers of America, and the United Automobile Workers. Every member takes

a solemn obligation with upraised right hand to remain loyal to the union so long as life remains.

This oath, reinforced with a pension plan under which payments are made solely to union members in good standing, binds the worker to the union as no corporation would be allowed to bind a worker. "Good standing" implies implicit obedience to union officials as well as regular payment of union dues. Where unions have a monopoly in an industry ranging from eighty-five to ninety-five per cent—as those three unions have—expulsion from the union is aptly characterized as "economic capital punishment."

When a union holds so great a power over the employment in an industry, any worker past 45 years of age is forced into subservency to union officials who thus hold his economic life within their powerful grasp. To get a new job in a different industry—perhaps also highly unionized—is almost impossible for a worker over 45 years of age. The nearer retirement approaches, the greater his dread of offending any union official who may deprive the aging worker of a pension depending upon "good standing" in the union and not upon the years of loyal service he has given to a corporation. If the old "hell-fire" pension plans were objectionable as conducing to "wage slavery," the new employer-financed, union-beneficiary old-age pensions are as objectionable in subjecting the workers to union "peonage." Should corporations alone be required to finance a fund for the virtual enslavement of their older workers to a union? That is the vital issue. Its significance to the economic system and to the nation is too great to allow the real issue to be concealed from the public. Let the issue be decided on its merits, not on diversionary appeals.

A Little Essay By Mr. Lewis On Coal Facts

From the *United Mine Workers Journal*

EDITOR'S NOTE: Whenever there is a crisis in the relationship between the UMWA and the coal operators that results in a work stoppage, some spokesman for the retail coal business invariably comes forward with a plea to the miners to resume work lest oil and gas take away the customers for domestic sizes of coal.

This appeal is always directed to the miners, as if they alone were responsible for the impasse in negotiations, and it inevitably ignores any discussion of

the merits of the controversy or the justification for the miners' action. Such statements also blame the miners alone for whatever competitive disadvantages the coal dealers may think they suffer, without consideration of the many other factors of cost that are involved.

Answering a current communication of this sort, President Lewis has written a brief letter to the Detroit Coal Bureau which effectively replies to all such statements.

* * *

Washington, D. C., October 12, 1949.

Mr. Ford R. Cate, General Manager
Detroit Coal Bureau
Detroit 26, Michigan
Dear Mr. Cate:

Your letter at hand.

I take it that what you really mean in your letter is, that you are suffering from repetitious freight rate increases, excessive and increasing taxation, advancing costs of equipment and supplies, advertising, clerical help, and all other items of cost incident to coal distribution. These are problems over which, of course, the United Mine Workers of America have no influence or jurisdiction.

I doubt that it has occurred to you that the labor costs of producing a ton of coal in the United States today are less than they were twenty-five years ago. It is also less than they were fifteen years ago, and it is receding progressively due to modern technique and the cooperation of the mine workers who produce the coal.

Assuredly, it must have occurred to you that coal as a product can never be produced on a relative B.t.u. value for the cost of producing gas, oil, or government produced hydro-electric power. If the mine workers were to work in the mines free of charge, it would still be impossible for the coal operators to sell bituminous coal on a competitive B.t.u. basis with the above-named competitive fuels.

Obviously, your quarrel is not with the United Mine Workers of America although you find it easier, and perhaps more safe, to blame them rather than the influences which are responsible for your business problems.

I suggest that you use your head and think it over. After all, that is what heads are for.

Sincerely yours,

JOHN L. LEWIS.

More and more of the stately homes of Britain will be coming into public ownership as payment in kind of death duties and in other ways.—*From the British Labor Party's recent statement of policy, entitled "Labor Believes in Britain."*

The Parliamentary Mind of Britain

*Report on the debate that followed
devaluation of the pound sterling*

Foreign Correspondence

London

ONE who had listened to the debate in the House of Commons on the economic situation of Great Britain, which followed the devaluation of the pound sterling, might well have come away with the feeling that in the mother of parliaments the art of communication had broken down. It was as if men all speaking the same language and all talking about the same thing were yet unable either to impart or exchange ideas. Mutual recriminations were bitter, but the words were tired, from ceaseless iteration without change over the years. Old wounds were exhibited by habit.

