

American Affairs

A Quarterly Journal of Free Opinion

APRIL, 1950

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SUPPLEMENT

Life with the Tax Gremlins

ILLUSTRATED

An American Affairs Pamphlet

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Notes on the Contents

This Number of *AMERICAN AFFAIRS* is no heavier than it has to be. You cannot make light reading of such subjects as Mr. Truman's Point IV, or how many values of American life, hitherto inviolate, now are threatened by the necessities of military defense. There is some leaven, however, in the pamphlet entitled, "Life with the Tax Gremlins," which appears as a supplement. It is designed to make the subject of taxation both visible and readable.

Threat of a Garrison State. This statement, prepared by the Research and Policy Committee of the Committee for Economic Development, must be carefully read, and the more carefully you read it the more uneasy you may be. It tells you what the consequences will be if civilian control of the military authority continues to decline.

What Lies in Point Four. Edna Lonigan is a free lance economist who, as she says, "has worked chiefly at the point where politics and economics meet." She was for several years special consultant for the Treasury on relief and welfare expenditures, and has published a number of technical studies on unemployment and social security. In 1934 she served as one of a technical committee on the economic rehabilitation of Puerto Rico, which gave her many ideas about underdeveloped people.

Three Legs of Optimism. General Robert E. Wood, as Quartermaster General of the Army during World War I, was a mighty buyer of goods for consumption. Later he entered commercial life, first with Montgomery Ward & Company and then as head of Sears Roebuck & Company, and became the world's largest buyer of goods for resale, which was very different. Here is a wonderful piece of reasoned optimism.

The New Economic Insight. Beardsley Ruml, formerly chairman of the Federal Reserve Bank of New York, makes conservative economists tear their hair. He tells them that there is a new and revolutionary state of economic reality for which they have no proper theory.

The Public Roof Over Britain. Morton Bodfish, who says the American Government's adventures in subsidized housing should bear the trade-mark, "Made in England," has studied British experience on the ground. He is chairman of the United States Savings and Loan League. This is a pertinent article.

The Not-So-Cold War. Freda Utley, who writes this review of James Burnham's new book, is the author of "The High Cost of Vengeance," recently published, and other books on political subjects.

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

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American Affairs

GARET GARRETT, *Editor*

APRIL, 1950

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Comment

By the Editor

THE Federal Security Administrator says a medical program of compulsory health insurance is most needed by the people in the middle income class, because the rich can afford to pay for proper medical care and the poor may already get it for nothing. The President says the time has come for the Federal Government to subsidize low rental housing for middle bracket people. This emerging solicitude for the middle class is touching. There appears to be no law of gravity in the Welfare State. Its blessings can trickle upward. In time they may reach the underprivileged rich. Then perhaps everything will be solved. All people alike, lower class, middle class and upper class, will be able to support the government that supports them.



BY right of having displaced anything else that might have been, the shape of the present hath always a great plausibility in it. That is why, when people think of the future, or of change, they so naturally imagine only more of what is. The argument for higher prices seems never so plausible as when a bull market in Wall Street is already too high and very dangerous and about to break of its own weight. And it is not enough to say, as Pascal said, that "our own interest is a marvelous instrument for neatly putting out our eyes." People may be so blinded when prosperity is running at full tide, because of course they wish the ecstasy of great profit to continue forever. But in the despair of extreme depression it is still the same. It is then easier to

imagine eternal depression than to imagine boom again. Elsewhere in this number of AMERICAN AFFAIRS will be found a review of what economists, bankers, industrialists and public figures were thinking and saying when the year 1929 arrived. No one seemed to have the slightest premonition of the disaster that was just around the corner. That was the New Era. People believed the secret of perpetual boom had been discovered. Why, after all, should progress in well-being have its ups and downs? Why shouldn't it be continuous and immeasurable? Five years later the New Era was remembered as a passage through fantasmagoria. Looking back at it, people wondered how they could have been so stupid as to think it was real. A new way of thinking evolved in the depression. Not only was it that another boom could not be imagined; it could be proved statistically and by reason that another boom was quite impossible in the nature of things. The American economy had become static and had no place to go. It was overpowered and overequipped, and if let alone it would destroy itself with competitive overproduction. Therefore, the thing to do was to abolish competition and limit production, both in agriculture and in industry. Cotton was ploughed under and little pigs were slaughtered, and never again, said Franklin D. Roosevelt, would unnecessary factories be permitted to rise like weeds. The NRA and the Blue Eagle would see to it. If you delete five years for World War II, then it is less than ten since the idea that progress was finished controlled the imagination. But now we have the New Economics. The productive power of the country meanwhile has at least doubled. We are now riding the greatest boom in the economic history of man, only this time we are not to call it a boom. It is something

that can go on and on without serious pause, for what the imagination now projects is growth, prodigious and uninterrupted, as if, in the words of Edwin G. Nourse, "a vigorous rate of economic growth is inherent in our business system no matter what you do to it, overlooking the quite discernible impediments to that rate of progress." Again the secret of perpetual boom has been discovered. There shall be guaranteed full employment at high wages, progressive production of all the satisfactions of life at high prices, and no bust—because now the government and business acting together, says the President, know how to maintain stability at a high level. The New Era was the evangel of Wall Street. The New Economics is the government's evangel. It is probably true that the principle of growth is inherent in the American system, and powerful enough to overcome many obstacles. It may well be that all the things now projected by imagination will come to be realized in the future. The fallacy, if any, lies not in overestimating what is possible in the future but in underestimating the difficulties of arriving at it, as if the going might be all the way smooth and easy, no chasms and no pitfalls. Painless progress to magnificent heights. The Mississippi Bubble did not underestimate the future. Neither did the New Era. The reality was there when people were willing to work for it. It was the dream that went broke.



THE tragedy of the recent coal strike settlement is that a sick industry, cured of nothing, will rise and walk again bearing a heavier burden than before. What John L. Lewis won for his miners in higher wages and larger welfare funds will be added to the price of coal, whereas the problem was that the price of coal was already too high, in competition with cheaper fuels, and for that reason full employment in the mines had become impossible. Under normal conditions there is work for the miners only four days a week. What Mr. Lewis lost was his audacious main intention. He had

made no secret of it. At the annual meeting of the miners in 1948 he said:

"We have not yet been able to work out with the operators any kind of stabilization arrangement, simply because there is no national leadership in the bituminous industry. If the operators can't give any leadership on the commercial side of the industry, the United Mine Workers of America can and will. So next year, or at any other time, when evil days come upon this industry, you will find the United Mine Workers of America moving in, and if there are only three days' work in this industry, we will all have three days' work."

So then he did move in. He undertook to use the power of organized labor to keep the production of coal from exceeding the demand, with these three objects in view, namely: First, that the price of coal might not be hurt by marginal overproduction; second, that wages might be sustained or even increased, and third, that for the time he did work a miner might receive wages enough to keep him in decent living. This in common sense is restraint of trade. It puts competition away. It is also bad economics. In a free economy you can't meet competition by increasing the price of your product. But in principle wherein does it differ from the politically sacred farm program under which organized farmers, supported by the government, limit production to keep it from exceeding demand in order that prices shall not be hurt by marginal overproduction, to the end that the farmer, whatever else happens, shall have the income necessary to keep him in good living? The principal dissimilarity is that when, having limited production, the farmer does anyhow produce too much, the government takes the surplus off his hands and charges the loss to the taxpayer. That is what makes it so hard to answer Mr. Lewis when he says:

"Unlike the farmer with his grain, potatoes, butter, eggs, peanuts and other crops, the government supplies no support prices for coal. The taxpayers are not called upon to build storage bins for coal and pay government losses from support prices. Consequently, when unwieldy inventories are built up, coal miners cannot enjoy the

privilege of continued employment at government expense—irrespective of consumer demand.”

Mr. Lewis thought he could do it all alone with no benefit of government, which of course in these times is politically wicked. In his philosophy the only alternative would be to let the law of free competition work. In that case both the wages of the miners and the price of coal would fall until the balance had been restored by a flight of the miners from a low-wage industry and by increased use of cheaper coal. But who now believes in the bitter medicine of free competition? So, in fact, nothing was settled.



POSTWAR Europe went slightly daft about steel. Countries that had been sellers of steel before planned bigger and bigger steel mills. Countries that had been buyers before wanted mills of their own so they might be self-contained in the future. Steel mills are costly. The limiting factor in all these plans was capital. Then came the Marshall Plan, which simplified the capital problem, and with that the steel capacity of Europe began to expand very fast, each country acting in its own national design, with nowhere any clear notion of how the product could be consumed or where it could be sold. Now the United Nations Economic Commission for Europe has issued a report entitled, “European Steel Trends.” Its conclusion is that by 1953 Europe will have “an unmarketable surplus of 8,000,000 tons,” and “cut-throat competition among steel producers.” Then it says:

“The money spent or to be spent for creating an unmarketable 8 million tons of steel is of importance and could be used much more productively in other branches of economic activity. It is known today that there is a great shortage in Europe of electric power and that future needs for power will probably go on increasing. In spite of that, it appears today that the investment plans for electric power are far from being sufficient to permit of meeting future demands. In coal-mining, building, agriculture, timber, and other fields, further investment would almost certainly be more productive at this time than in the steel industry. In fact it is easy to plan the

erection of a modern steel plant, but it is much more difficult to plan an increased consumption of steel to meet that production. In short, it would appear that there is a disequilibrium between the steel-production plans and the development of steel-consuming industries and services.”

The Economic Cooperation Administration says:

“The demand for steel slackened in many of the participating countries in the final months of 1949. Operating schedules were cut and production in some of the major producing areas fell below the level for the closing months of 1948. . . . Total steel production for the year amounted to 46 million tons, a gain of 16 per cent over output in the previous year, and about a million tons more than in 1938.”

Formerly Europe had outlets for surplus steel in India, Brazil, Australia and the Union of South Africa, but all of these customers have developed steel industries of their own. India, for example, could very easily make not only enough steel for herself but a surplus for export. Australia is already making more than she needs for herself. The steel impulse, in fact, is world-wide. When an underdeveloped country thinks of industrializing itself, the first thing is steel. And then, say the authors of this United Nation’s report, when a steel industry is set up in an underdeveloped country, provided it is one that has proper command of raw materials, the curious result is that steel production tends to increase much faster than general industrial development, wherefore that country finds that it cannot consume all of its own steel, at least not at first, and will very soon have a surplus for export. These reasons among others cause Ernest T. Weir, Chairman of the National Steel Corporation, to say: “We are entering history’s greatest period of international competition.”



IT now is evident that the Marshall Plan is not going to heal the dollar gap. So when it ends, what will Europe do for dollars? There is yet no answer to that question. The United States is expected to find one because now,

according to the British thesis, the imbalance in the world between the dollar and nondollar countries is in fact an American problem. Point IV, if it is greatly implemented, will provide some dollars, but in a roundabout way and not enough. The Atlantic Pact will put dollars into Europe, but still not enough. The United Nations has just put out a plan entitled, "National and International Measures for Full Employment," which would make dollars plentiful everywhere and provide deficit countries with dollar buying power, but what will come of that plan, if anything, is very dim and far off. The nearest solution, and one for which there is a swelling chorus of Anglo-American propaganda, would be for the United States to take over, underwrite, or guarantee Great Britain's frozen sterling debt, amounting to approximately \$9 billion, and put dollars in place of it. The effect, it is predicted, would be a great liberation of currencies, with magical benefit to the trade of the world. This frozen sterling debt represents a dead horse that was bought on credit. During the war Great Britain went heavily into debt with members of her sterling bloc, principally India, Egypt, and Eire, and in the books of the Bank of England sterling balances were written down to their credit, the idea being that when the war was over they could write checks on the Bank of England for anything they wanted to buy in Great Britain or elsewhere. But when, after the war, they began to do it the Bank of England couldn't stand it, because for one reason, they all wrote checks on the Bank of England to pay for things they bought in dollar countries, principally the United States, which obliged the Bank of England to convert sterling into dollars. This was disastrous to Great Britain's own dollar reserves. Then Great Britain said to them: "Your checks will be honored only provided you spend the money in Great Britain, and not too much at a time." That saved the Bank of England from going dollar broke; but it created an awkward situation. It was very necessary for Great Britain to increase her exports to pay for the food and raw materials she had to buy. But her exports to India and Egypt were a total loss. They were

unrequited, which is to say, they brought nothing back. To pay for what they bought in Great Britain, India and Egypt simply wrote checks on the Bank of England, whereas what England needed was an exchange of goods. It is generally agreed that Great Britain cannot pay this war debt and at the same time balance her trade account with the world. Therefore, something will have to be done about it. But what? Simply to unload it on the United States would not be, according to Great Britain's point of view, an ideal solution. For if India and Egypt and Eire could write dollar checks on the United States Treasury instead of writing sterling checks on the Bank of England their buying of dollar goods would certainly rise, and American goods would tend to displace British goods in their markets. *The Statist* (London) tells how this bogey affects British thought:

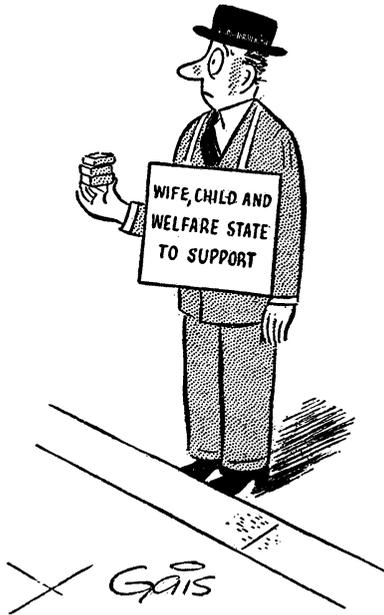
"If America converted some of the balance into dollars, or even, as mooted by Walter Lippmann, took over the whole burden from Britain, 'would not this be selling out Great Britain's future?' Would it not mean that Great Britain would lose markets in the sterling area?"

The London correspondent of *The Financial Post* (Toronto), writes:

"The British are trying hard to sell the United States the idea of a new loan tied specifically to long-term funding of outstanding sterling balances. It's argued that the sterling area is the strongest multilateral trading area in the world; that any upset in the balances might split the group, retard convertibility and have dangerous repercussions in Far and Near East.

"U. S. State Department, it is believed here, might readily agree to this idea of letting British fund their own balances via U. S. cash, but what about Congress?"

The idea there is that if Great Britain could borrow the dollars and then herself manage a funding of the debt, she might be able not only to lift the burden but save her markets at the same time. A compromise has been suggested by the United States Council of the International Chamber of Commerce—that the United States pay a portion of the debt, say 15% of it, which would enable Great Britain to pay off



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another 15%, and then let the remainder be funded for a very long period. R. F. Harrod, a distinguished British economist, says:

“We have a number of bilateral agreements precariously poised on top of a pile of sterling debts, and we dare not reverse the bilateral policy, lest those debts come spilling out into the general market. Thus, we are riveted to a policy of bilateralism, although our dollar problem might be much easier to solve under a general multilateral system.

“It is questionable whether we are entitled to pay them with what is, in the last analysis, American money. . . . The choice lies between a clear settlement now, which might cause some temporary discontent, and a long-drawn-out agony of insolvency with sporadic concessions subject to no principle.”

The fact is that insofar as Great Britain has been able to pay anything on her war debt she

has done it directly or indirectly with American money—directly out of the \$3¾ billion American loan in 1946 and indirectly out of Marshall Plan money. One of the arguments now is that since the Americans in their anxiety to see recovery in Europe have already been paying Great Britain’s war debt to India and Egypt in an irregular manner, and probably would continue to do so, they might as well do it in a grand manner and get it done with. So long as there is hope of getting American help the alternative of repudiation will not be considered. The repudiation of war debts is no longer a scandal in the world, but it leaves a very bad taste when, as in this case, the creditors are poor countries. If it is done at all it must be properly clothed. Winston Churchill has suggested that England send an off-setting bill to India and Egypt and Eire for what it cost Great Britain to save them from Hitler.



THE official figures show that up to the end of last year Great Britain had used approximately three fourths of a billion of her Marshall Plan money to retire £199,530,000 of her national debt. The justification of course was that her credit was thereby improved. The American government at the same time was engaged in deficit spending, partly on account of the European relief program; and since deficit spending increases the national debt the curious net effect is that we increase our national debt in order that Great Britain may reduce hers. If debt reduction is good for Great Britain why is it not good for this country? Or is it that the credit of the American government is beyond any need of improvement?

If we can prevent government from wasting the labors of the people, under the pretense of caring for them, they will be happy.—*Thomas Jefferson.*

Winds of Opinion

There is no old age insurance for nations.—
Joseph Stagg Lawrence.

And if you will look over the workings of these newest New Eras throughout the world, you may notice that the judgment of the Lord on Adam has not been entirely reversed, even by the Supreme Court of the United States. Moreover, governments have not been able to fix the wages of sin. Nor have they found a substitute for profit.—*The Hon. Herbert Hoover.*

Just as dictators find it impossible to back away from the compounding expense of overexpanded welfare innovations, democracies find it politically impossible to retreat when once a start is made.—*Albert S. Goss, National Grange Master.*

Monetary and fiscal tricks have no power of magic, but are a slippery road to misery.—*Dr. Edwin G. Nourse.*

One of my colleagues remarked of Americans in foreign affairs that there is a general belief that anyone may put a nickel in us and we must come up with a policy to solve any problem. To think this, oversimplifies the problems and completely misunderstands our role in world affairs.—*Dean Acheson, Secretary of State.*

The Middle East needs perhaps the Truman Plan. But what it needs especially, and much more, is a Marshall Plan. Uncle Sam, if you want to be consistent with yourself, reach for your pocket-book.—*Commerce du Levant.*

In the past the masses of the Orient have been kept quiet by superstitions that reconcile them to their fate. When, however, modernism creates new hopes and ambitions among such people, they become a potential menace to the peace of the world. For it is physically impossible to raise their standards of living quickly. It has taken us a century or more to build our mechanized industry and agriculture, while a new economy must start from the bottom.—*G. R. Davies, editor of Iowa University's Business Digest.*

Difficult problems confront labor in 1950. Unemployment is not declining; wage increases are harder to get; consumer buying power is not adequate to

support "full" employment. As noted last month, 1950 will be a test year for free enterprise, calling for new and creative efforts to meet these problems before it is too late.—*American Federation of Labor.*

Some of the factors which have accounted for our postwar prosperity are of the disappearing variety. If current trends are not checked, the mounting tax load and the continuance in any case of fiscal uncertainty and inability will surely, if perhaps slowly, undermine the system of private enterprise, by killing the incentives to take risks essential to a dynamic, expanding economy.—*Dr. Harold G. Moulton, president of Brookings Institution.*

Wall Street, quite obviously, likes the political climate of the Fair Deal. For the first time in a great many years we seem to have an Administration which not only is not antagonistic to business, but is actually courting it and asking for its full cooperation. The important difference between Roosevelt's New Deal and Truman's Fair Deal is that the latter apparently is fully aware of the fact that his policies cannot possibly succeed unless business is willing to cooperate.—*Emanuel Deetjen & Co., bankers.*

The Devil tempts modern man largely through distortions of the good words *love, freedom* and *security*.—*Monsignor Fulton J. Sheen.*

Our political progress is wonderful. Every year we enact more and more laws to restrict the freedom of businessmen, in order to preserve free enterprise. We socialize more and more industries in order to avoid socialism. We write more and more laws to equalize the spendthrift and the thrifty, the incompetent and the skillful, the dullard and the wise man, in order to save ourselves from communistic equalizers. We promote more and more monopolies by labor managers in order to protect ourselves from monopolies by business managers. We authorize more and more tyrannical regulation by a remote national government, in order to escape from the lesser evils of more lenient regulation by neighboring local governments.—*Donald R. Richberg.*

The gold standard, with its operations determined by economic forces, has been replaced by a managed currency that is based on political expediency.

Realism has given way to an illusion that something for nothing can be had by the manipulation of currency and the pyramiding of the public debt. This mechanism has no brakes nor warning signals. It is "all sail and no anchor." The nations are heedlessly living beyond their capacity and the people have no means of knowing, in contrast to conditions under the gold standard, how far down the road to disaster they may be.—*New England Letter of the First National Bank of Boston.*

To attempt to disarm the Communists by doing peacefully and slowly the things which they want to do quickly and by force is appeasement in the worst sense of the word.—*From the British Conservative Party's Statement of Policy.*

The payment of subsidies is the foundation of the welfare state, and the welfare state is the foundation of socialism.—*The Reverend Russell J. Clinchy.*

If we have come to the conclusion that the world is a bad show let the hydrogen bomb put an end to it. Otherwise put an end to the hydrogen bomb.—*Pandit Nehru, Prime Minister of India.*

Toward such extremes lie madness and disaster. We have come some way, too far, indeed, toward that of which we were warned when the atomic age opened—the "atomic state," a state in which legislators vote in ignorance and the people accept, passively, decisions made in secret.—*Hanson W. Baldwin in The New York Times.*

Millions of decent Americans have long forgotten the basic truth that every human being gets his fundamental rights from God—not from the State! That, in fact, the chief purpose of the State—as the Founding Fathers repeatedly affirmed in the Declaration of Independence—is to *protect* those God-given rights. To believe that these rights are safe today is to embrace illusion.—*Father Keller of the Christophers.*

The competition between Democrats and Republicans for the votes of the farmers has led to legislation which is causing the Government to spend \$1.4 billion during the present fiscal year supporting the prices on farm products. Incidentally the British are spending almost an equal amount in subsidies to keep the price of food down.—*Sumner H. Slichter.*

Many of the changes that Marx and Engels demand in the Communist Manifesto have taken

place in this country, and they have taken place without communism, without dictatorship, and without revolution, thus disproving, incidentally, one of the central theses of Marx and Engels, that such things cannot be accomplished without communism, dictatorship, and revolution.—*Robert M. Hutchins, Chancellor of the University of Chicago.*

We run the hazard of turning out a great army of half-baked degree holders and professional men who will be unable to find in our national life the kind of jobs they might expect. This danger of producing a disaffected intellectual proletariat is a very present one.—*Dr. James R. Killican, president of the Massachusetts Institute of Technology.*

In human affairs we still reject the scientific approach. It would be unthinkable that someone should be appointed politically or even elected to pilot a transatlantic plane. It requires qualifications and training and specific technical knowledge; yet in international assemblies we place our lives and the lives of hundreds of millions in the hands of national delegates without any specific training or expert knowledge.—*Dr. Brock Chisholm, Director-General of the World Health Organization.*

The Conservatives say we are "leveling down" everybody through our controls and planning. But that is quite untrue. We are leveling up.—*Clement Attlee, speaking as Prime Minister of the British Labor Government.*

Future security is one of the things the Fair Deal promises, part of the "welfare state." But fiscal and economic policies which stress and promote increase of income, but work out to reduce the purchasing power of the security dollar, and thereby work hardship to immense numbers of savers, can hardly be called either "welfare" or "fair."—*Mark Sullivan.*

If it becomes possible to use generators on the ground to introduce silver iodide nuclei (particles) into huge masses of air, it might be possible to alter the nature of the general cloud formations over the northern part of the United States during winter. I would anticipate it would decrease the cloudiness, prevent ice storms, storms of freezing rain, and icing conditions in clouds. It should be possible to change the average temperature of some regions during winter months.—*Dr. Irving Langmuir.*

As Left Speaks to Left

Staff

Washington, D. C.

THE indecisive result of the British election must have been a disappointment to the organization known as Americans for Democratic Action, because it had been wishing the socialists to win.

"Americans for Democratic Action," says the membership card, "is an organization of progressives, dedicated to the achievement of freedom and economic security for all people everywhere, through education and political action."

Its function is that of a very large burr under the tail of the Democratic donkey to keep it in a progressive mood.

Its chairman is Senator Hubert H. Humphrey of Minnesota. Seven other senators are members, namely:—McMahon of Connecticut, Myers of Pennsylvania, Graham of North Carolina, Lehman of New York, Murray of Montana, Neely of West Virginia, Douglas of Illinois. Seventeen members of the House belong, namely:—McKinnon of California, Holifield of California, Crook of Indiana, Yates of Illinois, Sabath of Illinois, McCarthy of Minnesota, Bolling of Missouri, Howell of New Jersey, Javits of New York, Breen of Ohio, Burke of Ohio, Davenport of Pennsylvania, Jackson of Washington, Mitchell of Washington, Biemiller of Wisconsin, Franklin Roosevelt of New York, Granahan of Pennsylvania.

The official organ of the Americans for Democratic Action is the *ADA World*, which on January 27 printed the following editorial:

"THE BRITISH ELECTION

"Without minimizing the importance of the British elections to Britain herself, we think the results will have more impact on Europe and the rest of the world than they will at home.

"A Conservative victory certainly would mean that British trade-unions would have less confidence in their government. This would tend to increase strikes and social tension.

"But a Labor defeat would have a demoralizing effect on the essential elements of the third force—or the democratic Left on the European continent.

"These forces, the strongest of which are the democratic socialists, look to their British counterparts for moral and material sustenance. A Conservative victory in Britain would give an enormous boost to the Continent's conservatives, most of whom lack the feeling of responsibility that characterizes all British parties. A Conservative victory furthermore probably would mean eventual incorporation of Franco Spain into all

the political, economic, and military arrangements of western Europe.

"As for the United States, a Churchill victory would strengthen the American isolationists.

"The most passionate hope of our most stubborn reactionaries is for a smashing Conservative victory, with all its implications for our own elections this year and in 1952.

"A tragic aspect of postwar development is the polarization of forces between the extreme right and left. Any development that encourages this polarization, with a consequent weakening of the vital center or the democratic left, is a set-back for democracy. Just as President Truman's victory in 1948 was a smashing blow to the European Communists, so would be a British Labor victory in 1950."

A few days before the British election Senator Capehart laid this editorial before the Senate and invited it to reflect on the fact that twenty-five members of the Congress of the United States were urging the re-election of the Socialist government of Great Britain.

In a long reply Senator Humphrey denied socialism, both for himself and his organization, but said: "The Americans for Democratic Action does believe it is important for the Labor Government of Great Britain to win."

*

It now appears that only the Socialists of Great Britain really understood the Americans for Democratic Action and what the Fair Dealers had at stake in the British election. On October 8, last, the British Socialist weekly, *New Statesman and Nation*, said:

"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. . . . 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."

So the pieces of this international jig-saw puzzle come together.

The March

By Garet Garrett

NOW from the housetops may be heard voices of fear and warning, saying to the people, "Beware! You are marching toward Socialism. The declivity is there!" The people scoff or stop their ears, and the march continues. Then the voice of despair may be heard saying, "We are lost. The people do not care. Nor will they hear the truth."

It is evident that the people do not believe it; and this, despite anything the voice of despair may say to the contrary, is owing partly to the fact that socialism is the wrong word. As an epithet it is worn thin. When spelled with a capital S it stands for a political doctrine that has neither a clear common definition in the world, nor one that makes any immediate sense to American society. Marxian socialism in Soviet Russia is not like Fabian socialism in Great Britain. National socialism in Germany was Nazism. Chinese socialism may turn into something unique, notwithstanding the Soviet pattern with which it begins. And again, socialism in a surplus country like this—the one great surplus country in the world—would certainly be unlike any kind of socialism hitherto imagined.

Fifty years ago Arthur Balfour said: "Socialism means the public ownership of the means of production and distribution; *that* is Socialism and nothing else *is* Socialism."

There is probably no better definition. All the rest is method. Private property as a means of production may be abolished by violence as in Soviet Russia, by edict as in Hungary just now, or by nationalization as in Great Britain.

But try making that definition square with what may be called the Truman Program, or the Fair Deal, or for that matter the New Deal before it. Here are great departures, indeed, all very earnestly denounced as socialistic; yet if they do not propose to abolish private ownership of the means of production and distribu-

tion, then according to the definition they are not socialistic. Neither in the last annual message of the President on the State of the Union, nor in the report of his Council of Economic Advisers, was there a word agreeable to the proper definition of socialism, spelled with a big orthodox S.

On the contrary, the use and importance of private enterprise were heavily stressed—with only this difference between reality past and reality present, that henceforth private enterprise must collaborate intimately with government. The economic welfare of the national economy may no longer be trusted to free enterprise alone, nor the regulation of it to the play of free prices, free markets and free competition. Hereafter the government must interfere with its own vast regulatory powers to keep business at a high rhythm, to maintain full employment, to make prices just, and to see that the national income is distributed in an equitable manner according to ideals of social justice.

This difference, it is true, cuts to the very taproots of the American tradition. The Jeffersonian doctrine that that government is the best which governs the least is forsaken. But is it Socialism? If not, then those who use the word to describe what is happening to the shape and meaning of American government not only confuse and divide the people in their thinking but give the enemy the defense of false identification.

ASK the people in the street where they are going. What is their goal? They may be vague about it. They may not know. But certainly their conscious goal is not socialism. The American people are not Socialist minded—not yet. Last year Drs. Link and Freiberg turned their Psychological Barometer to the question

of socialism. It was a poll of miscellaneous city opinion. The results were as follows:

Against socialism	75.3%
No convictions	18.4
For socialism	6.2

The answers were then classified by income brackets—upper, upper middle, low middle, and low. The result was to show that even in the low bracket 64% were against socialism, 8% were without conviction and only 28% were for it. That is about what one would expect.

Upon further analysis of the poll Drs. Link and Freiberg arrived at the following conclusions:

“Though 75% of the people say that they are against socialism in the U. S. A., they still favor certain measures which fall within their own definition of socialism.

“For instance, the T.V.A., and the government ownership and operation of public utilities, is favored by 66% of those who say they are against socialism.

“Obviously, socialism as a word or symbol, and socialism in terms of specific steps in government control, are not necessarily the same. People may say they are against socialism in general but still favor specific socialist measures.

“Even though socialism may be a scare-word to 75% of the people, it does not follow that this fear will be translated into the fear of specific measures such as government ownership of public utilities, government housing, ‘socialized’ medicine and the like.”

TAKING this poll at its face value, the two most important inferences are—

First, that if people think they are against socialism they will of course be indifferent to those voices from the housetops, and

Second, that a conscious attitude against what people think is socialism may be progressively disarmed by a government that holds out to them material benefits, ameliorations and the hope of security.

But by whom are these blessings of government held out to the people? By socialists? No. They are held out competitively by Democrats, Republicans and Liberals who all alike would

honestly deny that they are socialists. Most people would think it absurd to call President Truman a socialist. Many Republicans now denounce the Truman Program as socialistic, and yet the Republican Party is embarrassed by the things that it set down in its own platform—things which before the New Deal it would have said were socialistic. In its 1944 platform the Republican Party pledged itself to support the following premises of a welfare state:

(a) “. . . the purposes of the National Labor Relations Act.”

(b) “The Wage and Hour Act.”

(c) “The Social Security Act and all other Federal statutes designed to promote and protect the welfare of the American working man.”

(d) “Extension of the existing old age insurance and unemployment insurance systems to all employees not already covered.”

(e) “The establishment by Federal legislation of a permanent fair employment practice commission.”

(f) “Stimulation of state and local plans to provide decent low-cost housing properly financed by the Federal Housing Administration or otherwise, when such housing cannot be supplied or financed by private sources.”

(g) “An American market price to the American farmer and the protection of such prices by means of support prices, commodity loans, or a combination thereof, together with such other economic means as will insure income to agriculture that is fair and equitable.”

Had the Republican Party gone socialist then? Nobody will say that. But it certainly did not foresee that these same things when carried a little further by the Democrats would cause it to call the Truman Program socialistic. It had forgotten that every extension of government begins small and has the character of a wedge. The thin edge enters easily. It was so with the income tax, which was voted on the understanding that it was never going to be used except in times of emergency, and then in a few years became an instrument of government policy and was used to redistribute the wealth. It was so also with social security. Public assistance at first was thought of as supplemental and transitional only, to sustain the

helpless until everybody could be covered by a system of contributory insurance. What came of it in a little while was the idea of public assistance as a right—as a right to receive at public expense not merely subsistence but a comfortable living.

And moreover, the Republican Party in 1944 wanted the votes of the New Deal's beneficiaries.

NEVERTHELESS, the voices from the housetops are saying two things true. The people are marching and the declivity is there. What are they marching toward if it cannot be called socialism? They are marching straight into the arms of big government, now government with a capital *G*—

A government already so big that bigness itself becomes a defense, which is to say that even if it were possible to cut it down people would dread to do it for fear of the shock to business;

A government that undertakes to maintain full employment, banish depression and relieve everybody of the burden of poverty;

A government that will tame private enterprise and make it cooperative, or else;

A government that will see to it that the national income is fairly distributed;

A government that more and more intervenes in the transactions of everyday life, sets the minimum wage, distributes leisure, and proposes to mind the health, the education, and the housing of the nation, the diet of school children and how people tolerate their neighbors.

In that light, if you will read again the President's message on the State of the Union, forgetting to look for socialism with a big *S*, you will see how it is with government that when its sign of power is ascendant, increase itself becomes the reason for increase, the rate of growth is self-accelerating, each new responsibility entails further responsibility.

How shall its expenditures be determined? By its income? No, but by its responsibilities. That means that its expenditures will be what

they must be. They must be, says President Truman, "consistent with our international requirements and the essential needs of economic growth and the well-being of our people."

Those who look only at the fact that government is running into debt at the rate of \$5 billion a year, he says, miss the magnificent view. This deficit spending creates prosperity; it brings nearer the day when the national income will be threefold greater. Think what these expenditures do for prosperity and how they put money in everybody's pocket. "The federal budget," says the President, "is a substantial part of the total flow of income and expenditures in our country each year."

He asks you to look at the fact that the total of all government payments in 1949, according to his figures, amounted to 23½% of the total national output, which is to say that the people were dependent upon government for nearly one fourth of their daily business.

Imagine what might happen if expenditures by government were suddenly reduced. What would people do for income? What would the world do?

"Irresponsible and shortsighted budgetary action," says the President, "could contribute to a worsening of the world situation and to a decline in production and employment in the United States." Therefore, he continues, "we must guard against the folly of attempting budget slashes which would impair our prospects for peace and cripple the programs essential to our national friends."

IF we look back it may make us a little giddy, the President says, to see how far we have come on "the road to a better living for all"; but it "should make us humble to think as we look ahead how much further we have to go."

The government cannot stop. It must not be afraid of its responsibilities. It must make the "substantial expenditures which are necessary to the growth and expansion of the domestic economy." To spend the money to make the economy grow faster and faster, so that the government's income will rise perhaps even

faster—that is the “quickest and safest way” to balance the budget.

Therefore, the President recommends that the power of government be increased to the following ends:

- (1) That it may meet “a special responsibility to help create and maintain the conditions which will permit the growth we know is possible”;
- (2) That it may see to it, first of all, that there is “a fair distribution of our increasing prosperity among all the great groups of our population”;
- (3) That it may provide aids to independent business, so that it may have the credit and capital to compete in a system of free enterprise;
- (4) That it may assist small business and encourage the growth of new enterprise;
- (5) That it may establish “a Labor Extension Service to encourage educational activities” in the field of collective bargaining;
- (6) That, besides supporting agricultural prices with public funds, it may go on to guarantee the farmer a minimum cash income according to the Brannan plan;
- (7) That, having undertaken to subsidize low cost housing for poor families, it may now go on to subsidize housing for “middle income” families;
- (8) That it may make yet larger “investments in the conservation and development of our resources”;
- (9) That it may “encourage the production and transmission of public power”;
- (10) That it may subsidize “a National Science Foundation”;
- (11) That it may develop the Social Security System “into the main reliance of our people for basic protection against the economic hazards of old age, unemployment, and illness”;
- (12) That it may “establish a system of medical insurance which will enable all Americans to afford good medical care”;

- (13) That it may provide assistance to the states to maintain and improve their schools;
- (14) That it may assume entire responsibility for protecting every citizen in his civil and human rights;
- (15) That it may “prevent the kind of anarchy and irresponsibility in world trade that did so much to bring about the depression in the 1930’s”; and
- (16) That, in cooperation with other free nations, it may “extend the full benefits of the democratic way of life to millions who do not now enjoy them, and preserve mankind from tyranny and dictatorship.”

THUS the President himself delineates the features of insatiable government, moving with terrific speed down the declivity of deficit spending.

Toward what?

If you say it is toward socialism you leave out the possibility that it may turn into something else. Much more than that, if you say it is toward socialism you fill the view with smoke and may fail to see clearly what it already has in common with every kind of totalitarian government we know anything about, namely, insatiability. There is no way to sate its appetite for more power. Fascist government was insatiable, Nazi government was insatiable, Marxian government in Soviet Russia and Labor government in Great Britain are insatiable—all with one lust, which is the lust for power; all alike resolved to control the people’s way of living according to a plan, and all alike creating a *dependent society*.