On rational grounds the Conservatives had the advantage; on emotional grounds the Socialists had it. The Socialists could not entertain the thought that their welfare state was in great trouble, or that it was their fault if it was. They accused the Conservatives of wishing to meet the crisis with unemployment and a lower standard of living, because then labor could be put in its place again; they went so far as to say the Conservatives had, for that reason, helped to bring about the crisis by breaking down the world's confidence in Great Britain's Socialist experiment.

Sir Stafford Cripps had said, "Unless we can quickly produce more and get our costs down we shall suffer a drastic fall in our standard of living," and the Prime Minister had said, "Devaluation has given us the opportunity, and maybe the last opportunity, of restoring our position as a trading nation without a drastic lowering of our whole standard of life,"

but if such were the realities the Socialist Labor Party definitely refused to accept any responsibility for them. The Conservatives were still to blame. The Socialists were proud of what they had done. They had equalized austerity and improved the lot of the poor. They clung to the idea that there was still enough profit in what remained of private enterprise in England to pay for it. Herbert Morrison, Lord President of the Council, cited instances of rising profit to make that point. Companies whose profits had gone up were still denouncing the Socialist Government, whereas they ought to be grateful.

To mitigate the deflationary effects that might be expected to follow from the devaluation of the pound sterling the government had resolved to take certain measures. It proposed to cut expenditures by £250 million a year. These cuts, said the Prime Minister, would "not affect the main structure of the welfare state"; they would only retard its progress. The Conservatives said the cuts were not enough and they could prove it by arithmetic; they were reluctant, however, to say what further cuts they would make if they were in power because the people, if they knew it beforehand, might return the Socialists to power in the next election. The government admitted that further cuts might be necessary, but if they were found to be unavoidable they would be made gradually and in a sympathetic manner, whereas, as Mr. Morrison said, the Conservatives would make them as if "it must be a sacrifice of blood, like the practice of savage tribes who, when they fear that the gods are irritated, think that somebody has to be offered up as a sacrifice, and too often they think the working classes are the people who have to be sacrificed." Into this self-bubbling cauldron of every remembered umbrage Mr. Churchill cast one of his acid speeches.

Mr. Churchill's Speech

I WAS brought up to believe that taxation was a bad thing but the consuming power of the people was a good thing. The Chancellor of the Exchequer please note—the *consuming power of the people is a good thing*. Many of his predecessors have opened their budgets with the statement, "The consuming

power of the people is well maintained," but he adopts a different tone.

I was brought up to believe that trade should be regulated mainly by the laws of supply and demand and that, apart from basic necessities in great emergencies, the price mechanism should adjust and correct undue spending at home, as it does, apart from gifts and subsidies, control spending abroad.

I was also taught that it was one of the first duties of government to promote that confidence on which credit and thrift, and especially foreign credit, can alone stand and grow.

I was taught to believe that these processes, working freely within the limits of well-known laws for correcting monopoly, exploitation and other measures in restraint of trade, as the old phrase had it—that these principles would produce a lively and continuous improvement in prosperity. I still hold to those general principles.

Taxes for Retribution

Socialists regard taxation as good in itself and as tending to level our society. Come on, give a cheer to that. What a pity the Minister of Health is consistently absenting himself from our debates. This would have been the point where he might have come in and gathered some followers behind him on the great theme for commercial and hard-pressed Britain—the theme of taxation based upon retribution.

The Socialists rejoice in government expenditure on a vast scale, and they believe it is a sure method of preventing unemployment, which it may be for a short time. Apparently increased consuming power, except by the government, even in the home market, is an evil which must be curbed by every form of government intervention.

The laws of supply and demand, regulation of consumption by price mechanism, apart from the basic essentials, are ruled out as part of the devices of outworn capitalism; while exhortations to thrift and saving are reiterated until they have become almost continuous—I mean unceasing.

Everything possible is done to discourage and stigmatize the inventor. The Chancellor speaks in slighting terms of profit earners. What a lot of contempt he put into it—"profit earners!" When I pressed him upon the subject he received it with one of his mirthless smiles which is the common form in which his personal philosophy has to express itself.

There was the old Gladstonian expression, "Let the money fructify in the pockets of the people." That is regarded as a monstrous device of a decadent capitalist system. As for maintaining confidence and credit, what is to be thought when one of the most powerful ministers is able to speak about a

redistribution of wealth in a spirit of retribution, at this junction of all others? And when the Prime Minister under whom he is serving does not feel strong enough to disallow it?

I want to ask, how are the government going to restore confidence and credit when they show themselves in every mood and action the enemy of wealth gathered, accumulated or inherited in private hands; when they penalize enterprise and deny thrift and good housekeeping their due reward?

Living on Despised Profit

Thus we have been led for four years of unprecedented and unbridled expenditure, of ceaseless interference in every form of private enterprise and activity to taxation unparalleled in times of peace and unequalled throughout the whole world today. We see the government taking forty per cent of the entire national income into their far from competent hands. We have spent—I have said this before and I will say it again whenever I speak in the country—in the four years since the war we have spent £16,000 million; nearly as much as was spent in the whole twenty years between the wars. Are not these among the more important explanations of the plight to which we have been brought?

It must be remembered as we sit here tonight that Britain is a capitalist society, and that eighty per cent of its whole industry is in private hands. It is this part alone which earns the profits which the Chancellor of the Exchequer censures but on which he lives, taking over sixty per cent of them by taxation, and on which the twenty per cent loss-making nationalized industries are at present carried.

Under the Communist system all capital is sequestrated, all capital-owners are liquidated, and society is reduced to a strong hierarchy and army of officials and politicians by whom the proletariat are ruled under a one-party system with absolute tyranny, and a very considerable measure of ease. However abhorrent this conception may be to our spiritual outlook, and our physical resolves, no one can say that it is not a system which has a hideous and logical symmetry about it.

But What Have We Here?

Luckily, that is not an issue in our country today. But what we have here now is a capitalist society on which we are dependent for our daily life and survival, and a Socialist Government which views it with the utmost hostility and is trying continually to gain credit with its own extremists by casting a baleful net over its activities, by denouncing and

threatening it all the time and stabbing it with gusto whenever a chance offers.

No one can possibly devise an economic theory that can fit or can even explain such a process. In a progressive and ever-broadening society, many corrections of emphasis can be made and are made as the years pass by. But a deliberate attack on the capitalist system by a Socialist Government, responsible and in power, a Socialist Government which has, I am glad to say, neither the hardihood nor the wickedness to embark on Communism, cannot be reconciled with any theory based on principle or any policy which can be accompanied in peacetime by a wide measure of prosperity and social well-being. Sir, the violent assault of Socialism upon the intricate and artificial economy of Britain at the moment when it was exhausted and quivering from the ordeal of total war has so far been fatal to our recovery.

Two or three years ago on several occasions I asked for a large reduction in government expenditure. I named the figure of £500 million. What was the reply of the government? It was the same as they are so anxious to use today, namely, "Please say exactly what your economies would be."

They do not ask this in order to gain good advice but in order that their canvassers at by-elections, or at a General Election, can go from door to door and endeavor to accuse the Conservative and the Liberal Parties of being the enemies of social welfare and improvement. That has certainly been the atmosphere in this debate.

What Might Have Been

If the economies of £500 million a year, for which I asked in the name of the Conservative Party two or three years ago, had been made at that time, we should never have reached the situation in which the ghastly measure of devaluation which the Chancellor announced so jauntily would have been our lot.

But I had never contemplated that a reduction in expenditure of £500 million should take place without giving more or less corresponding relief to the taxpayer. In the same sentence of my speech in Brighton, I said that the relief in taxation should be used in every way to stimulate incentives to production and should be accompanied by a vast sweeping away of wartime controls, dear to the Socialist heart because they represent the overweening power of the State, but profoundly injurious to the national wealth-producing forces and those elements upon which our finances and economy rest.

I also urged for many years the evil of unrequited exports. I think it is scandalous that we should be made to repay to Egypt, India and some other

countries money which we borrowed from them to pay for the supplies which maintained the armies by which they were protected from German, Italian or Japanese invasion. I have always considered that we should make a counter-claim for the services rendered by us to them, and that the one should be set off against the other.

The Faith of Money

One of the main foundations upon which our standard of living can be maintained is a stable value of money. In theory, though not always in practice, Socialists view money with great disdain. It is, however, the sole means by which the innumerable millions of ordinary transactions of daily life, the exchange of goods and services, all the thought and provision that can be made for the future, all our social services and the like, can be maintained. Surely, the maintenance of this stable rate should be one of the first duties of any civilized and democratic government?