The passion in every case is to act upon people by compulsion, always of course for their own good. Differences of ideology may be less important than we think. It may be the idea of conquest, the idea of equality, the idea of a classless society, the idea of a welfare state or the idea of complete security for every citizen. Let it be the government that imposes it, give that government the power to command

acquiescence by fear or bribery, by any system of rewards and punishment, and the result in every case will be the same. The ancient pattern will be restored. The authority of government will rise and the people will become subservient. And where people are still marching, as in this country, that is what they are marching toward.

The exact shape of the sequel is probably unpredictable. It is already evident, for example, that the American people may arrive at a planned society without changing a word of the Constitution, only the meaning of it by interpretation. That is what Aristotle described as revolution within the form. But the kind of sequel, if not the precise form of it, may be foretold; and if there is no proper name for it one may have to be invented.

Hilaire Belloc said it would be the *servile state*. He defined the idea of the socialist as that of "putting the means of production into the hands of politicians to hold in trust for the community." Then he wrote:

"These aims and convictions are simple enough, and my point is not that they are either illusions or doubtful, but that in point of fact we are not headed toward them; that the effect of socialist doctrine upon capitalist society is to produce a third thing, different from either of its two begetters, to wit, the servile state—a society in which the proletarian mass shall not suffer from particular regulations, oppressive or beneficent, but shall change their status, lose their present legal freedom and be subject to compulsory labor."

Roscoe Pound, dean emeritus of Harvard Law School, calls it the *service state*. His description of it is penetrating. He says:

"The service state, the state which, instead of preserving peace and order and employing itself with maintaining the general security, takes the whole domain of human welfare for its province and would solve all economic and social ills through its administrative activities, has been creeping up on us in the present century. It was known earlier in Continental Europe. But although some writers in England were calling attention to its possibilities at the end of the last century, it was so at outs with ingrained modes of Anglo-American thought that few tried to put the pieces of evidence together to see what it indicated as to the direction in which we have been

moving. In the meantime, since the first world war, it has made exceedingly rapid progress and has covered already a very wide field of individual activity and of official promotion of wide welfare programs on every side.

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"I say service state rather than welfare state. The term welfare state seems to me a boast. Governments have always held that they were set up to promote and conserve public welfare. This is implicit in the synonym commonwealth—the common weal or general welfare personified in the state. So far men have agreed. But when it comes to the question how the common weal or general welfare is to be achieved, they have differed and do differ profoundly. Some think the general welfare is best promoted by a government which maintains order and administers justice; for the rest, leaving men free to do things for themselves in their own way so far as they do not commit aggressions upon others or subject others to unreasonable risk of injury, and act in good faith in their intercourse with others. On the other hand, there have always been those who have believed in a benevolent government which helps men instead of leaving them free to help themselves; who have believed in a paternal ruler or paternal state doing things for his subjects or its citizens to the fullest extent.

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"What is to be the effect of the service state upon American constitutional democracy? The service state as it develops as a superservice state must be *par excellence* a bureau state. From the very nature of administration the bureau state calls for a highly organized official hierarchy. A hierarchy calls for a superman (very likely an *ex officio* superman) at its head. Thus, unless we are vigilant, the service state may lead to a totalitarian state. It has Marxian socialism and absolute government in its pedigree and has grown up along with the totalitarian state in other parts of the world. Liberty—free individual self-assertion, individual initiative and self-help—is looked on with suspicion if not aversion by the service state, and its advocates seek a 'new concept of liberty' as freedom from want and freedom from fear, not freedom of self-assertion, or self-determination. Self-help by the individual, competing with the service rendered by the state, seems an interference with the regime maintained by the government. Spontaneous individual initiative is frowned on as infringing on the domain of state action. The service state easily becomes an omniscient state with bureaus of *ex officio* experts and propaganda activities carried on at

public expense. If the step to it is gradual, the step from it to an absolute state is easy and may be made quickly.

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“A service state must be bureaucratic. Bureaus are characteristically zealous to get everything in reach under their control. Would it be a great public service to have a bureau of psychologists to examine us for our aptitudes and assign us, whether we like it or not, to the calling for which they find us fitted? Before the advent of psychologists such a state was argued for by Greek philosophers. The later Eastern Roman Empire stabilized society by putting and keeping men in callings somewhat in this way. An omniscient state postulates omniscient bureaus. Why in the perfect all-regulating state allow human energy to be wasted by permitting individuals to engage in futile efforts to employ themselves?”

The Honorable James F. Byrnes, former Secretary of State and Justice of the Supreme Court—a Democrat—calls it *statism*. He says:

“We are going down the road to statism. Where we will end up, no one can state. But if some of these new programs, seriously proposed, should be adopted, there is danger that the individual, whether farmer, worker, manufacturer, lawyer, or doctor, will soon be an economic slave pulling an oar in the galley of the state.”

NOTE that Dr. Pound and Mr. Byrnes both suggest that a dependent society will in the end taste involuntary servitude. Few Americans can imagine anything so strange or extreme. Neither could the people of England. In the ecstasy of taking control of government in England the socialists announced that for once, and for the first time, they would demonstrate a planned society without forced labor. Within less than two years they came to it, and proclaimed what they euphemistically called a Control of Engagement Order. It was to be temporary, for the emergency only, and was limited to fourteen months. Before its life expired, it was extended for one year. Last year it was extended again, and is still in force. True it has not been widely used but there it is, a power in the hands of a government that was pledged to reconcile planning with freedom.

And it seems to be almost forgotten that

only three years ago Mr. Truman proposed to militarize the railroad labor force to end a strike. Having intervened in the labor contract to promote collective bargaining and to exempt organized labor from competition, the government's next problem is what to do about a strike that creates a national emergency. Then, like an outraged parent, it thinks of compulsion and justifies it on grounds of general welfare.

In the same way, having undertaken to provide social security, the government moved very easily to a law of compulsory thrift. Compulsory is a stark word with no shades of meaning. To a people schooled in the habits of voluntary thrift the idea of compulsory thrift was very strange not long ago—almost as strange as now the idea of forced labor—and yet the right of the individual to receive the whole of the wage he has earned and to do with it what he likes has been surrendered to government, almost without protest. The individual who does not like it is helpless.

SINCE the first of this century the deepening historic enigma has been the rise in the power and authority of government and the recession of individual freedom everywhere in the world. In the East it has been made vivid by the enormities of tyranny and oppression; yet it is stranger in the West, where individualism was fast rooted and where freedom was understood in both theory and practice. At the same time there has occurred in the West what Professor Corwin calls, “a decadence of the fear of aggression by government.”

So far as that may have happened it has been most evident in the United States and Great Britain, where people have strongly believed in the divine right of majorities. That was the faith that delivered people from the divine right of kings. So far it was good. Nevertheless, at a later time that same faith served to obscure truth in two unpopular aspects. People had to learn by experience that majorities may be as tyrannical as kings, and secondly, that when government is big enough in its own right it will find ways to appease, cajole and com-

mand majorities, one way being to serve up palatable minorities on the tax platter.

But since all intelligent people may now observe these consequences flowing from the divine right of majorities, and since instead of turning back they continue to march toward supreme government, one must take this explanation to be very limited. The great enigma remains.

Momentous political changes may obey a law of cycle which we hardly comprehend. If you could plot the course of freedom for 2000 years you would see many fluctuations up and down, some of them violent and sudden. In "The Meaning of History" Nicholas Berdyaev wrote:

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

It would not be the first time that people had turned from the perplexities of freedom to the comforts of authority, from the anxieties of self-responsibility to the security of status. In one of his essays on liberty Lord Acton wrote:

"Looking back over the space of 1000 years, which we call the Middle Ages, to get an estimate of the work they did, if not toward perfecting their institutions at least toward attaining the knowledge of political truth, this is what we find. Representative government, which was unknown to the ancients, was almost universal. The methods of election were crude; but the principle that no tax was lawful that was not granted by the class that paid it—that is, that taxation was inseparable from representation—was recognized not as a privilege of certain countries but as the right of all. 'Not a prince in the world,' said Philip de Comines, 'can levy a penny without the consent of the people.'"

After that what happened? Lord Acton continues:

"By what seemed the operation of an irresistible and constant law, royalty prevailed over all enemies and competitors and became a religion. Year after year the assemblies that represented self-government all over the Continent met for

the last time and passed away, to the satisfaction of the people, who had learned to venerate the throne as the constructor of their unity, the promoter of prosperity and power, the defender of orthodoxy and the employer of talents. . . . One generation beheld the change all over Europe from the anarchy of the days of the Roses to the passionate submission, the gratified acquiescence in tyranny that marks the reign of Henry VIII and the kings of his time."

TOWARD something is from something. To see what it is people are marching from one need only to read again the last chapter of John Stewart Mills' essay "On Liberty," published in the middle of the last century, wherein he sets forth the reasons why the authority of government over the individual must be limited if what you want is a society of free men, to be developed and perfected by experience. He said:

"In many cases, though individuals may not do the particular thing so well, on the average, as the officers of government, it is nevertheless desirable that it should be done by them, rather than by the government, as a means to their own mental education—a mode of strengthening their active faculties, exercising their judgment, and giving them a familiar knowledge of the subjects with which they are thus left to deal.

"These are not questions of liberty, and are connected with that subject only by remote tendencies; but they are questions of development. It belongs to a different occasion from the present to dwell on these things as parts of national education; as being, in truth, the peculiar training of a citizen, the practical part of the political education of a free people, taking them out of the narrow circle of personal and family selfishness, and accustoming them to the comprehension of joint interests, the management of joint concerns—habituating them to act from public or semi-public motives, and guide their conduct by aims which unite instead of isolating them from one another. Without these habits and powers, a free constitution can neither be worked nor preserved; as is exemplified by the too-often transitory nature of political freedom in countries where it does not rest upon a sufficient basis of local liberties.

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"The management of purely local business by the localities, and of the great enterprises of

industry by the union of those who voluntarily supply the pecuniary means, is further recommended by all the advantages which have been set forth in this essay as belonging to individuality of development, and diversity of modes of action.

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“Government operations tend to be everywhere alike. With individuals and voluntary associations, on the contrary, there are varied experiments, and endless diversity of experience. What the state can usefully do is to make itself a central depository and active circulator and diffuser, of the experience resulting from many trials. Its business is to enable each experimentalist to benefit by the experiments of others; instead of tolerating no experiments but its own.

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“The third and most cogent reason for restricting the interference of government is the great evil of adding unnecessarily to its power. Every function superadded to those already exercised by the government causes its influence over hopes and fears to be more widely diffused, and converts, more and more, the active and ambitious part of the public into hangers-on of the government, or of some party which aims at becoming the government.

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“If the roads, the railways, the banks, the insurance offices, the great joint-stock companies, the universities, and the public charities, were all of them branches of the government; if, in addition, the municipal corporations and local boards, with all that now devolves on them, became departments of the central administration; if the employees of all these different enterprises were appointed and paid by the government, and looked to the government for every rise in life; not all the freedom of the press and popular constitution of the legislature would make this or any other country free otherwise than in name. *And the evil would be greater, the more efficiently and scientifically the administrative machinery was constructed—the more skillful the arrangements for obtaining the best qualified hands and heads with which to work it.*”

That was the philosophy that governed American thinking, feeling and behavior from the beginning of the Republic down to the New Deal—a Constitutional, representative, limited government, with emphasis on *limited*, very jealous of the rights of minorities. And that is what people are marching from.

What Shall Teachers Believe?

DR. FREDERICK SCHWEITZER, president of Bloomfield College, sent a circular to other colleges and universities setting forth its need for teachers and soliciting applications. Particularly, it wanted a professor of psychology and named the specific qualifications. Qualification No. 2 was as follows:

“(2) Definite, positive loyalty to American political ideals and traditions. Reds, pinks, near-pinks, and ‘fellow travelers’ will not fit into the policy of Bloomfield which, while aggressively committed to criticism and correction of the abuses and inequalities of our present economic order is fundamentally committed to the American system as against communism or socialism.”

One of the Bloomfield College circulars happened to reach Harvard University, and drew the following response:

PSYCHOLOGICAL LABORATORIES

Memorial Hall

Dear President Schweitzer:

I don't believe that we have any recent Ph.D.'s who would be candidates for your position.

I should like to express my astonishment on reading your qualification (2). It has long been a canon of academic freedom that a man's political opinions had no bearing on his ability to obtain and hold an academic appointment. I think it is even more basically a principle of our American democracy that every citizen should enjoy freedom of speech and freedom of thought. I find it very difficult to understand how you can be engaged in an aggressive campaign to reorganize and strengthen Bloomfield College when you so blatantly propose to violate the principles on which both our democracy and our educational system are founded.

I realize that you are doubtless aware of the issue which I have raised. I have no hope that my protest will serve to substantially alter the basis on which your judgments will be made. I do feel, however, that your letter should not go unchallenged. I think that I speak for a considerable portion of the academic community in this matter.

Cambridge 38,
Massachusetts

EDWIN B. NEWMAN,
Secretary to the Department

Dr. Schweitzer says:

“This exchange in points of view, we believe, is one which offers a useful contrast on the question: Have American colleges the right to demand that their faculty members be earnestly and actively pro-American, eager to help indoctrinate their students in American ideals?”

Design for A Welfare World

Staff

Lake Success

TO a special group of five expert planners the Secretary-General of the United Nations said: "Consider our mandate. Article 55 of the Charter says the United Nations shall promote 'higher standards of living, full employment, and conditions of economic and social progress and development,' and Article 56 says that 'all members pledge themselves to take joint and separate action' toward the achievement of these purposes. Therefore, think of a plan whereby the economic blessing of full employment may be brought to pass in the whole world."

The five planners vanished into the space of abstract thought and in due time returned with a unanimous document entitled, "National and International Measures for Full Employment—prepared by a group of experts appointed by the Secretary-General of the United Nations."

What this document does is to propose the first design for a complete Keynesian world—a world in which—

(a) Each government undertakes to provide its own people with enough buying power to guarantee a high level of consumer spending, and

(b) All governments collectively embrace the Keynesian thesis that creditor nations (meaning principally of course the United States) are responsible for the welfare of debtor nations and must see to it that debtor nations have adequate purchasing power.

The *London Observer* has said of the report that "its arguments and proposals have the power of an intellectual atom bomb."

That may well be, saving only the thought that, so far as we know, atomic explosions solve nothing. Certainly it will create an enormous amount of heat and what survives of free enter-

prise in the world will curl up a little more at the edges.

The report is in three parts. Part I is devoted to the nature of the problem. Part II contains the argument. Part III puts forth the recommendations.

The argument itself falls under three heads. First the causes and consequences of unemployment are explained in a diagnostic manner, from the quite reasonable premise that governments must know the disease in order to administer the medicine. Next come the domestic aspects of "full employment policies," and lastly, the international aspects of "full employment policies."

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Taking now to begin with a single country, the question is: Why does it have unemployment? There may be many contributory factors, but the report finds that "the major cause of unemployment in industrialized countries is the insufficiency and instability of effective demand." This term "*effective demand*" is used throughout the report to mean purchasing power—that is simply to say, money in the hands of the consumers.

Since production itself generates buying power, why should it ever happen that people are without enough buying power to clear the market of what has been produced? This may happen for several reasons—that too much money has been spent for new plant and equipment, too much for unproductive works, or that too much has been saved. But whatever the reason may be, it does happen and when it happens there is trouble. Under a system of free enterprise the price mechanism will correct the situation after a while. In the mean-

time, however, there is deflation, a fall in production, a rise of unemployment and more or less social distress—and all of this, the experts find, can be avoided if only the government will sustain effective demand, if only it will guarantee buying power and somehow keep enough money in the hands of the people.

How does the government provide buying power?

It is easier done, the report says, in socialist countries or in countries that have central planning, since they may do it by direct means; nevertheless, “private enterprise countries” now have many ways of doing it indirectly. The first thing is to set a target, which would be the point above which unemployment shall not rise, and then arrange a system of signals which will automatically indicate the beginnings of deviation from your predetermined norm of full employment. As the danger signals begin to show, measures that have been prepared beforehand will come into play. The measures may be these:

(1) Use of the taxing power as an instrument of policy—that is, to reduce taxes when people are short of money and to increase them when they have enough or too much.

(2) When the warning signals appear, give the budget an “antideflationary slant,” which means to increase government spending; and when the signals are really bad, then adopt “vigorous antideflationary measures in the budget,” which means large deficit spending.

(3) Expand social security programs, raise all social expenditures, “for education, health, etc.”

(4) Give “supports to personal consumption,” by subsidies direct or indirect to the consumer, such as family allowances in cash.

(5) Reduce the “profit margins” of industry to cheapen the cost of goods to the consumer, especially in the case of monopoly prices, and “extend this principle further and use price control more generally in order to effect a more equitable distribution of income.”

If after all this the danger signals are still showing, then “reverse” social security payments. For example, let the tax on payrolls for unemployment and old age insurance be sus-

pending and in place of it the government will make “periodic payments to both employers and employees.”

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It is not enough, however, for a government by these measures merely to arrest a fall in *effective demand*. It must sustain *effective demand* continuously at a level that will insure full employment. To do this it must act upon cause. Why, if you let it alone, does *effective demand* rise and fall? The principal causes, says the report, are two, namely, instability of prices and extreme variations in the amount of national income diverted from the satisfaction of the peoples’ desires to investment in new plant and equipment. Thus a government must assume responsibility both for the stability of prices and for the flow and volume of investment into new plant and equipment, lest at one time it be too much and at another time not enough.

Again, says the report, this is easier to do in socialist countries where everything is planned and the controls are direct; but even in “private enterprise economies” the government that controls banking and currency, as the American government does, may go far toward keeping prices stable. As for the flow and volume of investment, the government may act upon that in two ways. First, by tax concessions and subsidies it may induce private firms either “to postpone or antedate their particular investments so as to fit them into a more stable general pattern.” Secondly, fluctuations in private investment may be offset by “countervailing fluctuations in public investments.”

So much for the domestic aspects of full employment policies.

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That part of the report which deals with the international aspects of full employment policy might well have been entitled, “A plan to distribute the American surplus for the good of the world.” The report says:

“The dollar and nondollar countries of the world are still in a state of chronic unbalance with each other. We can envisage no satisfactory solu-

tion of the world full-employment problem and no real improvement in the world trading system unless the chronic dollar shortage is attacked at its roots. Although substantial progress has already been made by the European countries, we are convinced that, to find a complete solution, the problem must be dealt with on a world basis, rather than on a European basis. There can be little doubt that Europe's ability to achieve balance-of-payments equilibrium would be facilitated to the extent that it could earn dollars in countries outside the United States. This will depend heavily on the international flow of capital. Finally, much depends on the internal policies of the United States—particularly its policies with respect to maintaining full employment and its policies with respect to tariffs."