The Communist Party take a different line. They say, "Give us control of the currency, and we can overthrow any capitalist country in the world." We can see in every direction the fall in the value of our money, not only at home, but abroad, and we are now to face a new crop of depression as a result of devaluation. The devaluation of money, arising mainly from the astounding extravagance in government expenditure, causes anxiety even in those most responsible for it. The word "disinflation" has been coined in order to avoid the unpopular term "deflation."

Whatever name one cares to use, the maintenance of a stable medium of exchange for the ordinary transactions of daily life is one of the first tasks of government. It is not only the value of money that we are interested in—the purchasing power of money—but the steady and grievous fall in government securities which is a direct result of the financial mismanagement and the attempt to bring about "Socialism in our Time."

For the consols called "Daltons," which were issued at £100 three years ago, only £66 can be realized today.

Devaluation of a Nation

What an encouragement to saving; what a sinister advertisement of the financial insecurity and depression which have been brought upon us. It cannot even be claimed as part of the policy of the Minister of Health or retributive redistribution. The loss is not redistributed; the value has vanished into thin

air. This is a serious matter for the whole country and particularly for the many thousands of people whose savings have been slashed by this fall.

The government are continually exhorting the people to save, and we for our part have always lent our support to the National Savings Movement, but how can people be expected to save and invest their savings in government securities when they see what is happening? The fact is that the public at large have lost all confidence in this government's financial administration, and they are pretty clear of what the financial intentions of the party behind the government are.

The government have devalued the pound and devalued the British nation, but most of all they have devalued themselves and brought us to bankruptcy. They have shown themselves not only financially but mentally and morally bankrupt, and the sooner they appeal to their fellow countrymen the better it will be for all who wish to see this country rise again in its own strength.

Primer Economics

From "Voice of the People," in *The Daily News*, New York

By Permission

I'm no professional economist, but I've got to answer that recent Voice letter from Samuel Kirschner, the house painter, who argued there was no point in his working harder and producing more, because he would just finish the job faster and get laid off. Could be, Mr. Kirschner. But just suppose I'm a middling-poor auto mechanic, who can't afford the \$200 you want to charge for painting my house. You won't work twice as fast and do me a \$100 job. So what? So my house goes unpainted. Also, your car needs repair. I can fix it for \$100 by doing an honest day's work. But I decide to take it easy and soak you \$200. You can't afford that. So what, again? So we're both dissatisfied. My house stays unpainted and looks terrible, and your car won't even run. Also, the taxpayers are starting to ante up relief for both of us. Now, wouldn't we and the country have been lots better off if we'd agreed to give each other an honest day's work, and got your car rolling and got my house to looking like a million bucks?

LAWRENCE STANIS

Letters

What Are the Children Taught?

To the Editor of AMERICAN AFFAIRS:

Each year as the nation's children go back to school, parents may ask: "What are they teaching our children?" As a teacher who has tried to teach young children to think and understand the cause of our country's greatness, I can tell you some of the things they are teaching our children, but the things they are not teaching them are of greater importance. In the first six years of school our children study American history only one semester, while devoting an even greater amount of time to the study of Mexico, South America, Canada, etc. Perhaps they know that Washington was our first president and that Lincoln "saved the Union," but they know nothing about the lives of these men or why they became great Americans. And show me one child in a hundred who can tell what a republic is or what the Constitution is. Yet every teacher in my state is under oath to defend the Constitution and every child pledges daily his "allegiance to the flag of the United States of America and to the republic for which it stands." One great school system is instructing its teachers that "A study of our struggle for freedom is not recommended at this level (fifth)" and "Great American leaders, shrines, and documents are subordinate interests in both regional and historical studies of the United States."

The Constitution is the most significant political document ever written, but just a short time ago I was told not to teach it in American history; that it was studied in detail at a higher level. When I sought out the textbook used on this "higher level" I discovered that only four and one half pages were written about the Constitution and five lines about the Bill of Rights. This is just another attempt to keep our children ignorant concerning the principles of freedom and justice that have made our nation great. Down through the ages people have struggled for freedom, and freedom was the major principle that our Constitution dealt with. Our children are taught to conform, to adjust to the group, and to forget individual rights. However, it was not "groups" that built America but rugged individualism. We might well ask ourselves if this is the posterity for which our American patriots sacrificed their lives and fortunes.

Los Angeles

A GRADE SCHOOL TEACHER



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