The experts perceive that one country alone, notably the United States, may solve its unemployment problem in a manner very satisfactory to itself and yet in a way to increase the difficulties of other countries. This is so because:

"The influence which the level of effective demand in one particular country exerts upon the prosperity of others depends essentially upon two factors: upon its share in world trade, and upon the extent to which its purchases of goods and services from other countries are likely to vary as a result of changes in its domestic economic situation. On both these counts the United States of America occupies a unique position in the world economy.

"Its share in world industrial production, which was about one third before the war, now accounts for nearly one half, and its share in the total value of world exports, which was around 12 per cent before the war, is now around 20 per cent.

"Its imports consist largely of commodities in which the bulk of requirements is satisfied out of domestic production, so that its import requirements are peculiarly sensitive to changes in total domestic consumption.

"Between 1929 and 1932, while the United States national income fell by 52 per cent, the dollars supplied by the United States to foreign countries through purchase of goods and services and new investments abroad fell by 68 per cent. This implied a reduction in the dollars available to foreign countries after meeting fixed debt service obligations of no less than 77 per cent. Between 1937 and 1938 the United States national income declined by some 10 per cent, while the dollar value of commodity imports fell by 35 per cent. Between the fourth quarter of 1948 and the

second quarter of 1949, the United States national income fell by 5 per cent, the value of imports by 15 per cent."

For example:

"The events of the first half of 1949 demonstrated how even a moderate decline in activity in one major industrial country can have serious dislocating effects on the entire world economy. Between the fourth quarter of 1948 and the second quarter of 1949 United States imports fell by 15 per cent, or by an annual rate of over one billion dollars. Over the same period its imports from western Europe fell by over one third. Thus the increase in dollar exports that several of the European countries had managed to achieve in 1948 was sharply reversed. Furthermore, there was a serious decline in United States imports of certain primary commodities, notably cocoa, rubber, wool and wood products, which are the main source of dollar earnings for the countries that produce them. We draw attention to these facts because they illustrate the urgent need for national and international action to permit the international flow of trade and payments to continue in the face of fluctuations in the effective demand in particular countries."

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The concrete recommendations have all one aim, and that is to sustain *effective demand* in the whole world at a predetermined level; and as it turns out, this becomes very largely, if not entirely, the responsibility of the United States because the United States is the one country in the world that has a surplus of goods and capital out of which to provide other countries with buying power. The international problem is essentially the same as the domestic problem. For the domestic consumer you have only to substitute the idea of the consumer nation and then you see it. When a consumer nation's *effective demand* begins to fall, for want of buying power, then immediately it must be provided with buying power—that is to say, with money. And who will provide the money? The governments of other countries, and principally of course the government of the United States.

The first step is to establish one over-all international full employment policy to which each country will make its own full employment policy conform. The first recommendation, therefore, is that under the auspices of the

United Nations the several governments who become parties to the undertaking shall meet together, put all their full employment policies on the table, adjust them to one total scheme, and then agree to do certain things under certain circumstances, under the eye of an Expert Advisory commission, responsible to the United Nations.

What would the agreements be—the certain things to be done under certain circumstances?

Well, first of all, in order to stabilize the flow of international trade against fluctuations of *effective demand*, surplus countries (again the United States) would undertake to stabilize their “external disbursements.” A country’s external disbursements are of two kinds, namely, what it spends for goods and services in other countries and what it lends to other countries.

So the American government would be expected to say: “During the next five years the United States will buy from other countries goods and services to the total value of X; and during the same five years the United States will share its capital with other countries by making loans abroad to the total value of X, continuously. Thus you may know beforehand how much we will buy from you and how much you may borrow from us, and make your plans accordingly.”

Now suppose that in the normal way of trade the American demand for foreign goods is less than the amount the American government has promised to buy. This is the crucial point. These normal fluctuations shall be eliminated.

If the natural demand for goods declines, the American government will make up the difference. It will buy foreign goods and store them as part of a stockpiling program. However, this may not be enough. There are many kinds of foreign goods that do not lend themselves to stockpiling. Then what? Suppose a deficit country is still greatly in need of American goods and cannot buy them for want of dollars, and is unable to earn the dollars by an exchange of goods because the United States is buying fewer foreign goods. In that case what will the American government do? It will then, the report says, “replenish the monetary reserves” of the deficit country. With the Inter-

national Monetary Fund it will deposit dollars equal to the deficit country’s need; the deficit country will buy those dollars from the International Monetary Fund with its own non-convertible currency and use the dollars to go on buying American goods. Thus the American government will be lending other countries the money to buy American goods, as it has been doing for a long time, only under this plan it would do it automatically on a predetermined scale, systematically, continuously and by obligation.

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Then to stabilize a surplus country’s external disbursements in the way of foreign lending. The report says:

“The second major requirement for the establishment of a sound basis for international economic relations is the creation of conditions under which the flow of international investment could be stabilized over substantial periods. This is essential both for the attainment of structural equilibrium in international trade and for the efficient development of the world’s underutilized resources.”

Private lending will not do because, in the first place, it is too uncertain, and secondly, borrowing countries now are suspicious of private capital. The report says:

“Past experience has shown that foreign investment, if left to private initiative, tends to be extraordinarily unstable: it tends to dry up in periods of depression—at the very time when its cessation does the greatest damage to the maintenance of world prosperity. It is hard to see how this could be prevented without direct government action. Furthermore, the conditions for a revival of private foreign investment on any large scale have become less favorable. Quite apart from the political instability that is inimical to a revival of private lending, the underdeveloped countries themselves have strong feelings on the conditions under which they will admit foreign capital.”

In the quotation just above, and in what follows, clarity will be improved if for “lending countries,” or “leading industrialized countries,” or “lending governments,” you read in

each case the *United States Government*. The recommendation then unfolds as follows:

“We believe that governments of lending countries should take direct responsibility for a considerable volume of future international investment and in particular that they should make known in advance the total annual volume of international investment which they consider appropriate in the light of the lending capacity of their countries. Having thus established their targets for future international lending, the lending governments should put at the disposal of the International Bank at six-monthly intervals an amount equal to the total foreign investment planned for the period less the amount expected to be lent through private investors or national public bodies, including the International Bank’s issues on national markets, or through other channels. If the amounts actually lent in any period fall short of the target level, the amounts put at the disposal of the International Bank in the following period should be so adjusted as to stabilize as far as possible the total amount of net lending at the target level. Thus governmental loans to the Bank would consist of two parts: a predetermined amount depending on the long-run lending programs; and a (smaller) fluctuating amount that would offset fluctuations in private investment.

“Inasmuch as the Bank would act as an intermediary between lending and borrowing governments, its functions would amount to creating a pool of lending resources to be allocated among the different countries according to the merits and requirements of particular developmental programs. It would be the responsibility of the Bank to investigate the programs for which loans were requested and to follow their execution. It would borrow from lending governments by issuing securities to them on the terms on which they themselves were able to raise funds on their own markets. It would lend directly to the borrowing governments at uniform rates of interest (as at present), and at rates no higher than required to cover the cost of the loans, the Bank’s operating expenses and a fixed allowance for the risks of default. For such operations, the Bank would need no capital of its own. Losses would be met in the first instance out of the reserves set up for the purpose (which should be kept separate from the capital and reserves set up by the Bank within the framework of its present operations); for the balance, losses would be apportioned among all lending governments by a proportionate writing down, to the necessary extent, of their outstanding loans. Such an arrangement would provide for a spreading of risks among

lending countries and would thus reduce the losses which individual countries might have sustained by direct lending.”

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For this magnificent use the International Bank would have to be reconstituted on a much more liberal basis. As it is now its funds are limited to what it can borrow from private investors, which is not nearly enough; a greater limitation on its functions is that “except in special circumstances” it can lend only on specific projects, which are expected to be self-liquidating, whereas if it gets its funds from governments (the United States government) it would be able to make loans “for general development purposes, not only in special circumstances but generally.” This thought is emphasized several times thus: “While the Bank must necessarily continue to seek the maximum safeguards for its loans, it should be enabled to change the criteria employed in making them”; and again, “The Bank should make such loans on the basis of general developmental programs submitted to it by borrowing governments; the criteria for the worthwhileness of such loans should be their effect on national income, taxable capacity and export capacity.” Thus, the general welfare.

The experts were: John Maurice Clark, Professor of Economics at Columbia University, New York, who worked in association with Arthur Smithies, Professor of Economics at Harvard University; Nicholas Kaldor, Fellow of King’s College, Cambridge; Pierre Uri, Economic and Financial Adviser to the *Commissariat General du Plan*, Paris; E. Ronald Walker, Economic Adviser to the Australian Department of External Affairs.

Whatever else one may say about this dazzling tour de force of Keynesian philosophy, it is true to its genesis. Five experts, assigned by the United Nations to the task of thinking up an international scheme to guarantee full employment, came to the conclusion that collectively the governments of deficit countries, with the American surplus to dispose of, could make dollars everywhere plentiful and so create a welfare world.

The Three Legs of Optimism

**By General Robert E. Wood*

Chairman of Sears Roebuck and Co.

IN this complex and fast-moving civilization any modern businessman who even attempts to keep up with events is swamped by the mass of reading matter that he may try to digest. To sift the facts and to arrive at correct conclusions seems almost a hopeless task, even to get all the facts in a particular industry in a country as large and widespread as ours. But it is possible to detect some of the great underlying forces which are influencing our business life—for that matter, our entire economic life.

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FIRST, I would put at the top of these forces the growth of population in the United States during this decade 1940-1950. If any of you followed census statistics or vital statistics, you would have known that the growth of this country in the past decade 1930-1940 was the lowest in percentage it had been since the American Revolution and the lowest in absolute increase since the Civil War. The population increased by 8,800,000 as compared with 13,000,000 in the previous decade. The birth rate dropped to a low in 1933 of 16.6 for 1,000, a rate even lower than that of France. Most population experts predicted a stationary population in this country by 1950 or 1960. Beginning in 1939, the birth rate took a sharp jump upward, births increased from a low of 2,074,000 in 1932 to a high of 3,699,000 in 1947, deaths remained nearly the same, the natural increase exclusive of the gain by immigration rose from 800,000 per annum to approximately

2,300,000 per annum and the census to be taken April 1st will probably show a population of 151,000,000, or nearly 20,000,000 over that of ten years ago, the largest absolute increase the country has ever had.

The effects of a large increase in population vary. In overcrowded countries like India and China, in most of Western Europe where the food supply is inadequate, such an increase is detrimental rather than beneficial. But in a country like ours, with ample area, ample food supplies, ample capital and an advanced technology, such an increase in population is a great stimulant to the economic life of the nation and if continued, even at a lower rate in the decade we are just entering, it will prove to be a continuing prop to the economy. But I may add parenthetically, if we should reach a population of over 200,000,000 within 50 years, the old Malthusian doctrine might begin to work, and we should feel the pressure of population on our resources. Our standard of living might suffer.

This increase is unevenly distributed over the nation. California has experienced the greatest mass migration in history with an increase of nearly 4,000,000 people in ten years. It has now passed Pennsylvania, not only in population, but in wealth. Texas had a greater absolute growth than New York State. The time will come, probably within the next thirty years, when both states will pass New York, in both population and wealth. The balance of economic and political power will pass from the East to the Pacific, Middle Western and Gulf Coast States.

Project an increase of 20,000,000 people, with the highest standard of living the world

* Addressing the Association of Cotton Textile Merchants.

has ever seen, into the economic life of the country. It nullifies the gloomy prophecies of those who predicted a great overproduction after the War. To fill the wants of these additional souls will tax the productive facilities of the United States.

If population growth continues, it will solve the problem of farm surpluses within fifteen years.

The additional public requirements—such as schools, hospitals, highways, transportation facilities—will require all the capital we can accumulate in the next ten years.

In the light of today's conditions, how foolish seem the gloomy utterances of the early New Deal exponents, who proclaimed that this was a finished country, with no more new frontiers—geographic or economic—no more opportunities for advancement or investment. The truth is that this is still a young country with great opportunities lying ahead.

THE *second* great basic force affecting business is government control of banking, credit and the money supply, not alone in this country but in every country.

When the world went off gold in the early 30's, a great economic change occurred. It took about ten years before the politicians of the world fully realized what a powerful tool was placed in their hands, but now they all fully realize it.

The masses in every country will not take deflation. Deflation means the elimination of the party in power. An increase in the money supply acts to postpone or stop deflation, recessions and depressions. The answer is fairly obvious that the party in power will always increase the money supply now that there is no gold standard in existence to act as an automatic bar to any increase in the money supply.

I doubt whether many of you here realize what a profound change this makes in the economy. I refer all of you to a brilliant and instructive article, published in *The Empire Trust Company* bulletin of January 1, 1950, by Joseph Stagg Lawrence, entitled, "The Wave of the Future." It explains far better than I can

the effects of the Keynes thinking and of the effects it has had on our money management.

I am not in the confidence of our present administration in Washington, but I am firmly convinced that they will use their tool of money management to stave off incipient recessions or depressions and I can see no reason why (barring war) they should not be successful over a number of years, particularly in a country as strong and as rich as the United States. In Britain the end is apt to come within a couple of years, or as soon as we withdraw our aid from that country.

I believe whether this tool of money management will be used wisely or moderately or whether it will act as a habit-forming drug, is a question that will be answered in the future.

I doubt whether businessmen, as a whole, fully realize the powerful effect of this new factor, but I advise you to consider this force always in your business calculations and plans.

THE *third* great basic force operating in business is the continuing decentralization of industry. Manufacturing will continue to move toward the raw material supply, the food supply and the center of distribution. This is occurring all over the world.

With the beginning of the industrial revolution at the beginning of the nineteenth century, Western Europe became the workshop of the world. Raw materials were brought from all corners of the world, processed in the factories of Western Europe and then re-exported at a very handsome profit. Manufacturing knowledge was confined first to England, later to the United States and Germany and the other nations of Western Europe.

With the beginning of this century, manufacturing knowledge was extended to other countries. Machine tools and modern equipment were introduced throughout the world. India, Japan and China built up an extensive textile industry, followed by South America. Then other industries followed—a movement accelerated by World Wars I and II.

Every undeveloped country in the world is trying to balance an agricultural economy with some industrial economy and is trying to man-

ufacture or process the basic elements of food, clothing and shelter for its population.

A close parallel to this occurred in this country. New England was our first manufacturer, and her industries, with those of the Middle Atlantic States, largely supplied the agricultural South, West and Pacific Coast throughout the greater part of the nineteenth century. Precisely what has taken place in Europe has occurred in this country. For fifty years, industry has been moving—first to the Middle West, then to the Southeast, and since World War II it has been moving to the Southwest and to the Pacific Coast. World War II has accelerated this movement.

I predict this migration of industry will continue and that it is a healthy occurrence for this country and its people. I do not believe that New England and the Middle Atlantic States will decline in population and wealth. I do believe that their rate of growth will be slower than that of the rest of the country. They will continue with their large population and accumulated wealth to be an important element in the economic life of this nation.

With this decentralization of industry have come new problems of control and management. Business, particularly that represented by large corporations, is prone to make the same administrative mistakes as our government in trying to keep its controls and management highly centralized, instead of giving a full measure of autonomy and control to its branches, whether they be factories, stores, insurance companies or what not. There is a great national insurance institution doing a large business in every state of the Union. It is absurd for it to concentrate 30,000 white collar employees in one city, and not to decentralize every function into the region from which it draws its business. I use it only as an illustration of what is the usual attitude of most large national corporations.

I HAVE mentioned the three most important forces that are influencing our economic life. There are other forces, some of them quite important. Most of the men present in this

room have seen the tremendous changes in the life of this nation wrought by two World Wars. Most of you have seen the change in the position of business and businessmen effected by sixteen years of the so-called New Deal. The fact remains that despite the complete lack of political power by businessmen, the real foundations of our economy still rest on them, and if they live up to what they should do in a free, competitive system, the country cannot get along without them.

Any business must make profits, or it ceases to exist, so we will presuppose that the management of every successful business has exercised proper business judgment. But the head of every successful business today should try to be a business statesman and not confine his viewpoint solely to the making of profits, necessary and essential as they are. In this connection, if the masses of this country really understood the functioning of the free enterprise system, they would regard profits as desirable and not as immoral. The larger part of the tools and equipment needed to provide a better standard of living must come from reinvested capital.

On the other hand, businessmen must learn that too large a part of profits must not go into dividends, but must be reinvested in the building up of their business and their country. English capital made this mistake and the results show in the general obsolescence of British industry. While profits are essential to the existence of a business, a corporation or an individual must look after the welfare of employees and the welfare of the community in which his business is located.

There are four parties to any business—the customer, the employee, the community and the stockholder, and the management of every business should preserve the balance of the interests of each. I have named them in what I regard as the order of their importance.

The customer comes first, for unless he gets good values, courteous and fair treatment, is satisfied in every respect, he will not continue as a customer, and the business eventually decays and dies.

The employee comes next. Every head of a business should consider himself as a trustee

for his employees as well as his stockholders. If the business is well established and prosperous, he should try to do his utmost for his employees without their having to exert pressure on him to get their proper rights. He should regard as one of his objectives the constant raising of the standard of living of his employees. If employees have confidence in the fairness and sense of justice of their employer, and feel that he is truly interested in their welfare, that his feeling for them springs from his heart as well as his head, these employees will respond.

Then comes the community, in which are located the factories, stores, offices or headquarters of a business. Due to the changes in our tax laws, it is more and more difficult for the wealthy individual to support the charities and the welfare enterprises of the community. A portion of that burden must shift to the corporation and I believe it the part of wisdom for every prosperous corporation to respond to the needs of the community, willingly and generously.

Last comes the stockholder. All I can say is that if the other three parties above named are properly taken care of, the stockholder will benefit in the long pull.

It was my privilege during the War to take five different foreign trips by air for General Arnold, two of them complete circuits of the globe, altogether 200,000 miles by air. I visited each one of the five continents, and every theater of War.

On my return from each trip I was filled with renewed confidence in my own country. Nowhere in the world is there anything like our Mississippi Valley and Great Lakes Region, with over 1,000,000 square miles of good soil, temperate climate and ample rainfall, with ample mineral resources, inhabited by an intelligent people, with standards of living and education far above those of any other people in the world. Until I made these trips, I never realized how much of the earth's surface was desert or arid land.

I compared foreign factories with our own and saw how superior our machines, workmen and management, our know-how, were to theirs. The truth is that no other nation in the

world except Germany understood mass production, and Germany had a mere fraction of our resources.

The **Sovereign Bankrupt**

By Joseph Stagg Lawrence

CAN a government go bankrupt? If it appears not to go bankrupt it is due solely to its power as the sovereign. However, bankruptcy in the sense in which the word is used by the Keynesians refers primarily to a limited legal procedure following bankruptcy under which the assets of the bankrupt are formally seized to satisfy the claims of creditors.

Bankruptcy of the sovereign occurs in fact when he uses his authority to evade the penalties visited upon the private debtor who fails to meet the terms of his obligations. Considerate euphemisms have been contrived to describe various forms of sovereign bankruptcy. An irredeemable paper currency is such a euphemism. A pegged bond market is another.

Every paper dollar is defined by law as 13.71 grains of pure gold. The American sovereign has long since welshed on this obligation and persists in his welshing although he has more gold on hand now than he ever had before.

Every time a government, which has repudiated this currency covenant with its citizens, issues additional I O Us under circumstances in which those citizens cannot assert their rights as creditors, it is compounding its bankruptcy.

The fact that it has not been haled before a court by a sheriff is not proof of its financial strength, as Eccles implies, but merely proves that all the instruments of justice so quickly applied to the offending private debtor are subservient to the state and cannot impose upon it the penalties which they apply to other similar transgressors.

The fact that a public sale of assets does not take place when the government welshes on its obligations hardly affects the end result. In both cases the creditor loses out. The French government has not confessed its bankruptcy and it is not likely that it will ever do so. Such action can hardly affect the position of the French citizen who bought a bond in 1939 and now finds that it has lost 98% of its real value. Here is a creditor of the state who can now realize, in real terms, only 2% on his claims. What difference can a formal confession of bankruptcy make?

The New Economic Insight

By Beardsley Ruml

Note—Mr. Ruml is the most brilliant exponent of the New Economics. Here he is saying that the final freedom of government from the old limitations of the money market is a revolutionary change. Taxes, debt, and budget deficits are no longer what we thought they were. Instead, they now are the working tools whereby the economy may be made to balance itself at a high level and at the same time stay free. What follows is from his address at the annual stockholders' meeting of the Savings Banks Trust Company, January 18 last, in New York.—Editor.

THE discoveries and insights coming out of World War II are by no means limited to physics, chemistry, biology and surgery. Advances have also been made in the fields of finance and economics. The full import of these advances is not yet understood, but we do know enough to know that some things that many competent people thought were true are either false or true in a different way than was once believed. Let me give a few examples.

In 1937, an eminent economist advised the Treasury that unless the budget was soon balanced, the interest rate would go to 6% to 8% the way it had in France. And yet during the war, the national debt rose from \$45 billion to \$275 billion on a declining rate of interest.

In 1940, a metropolitan newspaper of high reputation expressed an opinion editorially, which I suspect was generally shared, that it was unfortunate that we were entering a period of defense preparations with the handicap of a debt that had already nearly reached \$45 billion. And yet the debt increased sixfold and was at no time a limitation to our productivity.

In 1941, we were told that we would have to choose between guns and butter, that to arm for war in two hemispheres we would have to cut our standard of living sharply. And yet in 1944, the general over-all standard of living was at least as high as in 1941, and in addition we produced some \$80 billion worth of armament. The miracle of production came out of productivity that had been

growing unnoticed beneath the surface of actual output for a period of fifteen years.

Let me give one more example of a new insight in the field of fiscal economics. During the 1930's most people believed that a deficit in the federal budget was inflationary. Today we can see that a nation that has millions of unemployed who want to work and billions of dollars invested in idle plants and equipment is much like a factory or company that has a sizable amount of unused capacity. Under such circumstances, an increase of demand tends to reduce unit costs, and therefore under competition tends to reduce prices rather than to increase them. For the same reasons, federal deficits prudently incurred in times of unemployment, since they also tend to reduce unit costs, tend to be deflationary rather than inflationary as far as the purchasing power of the dollar is concerned.

Like Radar or Atomic Energy

These discoveries, insights, or whatever you want to call them, in the field of economics and finance, are just as real as radar, D.D.T., and atomic energy. They are not matters of theory or wishful thinking; they are matters of experience and observation. The plain fact is that the war was actually financed on a declining rate of interest. What does this mean? It means that a new relationship has been created between the private money market and the national state. This relationship was created by law in 1913, 1933, and 1934, but it required the impact of a World War to give us the experience necessary for understanding, in part at least, what had happened.

If we look at the financial history of the war, it is apparent that nations were able to pay their bills even though their tax revenues fell short of expenses. Those countries whose expenses were greater than their receipts from taxes paid their bills by borrowing the necessary money.

A government which must depend on loans and on the refunding of its loans to get the money it requires for its operations is, necessarily, dependent on the sources from which the money can be ob-

tained. In the past, if a government persisted in borrowing heavily to cover its expenditures, interest rates would get higher and higher—and greater and greater inducements would have to be offered by the government to the lenders.

As a consequence, power over the government would gradually shift, in some measure, to the money market, which could dictate the terms on which the necessary loans would be made. Governments in those days found that the only way they could maintain both their sovereign independence and their solvency was to tax heavily enough to meet a substantial part of their financial needs, and to be prepared—if placed under undue pressure—to tax to meet them all.

Government's Final Freedom

The necessity for a government to be prepared to tax in order to maintain both its independence and its solvency still holds true for state and local governments, but it is no longer true for most national governments. Two changes of the greatest consequence have occurred in the last twenty-five years which have altered the position of the national state with respect to the financing of its requirements. The first of these changes is the gaining of vast new experience in the management of central banks. The second change is the elimination, for domestic purposes, of the convertibility of the currency into gold or into any other commodity. No longer do private lenders have the final word on the fiscal policies of a national government which does not tax.

This final freedom from the imposition of unwanted control on the national state by private lenders holds true for every sovereign national state where there exists an institution which functions in the manner of a modern central bank, and whose currency is not convertible into gold or into some other commodity. The unsound practices of a reckless, government can and should be controlled by the citizens of a democratic country; but they must exercise this control as citizens, and not as lenders.

The United States is a national state which has a central banking system, the Federal Reserve System, and whose currency, for domestic purposes, is not convertible into gold. It follows that our Federal Government has final freedom from the money market in meeting its financial requirements. Accordingly, the prime consideration in the imposition of taxes has become the inevitable social and economic consequences of the taxes that are imposed.

By all odds, the most important single purpose to be served by the imposition of federal taxes is to aid in the maintenance of a dollar which has stable purchasing power over the years. Sometimes this

purpose is stated as “the avoidance of inflation”; and without the use of federal taxation all other means of stabilization, such as monetary policy, controls and subsidies, are unavailing.

The war taught the government, and the government has taught the people, that federal taxation has much to do with inflation and deflation, with the prices which have to be paid for the things that are bought and sold. If federal taxes are insufficient or of the wrong kind, the purchasing power in the hands of the public is likely to be greater than the output of goods and services with which this purchasing demand can be satisfied. If the demand becomes too great, the result will be a rise in prices, and there will be no proportionate increase in the quantity of things for sale. This will mean that the dollar is worth less than it was before—that is inflation. On the other hand, if federal taxes are too heavy or are of the wrong kind, effective purchasing power in the hands of the public will be insufficient to take from the producers of goods and services all the things these producers would like to make. This will mean widespread unemployment.

The New Tax Policy

Briefly the idea behind our tax policy should be this: that our taxes should be high enough to do their part in protecting the stability of our currency—and no higher. Putting it another way, our taxes should be as low as they possibly can be without putting the value of our money in danger of inflation. The lower our taxes are, the more purchasing power will be left at home in the hands of the people—money that can be spent by them for the things they want to buy, or that can be saved and invested in whatever manner they choose.

Now it follows from this principle that our tax rates can and should be set at the point where the federal budget will be balanced at what we would consider a satisfactory level of high employment. If we set our tax rates any higher than this, we are reducing unnecessarily the money that private individuals will have to spend and to invest; and therefore, we make it more difficult for ourselves to get to high employment and to stay there.

The new tax principle is this: Tax rates should be set to balance the budget at high levels of employment. Having been set, these rates should be let alone, except as there may be important changes in public policy or significant shifts in the level of potential productivity.

If tax rates are set to balance the budget at high levels of employment, the two critical factors are

(1) the size of the budget and (2) the national income at high levels of employment.

Obviously under such a policy the lower the budget the lower our tax rates could be. This puts a premium on economy and efficiency. Clearly we do not justify spending for its own sake, nor do we want any wasteful expenditure.

Obviously under such a policy the higher our potential national income at high levels of employment, the lower our tax rates could be. In consequence we want employment with high productivity, we want harmonious management-labor relations, we want a world at peace.

It should be noticed that the setting of stable tax rates to balance the budget at high employment means that surpluses will automatically arise in times of boom and deficits will likewise occur under conditions of depression. But the surpluses and deficits will only be in proportion to the swing in the production cycle that causes them and their creation will in itself be an important factor in bringing the economy back to accepted levels of high employment.

The suggestion has been made that tax rates should be changed up and down to compensate for ups and downs in business. Although there is something to be said for such a practice on theoretical grounds, I do not favor it, since I have not been able to convince myself that a policy of varying tax rates to compensate for anticipated swings in the business cycle is either politically or administratively workable.

Never again need we repeat the errors of 1930 and 1931 of increasing tax rates against a declining national income in a futile and disastrous attempt to balance the budget. Under this new principle the budget will be balanced when it should be balanced, when a high level of employment is supported by a balancing demand.

In Fact, Two Budgets

We have today a budget of enormous size, amounting to between fifteen and twenty per cent of the national income. The mere change in size from prewar and predepression days raises questions that were once academic, but which have now become matters of vital concern. One of these questions is, when we talk about balancing the federal budget, which budget should we mean?

There are two federal budgets, both in good standing. One budget, the more familiar, is the administrative control budget; the other is the consolidated cash budget. When federal budgets were smaller, it made little difference which budget was

being referred to, but today it is necessary to distinguish between them and to use them correctly for the purpose to which each is adapted.

The administrative control budget is adapted to purposes of administrative and financial control. It shows transactions between government agencies, it excludes certain transactions between the government and the people where other financial controls are more appropriate, it carries some items on an accrual basis where this is convenient. The administrative budget was created and has been improved as an instrument of administrative control. This is an important purpose and the administrative control budget is an important budget.

The consolidated cash budget is also an important budget and it serves a different but also an important purpose. That purpose, as President Truman points out in his first Economic Report, is to measure the impact of government transactions on the economy. The consolidated cash budget does this because, first, it is *consolidated*, that is, it includes all transactions between the government and the people, and it excludes all transfers between the internal agencies of the Federal Government itself; and second, because it is a *cash budget*, that is, it shows the intake and outgo on a cash basis in the year in which the transaction takes place.

The difference between the administrative control budget and the consolidated cash budget can be appreciated when it is realized that in the fiscal year 1947, the surplus in the consolidated cash budget was about six billion dollars *greater* than was shown in the administrative budget. For the fiscal year 1951, it is now estimated that the deficit in the consolidated cash budget will be between two and one-half and three billion dollars *less* than in the administrative budget. It is estimated that over the next ten years, on the average, the cash taken from the public by the government will be about three billion dollars a year more than the administrative control budget implies.

So when we are interested in the impact of government transactions on the economy we shall look to the consolidated cash budget. If our objective is a budget that is balanced in the economic sense, then it is the consolidated cash budget that we want to balance. As a matter of fact, balancing the administrative control budget is meaningless, since being an administrative budget it can be balanced at any time by definition, by inclusions or exclusions.

The consolidated cash budget becomes of special importance since it is the budget which should be used in setting rates of taxation.

Just as the high new level of the budget and taxes has raised new and unfamiliar problems, so also the size of the national debt creates a new situation for which we have had little preparation. Much thought

and much experience will be needed before we can have a debt policy in which we can have full confidence.

The big new questions associated with a national debt of the size that ours has become are those that relate to policies of debt management. A debt of two hundred and fifty billion dollars has to be managed in one way or another, and decisions have to be made several times a year that are based on more or less clear principles and on more or less explicit objectives.

I am not going to discuss those phases of debt management that involve the horrid questions of what the interest rate should be, and who should get it, and, above all, who should decide. But we do not get rid of these questions by snubbing them, and already this phase of the matter is being actively discussed.

The National Debt as an Instrument

My interest in debt management today is in a more general aspect of the subject, namely, in the possibilities of debt management as a tool of fiscal policy, affording perhaps a new instrument to maintain a high level of productive employment.

The possibilities of debt management as a tool of fiscal policy arise first from the sheer size of the debt and second from its complex composition. If the debt were small, the possibilities and necessities of debt management would be negligible. The implications in the size of the debt are obvious, but those in the composition of the debt are generally ignored.

The national debt consists of at least four distinguishable kinds of debt; that is to say, the national debt is in no sense a homogeneous global aggregate. Through the application of surpluses and through the terms of refunding issues, the retirement of sums from each classification or the transference of debt from one classification to another has consequences on the amount and kind of purchasing power remaining in the hands of the public. Debt management is therefore a corollary of tax policy in the maintenance of high employment at stable price levels.

I have said there are at least four distinguishable kinds of public debt. Let me name them.

First, there is the debt in the hands of private individuals. We could perhaps divide this classification in terms of amount and maturity, and get some significant differences.

Second, there is the debt in the hands of savings banks, insurance companies and other institutional investors.

Third, there is the debt in the hands of the commercial banks.

Fourth, there is the debt held by the Federal Reserve Banks, federal trust funds and other federal agencies.

It is apparent that it makes a great deal of difference what kind of debt is retired, what kind increased, what kind redistributed at times of refunding operations. Accordingly, the simple demand that debt be retired for the mere sake of retirement is meaningless and is no guide whatsoever for policy.

During the war we knew that the sale of war bonds to private individuals, particularly those with small and moderate incomes, was an alternative to taxation as a means of withdrawing purchasing power from the hands of the people. We knew that sales of bonds to the commercial banks had different effects. But in spite of the fact that we made these distinctions in wartime, we do not seem to have carried a parallel conception over to the long-term problem of managing a \$250 billion debt.

The Tools of Fiscal Policy

The tools of fiscal policy are powerful instruments that can be used to maintain a high level of productive employment in the United States. They can be used to contribute to monetary stability. They can also be used to assist in the establishment of conditions throughout the world that will be conducive to a just and durable peace. True, fiscal policy cannot be looked to as a panacea. But the tools of fiscal policy—taxes, the budget and the debt—are no longer merely the chronic annoyances associated with community responsibility for common activities. On the contrary, they have now so developed that they are prime factors in our economic life.

The instruments of fiscal policy give us our best hope that we can preserve our economic freedoms, to buy and to sell, to borrow and to invest, to move from place to place, to employ and to be employed, and to receive for our own private use, wages, rents and profits as a reward for skill in the application of our efforts in supplying what others need.

If these tools of fiscal policy are well managed, they will contribute much to the prevention of government interference in the specific decisions of businesses and private individuals. For the consequences of action at the level of fiscal policy are general, impersonal and appropriate to the development of the economy as a whole. The individual's specific decisions may then be taken within a general frame of reference, a frame of reference established in the public interest and not distorted by private greed nor destroyed by the blind whirlwinds of economic collapse.

What Lies in Point Four

by Edna Lonigan

NOTE—Point IV has had a wonderful prenatal life. It was conceived in January 1949. When it is born it will find an official emblem waiting for it—a kind of heraldic device made up of draftsman's tools by the State Department to decorate the cover of what is perhaps the most romantic state document in all the archives. To put the theme in your eyes there is a full page illustration showing the land masses of the earth in white, gray and black, and under this six human figures, four of them white, one gray and one black. The four white figures belong to the white land masses and represent that two thirds of the whole world that is underdeveloped. The one gray figure belongs to the gray land masses, and represents that part of the world that is in a state of intermediate development. Thus you see at a glance what a task devolves upon the one black figure, who is one sixth of the human race and alone is developed. Point IV is his job in a general sense; he must uplift the one gray figure and the four white figures. Actually it is more heroic than that, because the black figure is itself in trouble. The weight of Point IV will rest principally on a small figure that

is missing from the illustration, namely, one to represent the United States, which is the only great surplus nation in the world and has only one fifteenth of its population. Speaking of the 1½ billion underdeveloped people the State Department says:

“These people in recent years have been stirred by a growing awareness of the possibilities of human advancement. They are seeking a fuller life and striving to realize their full capabilities. They aspire toward a higher standard of living, better health and physical well-being. Under present circumstances their poverty is not merely a handicap to themselves. By leaving them unable to fulfill their reasonable aspirations, their misery makes them fertile ground for any ideology which will hold out to them promise, however false, of means toward a better life.”

Point IV will be born when the Congress passes a law to authorize and clothe it. For that purpose several bills are pending. They do not name any specific sum of money. They say, all of them, something like this: “There are hereby authorized to be appropriated such sums as may be necessary.”—Editor.

I.

IN a few words of his inaugural address, January 20, 1949, making the first announcement of Point Four, President Truman revealed both the philosophy and the outline of a program that put the whole world agog. He said:

“More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. . . . 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. . . . We should make available . . . the benefits of our store of technical knowledge. . . . And in cooperation with other nations we should foster capital investment in areas needing development. . . . This program can greatly increase the industrial activity in other nations and can raise substantially their standards of living.”

There is no ground for the frequently expressed opinion that the plan is vague, ill-formed, small, or

tentative. It is clear and admirably designed for its purpose.

Point Four extends the Marshall Plan to the globe, and makes it permanent. One of its effects will be to continue control by government of the nation's capital fund as other arguments for doing so may lose their force.

It is the capstone on a Global New Deal. Instead of “one third of a nation” ill-fed, ill-housed, ill-clad, we have “more than half the people of the world” in need of “more food, more clothing, more materials for housing.”

The program has two prongs—(a) The government will employ and direct a group of technicians, who will administer the program. (b) Private owners of capital will be invited to supply the funds, within a “climate” provided by government, that is, with wages, hours, costs and profits, subject to government regulation.

From this Bold New Program it does not follow that we shall give or lend an additional dollar of capital to the underdeveloped people, nor that our technical aid will be increased at all. What does happen is that the management of what we give and

lend is transferred from private hands to government.

Bills have already been introduced into Congress to authorize the American government to provide technical assistance to underdeveloped people of the world, and to insure private investors against the risks of confiscation of plant or earnings, or the inability to convert foreign money into dollars when they want to bring their profits home.

These technical staffs will not be charged to foreign aid. They will be recruited from the Public Health Service, Social Security and other familiar agencies. They will be paid for under the regular appropriations.

By thus setting up a managerial staff, scattered throughout the federal bureaucracy, and by enticing private investors to supply the capital, it is possible for the President to commit the country permanently to the entire program of Point Four, by asking at first for very small appropriations, like \$25 million for the Export-Import Bank to guarantee private loans, and a few millions for additional technical aid.

It is no part of the plan to reveal beforehand the total or ultimate cost of the Bold New Program. All we know for sure is that Undersecretary James Webb said it was to go on for ten to fifty years.

One curious fact is that the President already has all the powers he needs to carry out a program of technical aid, as several members of Congress pointed out at the hearings on the "International Cooperation Act of 1949," before the Committee on Foreign Affairs, House of Representatives, 81st Congress, 1st session. We are in fact deep in that program now. Nevertheless, Point Four must be dramatized by hearings, debate and propaganda to build up public favor and to quiet criticism.

The program for mobilizing public opinion is being carried out by the same technique of indoctrinating groups of people through literature, state papers, meetings, public speeches, and the rest, which was used so effectively to mobilize the opinion of women's clubs, unions, and other groups favorable to welfare in the campaign for health insurance.

Some apparent confusion is introduced by the fact that the United States Government is to administer part of this program directly and part through its ties to the United Nations budget and secretariat. At the same time, the United Nations has a parallel program with its own technical staff, including representatives of the borrowing nations, and has plans for raising capital both from the United States and by forced saving in the underdeveloped areas.

These differences are all reconciled in one larger process, which is that of gradually extending political control over investment capital, by means of a planning elite or technical aristocracy in the service

of the political power. The effectiveness of this method can be seen if you look at public housing, in which a small technical staff in government learned to direct and guide a huge volume of private capital invested in government enterprises.

This is not the government's first attempt to enter the field of long-term investment. Capital investment still remains, however, the last relatively open area of our economy. Interventionism appeared first on the periphery, in the field of relief. It has been steadily moving toward the "heartland" of investment, the source of all earnings and of all welfare.

II.

BEFORE we can gauge the effects of the Bold New Program we have to note first how the free private economy has hitherto brought technical aid and capital goods to the "undeveloped areas."

We have been dealing with these areas for centuries, through trade and loans. Private investment loans are the sale of capital goods to poorer countries on the installment plan. When countries without capital needed railroads or steam engines, they borrowed the money to pay for them from private "investors." They bought the equipment outright and paid the investors back over a series of years. In this way, the workers in poorer countries benefited because they got jobs building canals or railroads, or making steel, long before the country was rich enough to have saved the capital itself. The workers in the richer (lending) countries benefited because they could find jobs making locomotives and machinery, for people too poor to buy them outright.

The United States is the classic example of an "undeveloped area" industrialized by foreign investment. The English lent us money to build railroads and canals when we were too poor to assemble so much capital. We used the railroads to bring farm products out of the Middle West for export, and used our earnings to import machinery for our factories. Soon we made enough money to pay the British off, and then to lend money ourselves to Europe and Latin America.

President Truman might call this "the old imperialism, the exploitation for foreign profit." Would we be better off if the Middle West still sent its grain by boat down the Mississippi and the trip to California had to be made by way of Cape Horn?

In addition to loans, we had a very effective method for bringing capital and technical knowledge to backward areas by gifts through churches, foundations, colleges, and other voluntary organizations which we financed out of the fruits of our industry.

By a brilliant meshing of our loans and gifts we have been training Greeks, Arabs, Indians, Chinese,

and Latin Americans in our technology and enterprise for many years. The Agricultural Missions Foundation has been training young Chinese in better farming methods, and in self-help cooperatives. The Near East Foundation has been teaching Greek and Arab youngsters to exterminate mosquitoes, test seeds and market farm products. The Rockefeller Foundation has sent some of the world's greatest doctors to teach sanitation and to find a cure for tropical diseases in Latin America and Asia. Henry Ford helped train the "Baillie boys" from China in methods of American industry, as he trained young boys from Alabama.

The purpose of private or economic investment was to direct savings into the most productive channels, so that the capital fund could be kept intact, and used again and again. Thus our savings were the source of constantly increasing employment and earnings, as they were "planted" again and again, and produced harvest after harvest.

A clear distinction was always maintained between loans and gifts. Loans were made from savings, under an agreement that they were to be repaid. Gifts were made from outright contributions which the giver did not expect to have repaid. Gifts were used for education and health services, where the benefit in increased earnings was slow to show itself. The welfare fund did not renew itself, but, since it was provided entirely out of earnings, it created no debt and did not lower employment and wages at home.

No nation in history has ever had so magnificent a system for sharing the fruits of its work and skill with people of other nations. The President cannot be embarking on Point Four because we have not been helping underdeveloped areas.

III.

THE government's new program abandons the distinction between loans and gifts. All questions of costs are therefore completely blurred.

They have substituted a new distinction between "capital" and "technical assistance" which serves no economic purpose. Technicians are as much part of capital costs as machines or any other roundabout expense. Private investors have always supplied technicians as well as equipment, whether at the Dniekrostroy Dam or the Tata Steel works in India.

The new distinction is political. Under Point Four, the technicians will be government employees. Thus the steering or direction of the new program is to be safe in the hands of the government leaders. Capital will be privately owned or privately administered, but under government steering.

How is private capital to be drawn in? Private investors will be given "insurance" against special

risks, such as the inconvertibility of other money into dollars, confiscation, or political upset.

It seems a bit fantastic that the American government should subsidize foreign nations to maintain inconvertible currencies and then subsidize American firms to meet the losses. It is even more fantastic that our government should "guarantee" industries against losses like Hitler's seizure of power in Germany or Russian seizure of Czechoslovakia.

There is, of course, no actuarial factor in such insurance. The State Department refers to this as an "indeterminate cost factor." That is a pleasant way to say that the government does not have to make costs and revenues fit.

Why should private investors accept government "insurance" against nonbusiness risks? It is no part of the tradition of free capitalism to buy and sell only where political order can be guaranteed by the state. French and Spanish merchants waited for the establishment of order by government, but the early English merchants went wherever trade was to be found, and brought their own order with them.

Free capitalism grew up in a world of war, robbery, piracy, at home and abroad. It expected treachery of governments. It established its own islands of order, and in time made limited government possible.

If businessmen accept the role assigned to them in the "new private enterprise," they will eagerly seek government orders, government "guaranties," government supported prices, and government regulation of wages and profits. If they do, then the capital in the hands of private agencies will for all practical purposes be fully and freely at the disposal of the political leaders.

The heads of foundations and other philanthropies will be urged, by similar offers of cooperation, to put their capital and experience at the disposal of the government planners. Heads of universities will be urged to open their facilities to those projects and scholars whom the government selects. Promotion and prestige will go, on the faculties, to the men who "cooperate" with government. The teachers and scholars who might be tempted to criticize government finance or centralized control will form a dwindling insignificant minority, whose opinions can be ignored.

Private missionary agencies will be invited to cooperate and promised grants-in-aid, if they support Point Four, as health and welfare agencies were promised grants under the federal health program. The support of nonprofit agencies high in the opinion of the public will be invaluable to the government in the task of molding public opinion to accept without critical analysis a program with so humanitarian a label.

Mr. Oscar Ewing, the Social Security Administrator, said to Congress: "If we can get church

organizations to do a thing, particularly if they can do it better, *we certainly would be silly not to utilize them to the fullest extent, and do it through grants.*" (Italics ours.)

From the administration's point of view, the second function of private business and the foundations will be to supply enough "know-how" to keep the government projects from making conspicuous (politically costly) errors. Economic losses are not serious but public ridicule might be.

The government will "pick the brains" of businessmen with experience in industrialization and foreign loans, until its staffs have learned how to get on without them.

As soon as Point Four was unveiled to the public, a stream of ideas, suggestions and criticisms poured into Washington from people of experience advising them what were the hazards they were about to face. The staffs of State, Commerce, Treasury and other departments sifted these suggestions, disregarded those which explained how to operate economically, but took over those which explained how to operate efficiently, in the physical sense, so that there would be no visible breakdowns.

This is the method by which a spending government can "commandeer" all the practical working knowledge of technical matters that it needs—by letting private industry and nonprofit bodies give it to them.

Private firms cannot keep their present monopoly of the knowledge of economic operation if the government sets its suction pumps to pulling the knowledge from them. Every bit of business experience that is of value to the strengthening of Big Government can be skimmed off for future use.

Of course, the administration does not spell out any plan to take all investment under political management. It is only offering to help, by taking over the "unmanageable surplus" of our industries.

Federal management of farming began with the Federal Farm Board, which tried to take care of our "unmanageable surpluses" of wheat and cotton. The people who tried the experiment, for a temporary emergency in President Hoover's administration, knew that economically they had failed. But they did not realize that to the technicians of government control their experiment was a complete success. They sold the idea to the New Deal as the AAA, and it gets bigger every year.

The American public does not hear much about our "unmanageable surpluses" of locomotives, tractors, road machinery and electrical equipment. But the European press, and our propagandist literature, are full of statements that Europe must "help" us by taking the stream of trucks and tractors that we are eager to give away.

The belief that our heavy industries must get into a position of extreme "overproduction," with a

large unmanageable surplus, is a cardinal principle both of the Russian Marxists and those in the Socialist Labor Party. The Marxists are as sure of the ultimate breakdown of the heavy industries through collapse of our capital goods market as they are that the sun will rise.

The collectivists believe that they can persuade the businessmen who make capital goods to fear "surpluses," as farmers and labor unions now do, and so make them responsive to government promises to buy their output at prices the people of the nation cannot afford to pay.

Producers' goods are as dependent as corn or wheat on the axiom that where there is "overproduction" at a given price, the price is too high. The price verdict of the free market is kinder in the long run—however harsh its verdict—than the government's promise to move surpluses by using printing press money to buy them.

We need only remember that when the government guarantees a loan it is encouraging buyers who cannot afford to buy. When the government provides working capital it encourages producers who cannot produce at prices the free market can pay. Government purchase of output is capital destruction. And government purchase of output abroad is putting foreign workers on a dole paid by workers in our country.

Each of these plans has a *raison d'être* from the government's point of view. It brings about political intervention in costs or prices within the private firm. A small amount of political intervention in internal costs acts like a small stream in the cleft of a rock. The dislocations of a little interventionism always lead to more intervention. The first effects of government marketing of "surplus" tractors and freight cars and generators will be like those in cotton and wheat in the 1930s—price inflation in producer goods, larger and more unmanageable surpluses of tractors and freight cars, a much more painful price drop if producers tried to return to true economic prices in a free market, and the continuous growth of vested interests urging newer and better price supports.

IV.

THE State Department has summarized our present commitments in its "Foreign Affairs Outlines. Building the Peace, No. 21," issued in the spring of 1949.

The Interdepartmental Committee on Scientific and Cultural Cooperation is the vehicle for our "exchange" of technical help with the other American republics. This committee "coordinates" the work of 25 departments and agencies of the Federal Government. Projects are under way in agriculture,

public health, labor, social security, fiscal administration, transportation, mining and geology.

The United States lends experts and undertakes field work and trains personnel both on the spot and in universities and technical schools in this country.

As the State Department tactfully puts it, "Latin American countries contributed three dollars to every dollar expended by this country in programs carried out during the latter (sic!) half of 1948." That means, in the simpler language of Calvin Coolidge or Abraham Lincoln, that American workers in farm or factory or at their desks, paid 25 cents for every 75 cents spent in Latin America on raising farm and industrial output and increasing the population of nations which cannot feed their present population.

The State Department calls this a "surprisingly low cost." It mentions the budget of the Interdepartmental Committee, but does not mention the costs incurred by the 25 cooperating agencies.

This is not of course confined to Latin America. The Smith-Mundt Act, passed in January, 1948, authorized the administration to expand these activities on a world-wide basis, which goes to show how closely the camel's nose is attached to his neck.

There is also the "Institute of Inter-American Affairs," a government corporation, not a bureau. It was chartered in August, 1947. It has what the State Department calls "wide latitude" in the choice of projects and "the time and money to be spent on them."

It sets up agencies known as *servicios*, staffed jointly with American and local administrators and technicians and "jointly financed and administered" by both the United States and the beneficiaries. The experts work under the ministry of the local government or with private firms. They establish health centers, construct hospitals, and laboratories and schools of nursing and hygiene. They have 1,200 scholarships for training technicians in the United States and local training centers for 7,500 people in Latin America. We are engaged therefore in requiring that young technicians in Latin America who wish to come to this country must have the approval of their governments before the doors of opportunity are opened to them!

The receiving government gradually assumes "increasing" responsibility for operating costs. When the United States withdraws, the projects become the property of the local *government*.

This is only one of the resemblances between the *servicios* and the Machine Tractor Stations in Soviet Russia, by means of which the central government has an agency of its own in every village and hamlet in the land. For example in Peru, we have set up a nation-wide agricultural extension service, with a "machinery pool," as well as seeds, trees and insecticides. But what local areas will disagree with

the central government, when the central government owns all the farm equipment in the district?

The President has already asked for extension of the Institute's charter until 1955, and a "further request may be made," says the State Department, to extend the Institute "outside the Western Hemisphere."

American experts are helping the Mexican Government with mining and metallurgical techniques. We have geologists in Brazil helping that government locate minerals. In aeronautics we have government field parties in five Latin American countries. In Brazil they followed the quaint practice of having the Brazilian Government itself hire and pay American aeronautical engineers.

It is obvious now that by building up a large staff of technicians, and "giving" their services to foreign governments on a government-to-government basis, the administration is exerting tremendous pressure all over the world in favor of government control of the new industries that arise, and in favor of the planned economy, whether the people of those countries want their governments to control them or not.

Likewise when foreign technical students come here they are given a thorough course in the Public Roads Administration, TVA, the Public Health Service and other planning agencies, before they are sent to private colleges which might still hold to the idea of economic life free from governmental direction.

Technical assistance projects under ECA include (1) increasing industrial productivity, (2) increasing farm productivity, (3) man power utilization and "conditions of employment," (4) market surveys, (5) governmental administration and (6) colonial development. The last is of course Point Four for "undeveloped areas" owned by European nations.

The Export-Import Bank also makes technical surveys. A large variety of UN agencies are doing likewise. All the really alert federal and UN agencies are "empire-building" their technical staffs.

We can take it for granted that every bureau and agency, no matter how small, will find increased need for technical men, and will discover that its mandate requires it to carry on its operations in foreign countries.

V.

THIS sudden building up of technical staffs has the greatest political significance.

In economics, technicians do not play the decisive role in investment. The most important role is that of the enterprisers, the men who know how to direct new ventures into the right channels at the start. In the whole literature of Point Four there is no

mention of the men who are to have over-all direction of these investments.

Government does not need economic enterprisers. Private enterprisers have to find productive uses for their capital or they do not get their capital back, and they soon cease to be capitalists. The government is not subject to that annoying restriction because it gets its capital through the taxing power. "Losses" no longer have any meaning. "Costs" no longer have any meaning. Government can operate with any cost structure and any margin of error, because the producers of the nation can be compelled to make up the losses. Government has no incentive to low-cost operation. It has the strongest incentives to high-cost operation.

Another reason why the Bold New Program does not call for a staff of enterprisers before it hires its technicians is the Marxian dogma that capital is automatically profitable, it reproduces itself without any attention, and so the enterpriser performs no function for his profits. It doesn't make any difference how capital is spent. There is always more where the last came from.

Marxians are as enthusiastic about technicians as they are skeptical about enterprisers. Technicians are "workers." Also they are numerous and easily organized. They are part of the discontented intellectual class, from whom the collectivists have won so many recruits.

In addition to the somewhat mystical enthusiasm for technicians on the part of the true Marxists, more earthy politicians have been eager to draw experts onto the government payroll, because they are part of the ideological front, behind which the change to the European pattern of government is going on.

Everyone knows technicians are intelligent, idealistic, good, public-spirited. If a government employs great numbers of them, it must be a good government. Both the technicians and the public will believe it is.

Point Four is skillfully designed to hold out to the young biologist, soil chemist, public health doctor or engineer, the vision of new opportunities to use his talents to serve the people. This is the same technique by which the social workers were won over to collectivism through WPA, and the young doctors and nurses to socialized medicine.

George Allen, Assistant Secretary of State, said to the American Society of Engineering Education, "I can assure you that engineering will play a prominent part in the program, and subject to approval by the United States Congress, and by other countries . . . hundreds of American and other engineers will be going annually to assist the governments of underdeveloped areas of the world."

Point Four is an appeal to all the bright young technical men in the world to get on a government

payroll. It is part of the attempt to concentrate in government virtually the whole of the secondary intellectual class.

VI.

WHAT benefits can we expect from this sudden eruption of politically governed foreign investment?

A precise statement of the economic problem of political investment is given by the International Bank for Reconstruction and Development in its press release No. 134, for May 11, 1949.

Lest we forget, the Bank was set up at Bretton Woods, to give us once and for all the perfect machinery for the reconstruction of underdeveloped areas.

The release says: "The Bank will not be deflected from its determination to make loans only for sound and productive projects. For the efficient canalization of savings is as essential on the international plane as it is on the domestic. Any organization which lowered its standards in this respect would be guilty of waste for the sake of an ostensibly humanitarian gesture. The Bank has no intention of so abusing its responsibilities.

"This does not mean, of course, that the Bank finances only projects which pass private investment criteria. To the contrary . . . *its purpose is to finance projects involving risks which private investors are unable or unwilling to assume.*" (The italics are ours.)

The report goes on: "Since loans made by the Bank are on terms which are not designed to make any substantial profit, it is clear that any greater liberality . . . would amount simply to *disguised intergovernmental grants.*" (Our italics again.)

It is the more distressing therefore to find evidence of a recent sharp change to a policy of "going along with" the new program. The Bank suddenly announced on June 30th, 1949, that it was sending to Colombia a nine-man team of experts, headed by Lauchlin Currie. His committee is to study not specific long-term loans, but Colombia's "over-all economy." Its staff includes not only economists but experts on welfare from the WHO and FAO.

The results of shifting from specific economic loans to over-all welfare loans may be tested by examining the results of our fifteen years of political investment in Puerto Rico.

Puerto Rico is the classic case of American governmental aid to "undeveloped areas." The original program for this aid was drafted in 1934 by Luis Munoz-Marin at the suggestion of R. G. Tugwell and Mrs. Franklin D. Roosevelt. Newspaper statements, like that in *Time* for May 2, 1949, saying that the Tugwell program was set up in 1941, ignore

the early stages of the planning which did not get into the record.

There was first the Chardon Plan, based throughout on the Marxian assumption that the sugar companies and other large firms had made no contribution to the island but only extracted revenue from it.

It proposed that the Federal Government provide the capital to buy the sugar company lands and *centrals*, and give them to the Puerto Rican landowners. In addition the Federal Government was to undertake a variety of welfare projects on the island.

In 1934 a special committee was sent down to investigate the adequacy of the plan. The committee found that the sugar industry profits were based on American engineering skill, and the sugar industry had actually trained many young Puerto Ricans in our technical arts.

The committee found that the planners had missed the real problem. American health and sanitation measures had lowered the death rate so greatly as to lead to disastrous overpopulation. The committee urged the immediate cessation of relief, doles and every form of American subsidy, and a shift of policy to training the Puerto Ricans in strict production.

What happened is a side light on government planning. The Chardon group borrowed from the committee's report everything which was useful to the planners, and filed the rest.

Although the Chardon Plan was manifestly ruinous to the Puerto Rican economy and a good plan for self-help was available, the Federal Government poured millions into the plan for buying up the sugar lands from those who knew how to operate them efficiently.

Why didn't this socialist Utopia hit the rocks? Because, as with English socialism, our government continued to siphon the earnings of Americans into political spending on the island. When peacetime spending might have come to an end, and let the socialist skeleton in our closet out into the light, American military spending supported the island's economy, high up on artificial wages set by the New Deal's welfare agencies.

The good showing of our socialist experiment in Puerto Rico rests entirely on the red ink in the federal budget in Washington.

The net result of fifteen years of "planning" is that the population of the overcrowded island increased by another half a million, although a cityful of Puerto Ricans has migrated to Mar Antonio's district in New York. Over a billion of American dollars has been spent (probably much more). The island government has started some new industries—but how many private firms were wiped out or never started, during the years of Tugwell's planning to make the island a pilot plant for socialism

on the Continent? The economy of Puerto Rico rests today, where it did in 1934, on federal relief.

The Point Four program follows exactly the pattern of Puerto Rico in its major error—it *puts health and welfare ahead of industry and employment*. As Isaiah Bowman said of Africa: "If millions are saved from tribal war, malaria and tse-tse fly only to be permitted to die of starvation, the controlling white has not improved the status of the population, he has only changed the categories of the vital statistics."

Thousands of competent people know this. The difficulty is the absence of any tie between the political leaders who want to spend money on dramatic projects, and the victims of their "help."

Every single step taken under Point Four, insofar as it is successful, means adding more and more people, billions of people, to the poor eroded overcrowded areas of the world where human misery is now at its worst.

The use of DDT in British Guiana so reduced the death rate that the population is expanding about 10% a year. The suppression of tribal wars in British Africa had the same kind of result. Population in Latin America, India and China is rising about 2½% a year. So also in Europe, whose extra people now have no place to go.

William Vogt in *The Saturday Evening Post* says, "Anything that we do to speed the rate of population increase without assuring a parallel increase in the necessities of life imposes an extremely grave responsibility upon us. This relationship between mounting appetites and the possible means of satisfying them is one that must have fundamental and controlling consideration as we develop a program under Point Four."

If there is anything that the world does not need at the moment, it is stimulants to population growth. The pattern of Point Four may be only a larger and more distressing version of the story of Puerto Rico. All will go well so long as the spending continues. But a time may come when dollar imperialism would look like the Golden Age compared with the horrors of Welfare Imperialism.

VII.

IS there no hope? Must we abandon our promise to help the poorer nations of the earth, dash the hopes of innocent people, and expose ourselves to ridicule?

Certainly not. The hopes that have been aroused are too great to be lightly ignored. Our only choice is to return to our own tested method of irrigating the undeveloped areas of the world with our capital, economic skills, and social benefits.

There is, however, a total conflict between, on one hand, the method of private investment and private

gifts, and, on the other, government-controlled capital, managed by a governmental technocracy.

Every loan or grant which can legitimately be made to an undeveloped area, without risk of ruining the beneficiaries, can be made now through private initiative or through the original program of the International Bank.

The advantage of the old American method of aiding people who are not yet industrialized is that it depends on private savings, not on the taxing power. That means lenders cannot put their money into any project that will *not* provide the people of the undeveloped areas with more employment and higher wages.

Of course the borrowers complain about repaying our loans. They always do. They pay installments for many years, after the locomotives and machines are no longer new, and they have long forgotten what it would be like to do without them. It is natural that borrowers do not like to pay old debts. We were not too pleased to repay what the British lent to us. But why transfer these tensions between private citizens into tensions between governments?

Of course there were some shady transactions in the history of private investment. But according to *Pravda* there are some shady transactions even in Soviet Russia, and it is hinted that there are some in our own government in Washington.

Of course private managers and technicians were arrogant, and missed some of the possibilities of hiring local talent, but what reason is there for thinking that government managers are free from arrogance, or that Indian engineers would like it better if they thought their talents were ignored by a foreign *government* operating in their country?

The most important thing, however, is that private investment rests on the right human foundation, a foundation so completely right that it was never necessary to formulate it in plain English.

Because private investment could not get capital by taxation, projects that paid out had to come before gifts, or, to say the same thing, projects to raise production and employment had to *precede* projects that increased health and welfare. The society therefore was kept in balance, and jobs,

employment, food, health and education, grew together.

The rule is absolute that no people can spend money on health and education and welfare, simply because they need it. They can spend on welfare only when they have achieved high production and high employment.

VIII.

CAN we return to the free system? Politically such a step would be resisted by all the propaganda and organizational skills of the administration. The spending on Point Four is so scattered that only *a drastic cut in all spending* will save us from many Puerto Ricos.

A cut in spending will stop the waste of our nation's capital fund, but we need much more than that. We need to turn triumphantly to our own free system in full confidence that it is the world's most magnificent enterprise in sharing capitalist savings and industrial arts with less fortunate people. We need to search out every legitimate channel through which our use of free enterprise can be expanded.

American capital lived so long in a stable political atmosphere that it now puts the cart before the horse. It has accepted the Marxian argument that risk-takers cannot lend money until *governments* have established political order.

The truth lies at the opposite pole. Businessmen have to look back at the history of business enterprise and see how much it rests on courage and imagination. "Risk-taking" does not mean deciding whether to charge five per cent or six per cent for a loan backed by a piece of paper. It means deciding whether to go unarmed and unprotected into regions of danger. Political order would be sooner restored if private enterprise would take up the true burden of risk in the world as it is, and put behind it all spurious economic "security." That means to realize that there can never be for long a higher price than the market pays and that government cooperation with free enterprise is like the cooperation of the young lady of Niger with the tiger.

The makers of our Constitution undertook to secure conditions favorable to the pursuit of happiness. They recognized the significance of man's spiritual nature, of his feelings, and of his intellect. They knew that only a part of the pain, pleasure and satisfactions of life are to be found in material things. They sought to protect Americans in their beliefs, their thoughts, their emotions and their sensations. They conferred, as against the Government, the right to be let alone—the most comprehensive of rights and the right most valued by civilized men.—
Justice Brandeis.

The Story of Subsidized Agriculture

Staff

Washington

FOR seventeen years American agriculture has lived in the protective embrace of government. The farmers almost unanimously solicited that relationship. They had been at a serious economic disadvantage for a decade or more and wanted to be helped out of troubles from which they could not imagine delivering themselves.

There was a bargain.

If the farmers would consent to have their work planned and directed by the Secretary of Agriculture, the government on its part would undertake to raise agricultural prices, because for a long time food had been too cheap, and to guarantee the farmer a larger share of the national income.

The measures then adopted by the government were mainly these:

(1) Limitations on production by regulation and edict, this being sometimes control of the acreage that could be planted and sometimes control of the quantity that could be sent to market.

(2) Cash subsidies out of the public treasury to farmers who obeyed the regulations and edicts, these to be called by the government *cooperators*.

(3) Guaranteed minimum prices.

(4) A program of price supports whereby the government would be obliged to buy at the guaranteed minimum prices any quantity of agricultural products not absorbed by the market; and, when of things like eggs and butter there was threat of surplus, then to enter the market against the consumer and buy enough to equalize supply with the estimated demand and thus sustain artificial prices.

(5) Loans without recourse on basic commodities to keep them from glutting the market, as at harvest time. (A loan without recourse means that if the price goes down the farmer keeps the money and the government keeps the stuff.)

(6) Legalized cartels managed jointly by farm organizations and the Secretary of Agriculture, whereby the quantities of perishable fruits and vegetables permitted to be sent to market are strictly regulated.

(7) Cheap credit to farmers for all purposes.

There is no precise figure to express what these various farm programs have cost the public

treasury. It lies somewhere between \$12 and \$15 billion. The cost might be forgotten if the farm problem had been solved, or if only someone now could say, "The solution of it is in view."

Casting up the Score

How now stands the reckoning?

On the asset side, from the point of view of the farmer, is the fact that agriculture's share of the national income has been increased. It is now about one fourth more than when the bargain was made, and yet still not as much more as the farmers think it ought to be.

On the other side are these two facts:

One, American agriculture, which was the most individualistic and richest agriculture in the world, now is a collective dependency, unable to stand on its own feet, looking to the public treasury for its profit, and

Two, the present agricultural crisis is so aggravated by accumulated blunders and frustrations, so embittered by recriminations and so irrational that the Congress is in a panic, farmers are divided and many now are saying that the government's entire aid program had better be thrown out the window in order to make a new beginning.

But nobody knows what a new beginning would be like, except the Secretary of Agriculture, who says: "Let prices go down if they will. Then let the government pay farmers a guaranteed annual cash income for producing our food. Thus consumers would get cheaper food, the farmers would get their income anyhow and everybody would be happy."

What would that cost the public treasury? Even Mr. Brannan says that nobody can tell how much it would cost.

His idea is called the Brannan Plan. President Truman is behind it and it will be the Democratic Party's big bid for farm votes in the next election. But the American Farm Bureau Federation, the largest and most powerful of the farmers' organizations, is against it on the following grounds (quoted

from the resolution adopted at the last annual conference):

"Under the Brannan Plan, the farmer's only hope for a fair income would depend upon government handouts from annual appropriations by Congress. We maintain that it is unreasonable to stake the welfare of agriculture upon such a hazardous possibility.

"The cost of the program would be staggering.

"It is a well-known economic fact that the demand for most agricultural products is such that an increase of a given percentage in supply makes a greater than proportionate decrease in price.

"Farmers do not intend to get themselves into the position of having their entire net income, and probably a part of their actual production costs as well, dependent upon the precarious possibility of annual appropriations from the Federal Treasury. Here is the basis for real regimentation.

"A plan which promises high per-unit returns (including payments) to farmers and cheap food to consumers with little cost to anyone, actually would result in low farm prices and high food costs when the resulting inefficiencies and the inevitable tax costs are included."

This attitude of the Farm Bureau Federation made the Secretary of Agriculture very angry. So he went out to Des Moines and made a bitter speech, saying of the American Farm Bureau Federation: "They are willing to risk the entire national welfare on their own stubborn lack of vision and foresight. They are willing to sacrifice small farmers under the brutal survival-of-the-fittest concept, even if it means a large number of farms and farmers forced out of business at a heavy loss. They are advocates of the sliding scale price supports that usually slide only one way—downward."

What Conservative Farmers Want

To the fear among conservative farmers, already voiced by the American Farm Bureau Federation, that the unfortunate effects of high and rigid price supports and of rising subsidies will be to turn public opinion against all aid to agriculture, the Secretary of Agriculture said: "Let us be realistic. All aid to agriculture in any form is subsidy, just as all government aid to any other group is subsidy. There is no point in blinking this fact. Rather let us stand on principle. To the extent that the agricultural subsidy serves the public welfare it is not only justified but necessary."

Here is the Secretary of Agriculture offering farmers more out of the public treasury than some of them are willing to take, thinking it would be politically unwise to take it, and at the same time exploiting the evil class feeling already rising in agriculture between big and little farmers. The Brannan Plan definitely discriminates against large



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farmers by limiting the amount of production that may be subsidized.

"This," says the American Farm Bureau Federation, "would result in penalizing efficiency. Food prices eventually would reflect that inefficiency. Such a limitation would be a dangerous precedent—an opening wedge which would eventually result in government supervision and *permanent agricultural poverty*."

What is it the conservative farmers want? They want what they call "flexible price supports," which would serve not to swell the farmer's profit but only to keep his prices from falling to a level that would ruin him, and they want that kind of subsidy without further regimentation of their activities by government. That is to say, they want to be subsidized and at the same time to be free, which is a very difficult order.

The Potato Scandal

Aid to agriculture in principle has been so long immune from serious public criticism that fear of it is a new thing. The whole structure of subsidies has been imperiled by some of the aspects of the present crisis. Take the potato scandal. From supporting the price of potatoes at a point so high as to

encourage farmers to cultivate them more intensively the government annually finds itself holding a surplus that must either be destroyed or given away. This year it will be nearly 50 million bushels. The National Potato Council wires the Secretary of Agriculture that wholesale destruction of potatoes "will place the entire farm program in an untenable position insofar as public opinion and good will are concerned." But what can the government do with 50 million bushels of surplus potatoes? It can pour blue dye over them and sell them at a nominal price for fertilizer. It can offer them in large quantities to industries, as for example to the alcohol industry, if somebody will pay the cost of handling and shipping. Several times it has burned them. Congress was recently startled to hear from Minnesota that a farmer had received from the government a guaranteed price of \$1.46 per hundredweight to grow 160,000 pounds of potatoes and then immediately bought them back from the government at one cent per hundredweight.

The Final Absurdity

The final absurdity is that all this time Canadian potatoes have been coming by trainload over the tariff wall to be sold in competition with American potatoes.

When the government undertook to support the price of potatoes it imposed acreage restrictions, but what then happened was that on fewer acres farmers grew more potatoes by planting them bumper to bumper and using more fertilizer, under scientific advice from another bureau of the Department of Agriculture.

Mr. Brannan estimates that the potato program has cost the government from the beginning \$500 million in subsidies. This year he went to Congress and said: "You wrote the law. Now what shall I do with these potatoes?" And Congress said in effect: "We don't know. You are the Secretary of Agriculture. It is your problem." The Secretary of Agriculture blames the Congress and the Congress blames the Secretary of Agriculture, going so far as to say that he finds some satisfaction in the potato situation because it enables him to say: "Under my plan this would not have happened. We should have guaranteed the farmers a cash income for producing the potatoes. The potatoes then could have been sold on the market for what they were worth and the cost to the government would have been much less."

Or eggs. To uphold the price of eggs the government bought them, sometimes at the rate of 5 million dozen a week, dried them and stored them in caves until it had on hand more than 200 million

dozen, which it could not sell anywhere. But owing to the high prices thus maintained dried eggs began to come in from China. Into the *Congressional Record* of February 7th, Representative Jensen of Iowa read the following statement:

"From July to November, we imported the equivalent of 90,000,000 shell eggs—in shell, frozen, and dried form—imported most of them from Red China, where the industry is being expanded and shipments increased. From July to November, while hog prices skidded badly throughout the Midwest, we imported over 1,500,000 pounds of pork and pork products. How long can this give-away last? When is the Secretary of Agriculture going to act to protect our farm markets?"

For economic curiosities such as these the farmers blame not the farm program but the State Department, which now controls the country's tariff regulations and seems to manage them with primary concern for foreign policy, thinking perhaps that American agriculture can take it or that in any case the American government can take care of the farmer.

Senator Brewster says that he went to the Secretary of Agriculture asking why with an unmanageable surplus of our own, Canada was permitted to ship 15 million bushels of potatoes into this country at a fifty per cent reduction of the tariff, and that the Secretary of Agriculture said: "We will talk with the State Department and see if they will not do something about it."

Squeeze of the Little Farmer

Potatoes and eggs, however, account for a very small part of the total agricultural production. They are illustrative only and happen to dramatize all the ill will there is toward the farm program. It is extremely difficult to present the whole picture—the cotton acreage allotments over which there has been a terrific row and which Congress increased in an arbitrary manner on the cries of the little cotton farmers who were badly squeezed by a percentage curtailment, knowing that the increased acreage would add to the cotton surplus; the allotments of wheat acreage, peanut acreage, corn acreage, and so on; the fruit and vegetable cartels and how they work, and such an illuminating glimpse as the one spread upon the record by Representative Gwinn. It is a letter from a representative of the Department of Agriculture to a wheatgrower in New York State as follows:

September 1, 1949

"T. E. Milliman

Churchville, New York

Dear Wheatgrower: You have expressed a desire in

writing for a reconsideration of your wheat allotment for 1950.

The county agricultural conservation committee have set aside Tuesday, September 6, from 1 to 5 p.m., to hear each farmer individually state his reasons for wanting his allotment increased.

You will be given 5 minutes to tell why your allotment is not satisfactory.

Stop at our office at 112 Federal Building for your number in line.

Failure to appear at this hearing may be considered a waiver of your right in connection with such appeal.

Arthur G. Odell
Co-Assistant in Conservation."

When production of a basic commodity like wheat or cotton is controlled by acreage allotment, the farmer is bound by the history of his land. Suppose cotton acreage is going to be cut one fourth. A man whose land has the history of 100 acres in cotton will be permitted to plant 75 acres. But what of the farmer whose land has a history of only 10 acres in cotton? He will be reduced to 7½ acres. These rigidities very often cause extreme personal hardship. Moreover, how can a little farmer grow? Representative Beckworth of Texas addressed that question to the Secretary of Agriculture and received the following reply:

Washington, D. C.

DEAR MR. BECKWORTH: This is in reply to your letter of July 29, 1949, in which you asked what chance a young man of 21 would have under the new quota bill of becoming a large cotton producer with an allotment of 100 acres, assuming that he was allotted 11 acres initially.

Cotton acreage allotments are established on the basis of a farm and not on a personal basis. Under the provisions of S. 1962 as reported by the conferees on August 11, 1949, a farm could never receive a greater allotment than the initial 11 acres merely by overplanting the cotton acreage allotment.

There is provision, however, in the bill, wherein the county committee may use a part of a county acreage reserve to increase the initial allotment, in meritorious cases, above the highest planted acreage, and/or acreage regarded as planted under Public Law 12, established for the farm for the previous 3-year period excluding 1949.

In the event a farm does not qualify for an adjustment of an allotment by the county committee out of the county acreage reserve, it is conceivable that the operator may purchase or lease additional land which has cotton history, and if such land so purchased or leased becomes a part of the farm with the original 11-acre allotment the combined unit may receive an allotment somewhat greater than that which could have been established prior to the purchase or lease of the additional land.

We must emphasize that it is extremely difficult and hazardous to attempt to prophesy what may happen

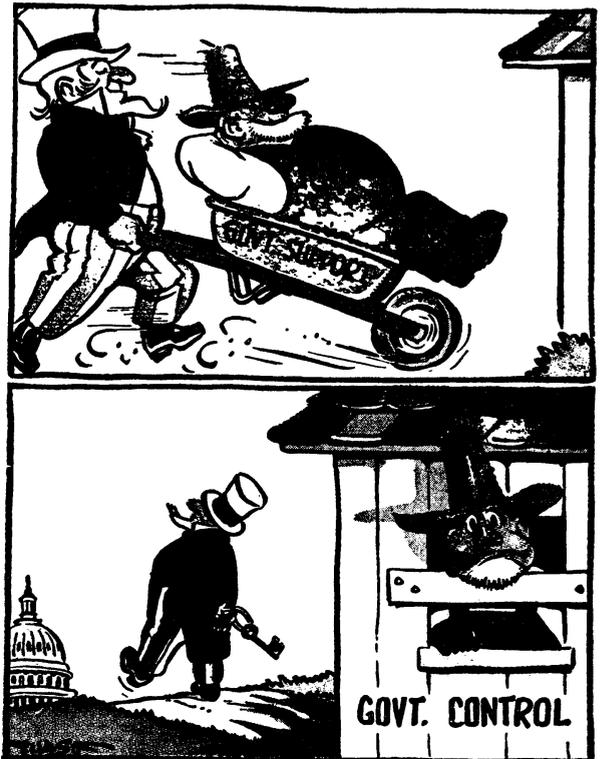
in future years with respect to an individual farm-acreage allotment. Although it may be legally possible for a farm to get an 11-acre allotment increased eventually to 100 acres through committee adjustment, it is likely that such cases will be very exceptional and even then only over a period of several years.

CHARLES F. BRANNAN,
Secretary of Agriculture

In the Caves and Warehouses

The government agency that makes the loans without recourse on storable crops, and the one also that actually buys the surplus commodities that the government is obliged to take in the performance of its various price support programs, is the Commodity Credit Corporation. This agency has a total borrowing capacity of \$4¾ billion to carry on, as it says, "its various programs including the price support program." Its resources are about to be exhausted and the Congress will increase its borrowing power this year by \$2 billion, which will bring its resources to \$6¾ billion. The Secretary of Agriculture says it may need altogether before the end of this year \$7 billion.

The best single statement of the CCC business as a whole, including what the Commodity Credit Corporation had in its bins, its cold-storage houses, its



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caves, and its warehouses at the first of the year, with much more coming in, was made by Senator Williams of Delaware in the *Congressional Record* of February 2. He said:

"Mr. Brannan appeared before the Senate Agriculture Committee seeking its advice as to what action it would recommend the Department of Agriculture take in disposing of the 50,000,000 bushels of surplus potatoes. Mr. Brannan gave the committee two alternatives, namely—

"First. To destroy them, which would mean the greatest willful destruction of food by any government in recorded history.

"Second. To spend an additional \$12,000,000 to \$15,000,000 and (a) pay the freight and give them away to school lunch programs that cannot afford the cost of transporting them, and (b) give some away for industrial use.

"What Mr. Brannan failed to emphasize to the committee was the fact that this 50,000,000 bushels of potatoes represents but a small percentage of the \$3,500,000,000 worth of surplus commodities which the Department of Agriculture now has on hand. For instance, the inventory records on January 1, 1950, disclosed that they had on hand at that time commodities valued at a total of \$3,645,129,317.

"I ask to have inserted in the *Record* at this point a table showing the inventories of the Commodity Credit Corporation as of January 1, 1950.

Commodity	Cost
Tobacco, 367,258,290 pounds	\$151,891,629
Cotton, 6,036,588 bales	955,109,372
Wheat, 465,226,944 bushels	996,719,026
Linseed oil, 394,827,620 pounds	111,337,600
Flaxseed, 13,943,222 bushels	88,344,527
Corn, 510,654,685 bushels	713,128,735
Dried eggs, 69,036,207 pounds (210,000,000 dozen)	89,317,233
Butter, 96,260,088 pounds	59,518,797
Wool, 69,403,900 pounds	53,510,467
Dry edible beans, 4,850,795 hundred- weight	42,859,926
Barley, 24,626,019 bushels	35,088,096
Dried milk, 215,799,300 pounds	27,399,460
Other	320,904,449
Total	\$3,645,129,317

"The day is rapidly approaching when the Department of Agriculture is going to be confronted with a similar proposal of wholesale destruction of all these commodities.

The Commodity Credit Corporation had just then advertised the strangest bargain sale of surplus food commodities in history. The following description of it is from the *Washington Post* of January 22:

"The world's biggest dealer in food commodities last week advertised Irish potatoes for sale at 100 pounds for 1 cent.

"Similar bargains in canned meat, eggs, edible beans, peanuts, flaxseed, etc., were made public by Ralph S. Trigg, President of the Commodity Credit Corporation, Uncle Sam's agency for operating the government's farm price-support program.

"These prices, however, are only for export. The goods can't be bought for use in this country.

"The sacks in which the potatoes will be sold cost from 10 to 15 cents apiece, or 10 to 15 times as much as the government asks for them filled with the world's best potatoes.

"The low prices accompanied announcement of a new CCC policy to encourage export of surplus farm commodities bought by the government to keep prices in this country high and farmers prosperous.

"In addition to the potato bargains, CCC is offering to sell to exporters:

1. Thirty million pounds of Mexican canned meat at 15 cents a can. This was bought from Mexico at about 80 cents a can. These purchases were made to reimburse Mexican cattle raisers whose markets were shut off when this country put an embargo on the importation of Mexican cattle, because of a hoof-and-mouth disease epidemic in Mexico. This meat is not permitted to be sold in this country under the pure food and drug laws because it comes from areas infected with the dreaded hoof-and-mouth disease.
2. Dried whole eggs, 73,000,000 pounds, at 40 cents a pound. These cost Uncle Sam about \$1.20 a pound.
3. About 4,750,000 100-pound bags of beans. Pinto beans are offered at \$7 a bag (cost about \$9), red kidney at \$8 (cost about \$9.50) and great northern, \$6 a bag (cost about \$8).
4. Thirteen million bushels of flaxseed at \$4.45 a bushel that cost the government \$6 a bushel in 1948.
5. About 50,000,000 pounds of shelled peanuts at 8 $\frac{1}{8}$ cents a pound, or just half the 16 $\frac{1}{4}$ cents CCC paid for them.

"The loss the government takes on such sales is absorbed in several ways. Much is replaced from Section 32 funds. Section 32 of Public Law 320 sets aside 30% of the nation's customs receipts. Such sums, the law states, shall be used by the Secretary of Agriculture to:

1. Encourage the export of agricultural commodities by benefits to the exporter, or payment of losses in connection with the exportation or by payments to producers to encourage production of commodities needed domestically.
2. Encourage domestic consumption of farm commodities by increasing their use through benefits, donations, etc., among persons in low-income groups.

"Under the first provision, CCC is making the following subsidies available:

1. Four million dollars to exporters of fall and winter apples and winter pears. These may be shipped to ECA countries, and to any Western Hemisphere countries except Cuba, Canada, and Venezuela.

They also may be exported to Israel, Egypt, and the Philippines.

These funds may be used to pay half the cost of the commodities.

2. Fifty thousand dollars, to permit payment of 10 cents a bale to exporters of cotton.
3. Seven and a half million dollars to exporters of surplus dried peaches, prunes, and raisins. These funds are to be used to reimburse the exporter up to 50% of the cost of the commodities.
4. One million dollars for dried-egg exports.
5. Two million dollars for flaxseed or linseed oil sold for export to any agency . . . furnishing relief to foreign countries.
6. Forty thousand dollars to encourage use of concentrated orange juice abroad.
7. Five million dollars to encourage use of peanuts abroad, to be paid to any government agency administering relief to foreign countries.
8. Five million dollars to wheat exporters to meet the difference in price between the current domestic price and the International Wheat Agreement price of \$1.80 a bushel.
9. Two million dollars for export sales of packed fresh oranges, and canned single-strength orange juice, to be used to meet half the cost of such exports."

The Problem Is Surplus Still

Thus the taxpayer is mulcted three times—once for the money the government disburses as subsidies to support food prices, a second time by having to pay those prices at the grocery store, and a third time to pay the loss the government takes on subsidized exports of the commodities with which the CCC finds itself stuck.

The crucial problem is what it was at the beginning. The name of it is surplus. There are many more farmers than are needed on the land to produce the nation's food supply. With more fertilizer, more machine power, better methods, they are able to grow more on fewer acres, thus beating acreage control. And the only way that the government has found to deal with the surplus is to buy it out of the public purse.

The ultimate irony is that having worked all of these years to make farming more profitable and more attractive for more people, and after having spent many millions on different schemes to move people to the soil, settle them there and mind their lives, the Department of Agriculture now meditates a ten-year plan to move a million farm families off the land and transplant them into industry. That makes one wonder what now would be the state of agriculture in relation to industry if government had never touched it at all.

The Public Roof Over Britain

By Morton Bodfish

Chairman of the United States Savings and Loan League

SOcialism did not begin in England with the election of the Socialist Labor Party in 1945. It was making giant strides even before the turn of the last century—under “conservative” governments as well as others. And high on the list of socialistic objectives was public or government housing.

In retrospect, this story does not make pleasant reading. It shows that the bombs and guided missiles that destroyed 300,000 British dwellings in World War II were not the worst enemies of British home ownership. That honor is reserved for the persons who advocated laws for “low-cost public housing” and for “cooperation” between government and private enterprise in housing for low-income groups. It shows the inevitable results of compromise and political expediency, regardless of good intentions.

The entire story testifies to the moral of how utterly impossible it is to stop socialism at a given point of time or at a given level of income. America is toying with the same temptation and the same fallacy today, as witnessed by the recent enactment of a mammoth \$16 billion government housing program.

This housing measure was passed by a narrow margin of five votes by the House of Representatives after a bitter debate. Its most active and verbal backers were representatives of public housing authorities, who gained a good foothold with the passage of the United States Housing Act of 1937. Since that time, they have agitated persistently for new and bigger programs of subsidized housing, to be paid for by public funds. They hit the jackpot with the passage of the recent bill.

The program of socialized housing the United States has now embarked upon bears the trademark, “Made in England.”

The British Story

Great Britain is spending as large a proportion of its income on housing as it did before the war, but it is getting barely half the number of homes.

During 4½ years after World War II, only 367,761 permanent houses were built, compared with a total of 2,500,000 in the 8 years before the war, of

which 1,888,000 were built by private enterprise. Owing to the greater need for housing, and 300,000 dwellings having been made uninhabitable by the war, various types of housing and control acts were passed. But, inevitably, the more control, the less housing.

This is a situation distinctly disturbing even to supporters of the government housing scheme. Mr. Aneurin Bevan, Socialist Minister of Health, showed alarm when speaking in London recently. He said: "The slow rate at which the labor force is building up in London frightens me. If this had been a military operation you could introduce discipline into the whole thing and shoot a few builders who did not toe the line."

Sir Harry Selley, president of the Federation of Master Builders, said: "We are completely shackled."

The London Master Builder Association says:

"The legitimate building employer has found his operations to be just about as difficult as possible. Even when licenses are obtained, there is no guarantee that materials to carry out the work will be available.

"The amount of form-filling which has been inflicted upon employers has made it necessary for a large part of the time of management to be expended upon unproductive office work. It frequently takes many weeks before the completion of forms enables materials to be ordered, let alone supplied."

The Long Thin Wedge

This is the impasse in Britain. It has been brought about by a series of steps leading to socialism which began in 1851. Then Lord Shaftesbury secured the passage of the Lodging House Act of 1851, which empowered borough councils throughout England to erect lodging houses, or to purchase existing lodging houses, and to manage them under the supervision of the local Boards of Health. This law, passed nearly a century ago, was the first instance of direct government activity in the field of housing.

Between 1851 and 1892, the Liberal Party was in office for twenty-five years; the Conservative Party about sixteen years. Between them, they laid the foundations of the socialistic program of today. The outer walls of the structure rose during the first three decades of the twentieth century. The roof finally has appeared since the end of World War II in 1945, under the sponsorship of the Labor Party now in power.

But the story must be carried back. The English government's drive into the housing field was given impetus after the turn of the century. Then Mr. Lloyd George introduced his special "People's Budget" of 1909-10. This budget contained some

discriminatory taxes on land value, which immediately discouraged building by private enterprise.

In the year before this budget became parliamentary policy, 87,000 houses were built. The year afterward, the number dropped to 10,000. That swift drop in production was never made good and contributed directly to the housing shortage after World War I. By that time, it had become the accepted national policy for the government to solve the housing problem, even though it had been caused by policies of the same government.

Between Two Wars

After World War I the coalition cabinet, under Lloyd George, launched a "Homes for Heroes" campaign. The clamor that went up in its behalf was tremendous, with the result that the Housing and Town Planning Act was pushed through the House of Commons by July 31, 1919. It gave to the State the right for the first time to acquire land for building purposes.

The housing authorities established under the Act with the approval of the Ministry of Health were armed with sweeping powers. They could lease or sell land to other organizations or persons for the building of houses and factories. They could buy houses and alter them for the shelter of the so-called "working classes." What a bonanza of political influence was thus tendered to the housing authorities!

With the enactment of that law, the outlook of the private builder became grim. Fearful of a complete shutdown in private building, the government sought a way out of its self-created dilemma. The "escape" route discovered was a subsidy for the private builder. An Act of Parliament, passed on December 23, 1919, authorized grants not to exceed \$60,000,000 on a sliding scale of from \$520 to \$640 a house, according to its size.

By May, 1920, the inflationary impact of heavy government expenditures on housing was already being felt. The Ministry of Health announced that due to increased building costs, subsidies to builders would be increased \$400. The outright grants for each privately-built house then would range from \$920 to \$1,040, according to its size. These subsidies enabled private builders to compete with the government. Yet they were minor compared to subsidies for local housing authorities.

When the Housing Bill of 1919 was before Parliament, it had been estimated that capital of \$1,720,000,000 would be required to build half a million houses in England, and 35,000 in Scotland. The net deficit, or loss, from the program for loan charges would be \$30,000,000 annually, on the basis of a \$60 subsidy per house. This \$60 figure was

based on a statement by Dr. Christopher Addison of the Ministry of Health that the half million houses would cost \$2,000 to \$2,400 each. His estimate was far off. The average cost of the government house proved to be \$2,800. The direct subsidy became not \$60, but \$240 per house.

Part of the blame for the increased costs could be traced to the building trade unions. Even Mr. Lloyd George took the unions to task for their slump in efficiency. He wrote:

“When new bricks are laid at the rate of 300 a day, whereas they could be laid quite easily at the rate of 900 a day, according to experts, you cannot build homes very fast.”

Between 1921 and 1924, private construction declined so alarmingly that something had to be done about it. So there was the Chamberlain Act of 1924, which was the least burdensome of the government's housing schemes between the two World Wars, and did release again the energies of private enterprise. For a while private building exceeded public building five to one. But this was an interlude only. Three years later the subsidies to private enterprise were cancelled, private building slumped again, and then came the Greenwood Act of 1930, when Mr. Greenwood was Minister of Health in a Labor administration. After having stoutly opposed it at first, the Conservatives took the bill over the following year when they came into office, and pushed it vigorously.

Visible only to a handful at that time, the Greenwood Act meant the jumping of a major hurdle in the race toward socialization of the English home. The Greenwood measure was to clear the slums and rehouse the slum dwellers.

Subsidies paid under the act averaged about \$60 per family annually, the exact amount determined according to the income of the family and the number of children. The total average weekly payment for rent and taxes was \$1.20. This rate was maintained for the next eight years. Small wonder the program proved popular with the “selected tenants”!

The inevitable result of the extensive slum clearance schemes was to extend government control over the vast areas which were acquired. A quarter of a million houses were built under this Act. During its continuance by the Conservative administration, a million people were moved out of slums into new houses.

Under this Act the local authorities were compelled deliberately to select for rehousing the largest and poorest families who had been accustomed to live in slum conditions. Accordingly, they were faced during the early '30s with a management problem of the acutest difficulty. Altogether, during

this inter-war period, the local authorities of Great Britain spent more than \$2,000,000,000 on housing.

After the Second War

Such was the situation when Great Britain entered World War II. Already deeply in debt on account of her public housing programs and far behind in her supply of housing, then suddenly she suffered the loss of 300,000 dwellings from bombing.

It was certain that the socialist Labor Government, coming into power in 1945, would continue along the road of controlled and socialized housing. The labor regime insisted that at least four out of five new houses should be government-owned and rented to wage-earners. By 1948, the private British housing industry had nearly gone out of business, with the result that 94% of all new houses built in England last year were owned and operated by the government.

On the effect of the “4 out of 5” decree a member of Parliament recently read to the House of Commons the following statement from one of his constituents:

“I have saved nearly enough money to buy a house. All that I have not saved I can borrow. I am willing to build a house for myself and I want it to be only what is regarded today as standard size—three bedrooms. Nevertheless, I have been told I cannot build a house. The local authority has told me it will be years and years and years before they get around to me, but they have said I can live in a subsidized house.

“Does that make rhyme or reason—where a man who is willing to put up his own house, and who has his own money, the government should come along and say, ‘No, you shall not use your own money. We will put you in a house exactly the same size, and we will let it to you at a subsidized rate with taxpayers’ and ratepayers’ money’?”

Seizing the Increased Value

Not only has the government's near-monopoly of housing production back-fired. Not only has output declined steadily in direct ratio to a broadening of government control and intervention. But now come two new laws to complete the socialist fantasy. One is the Town and Country Planning Act and the other is the new rent control bill.

The former came into operation last year, and already has had far-reaching effects on the redevelopment of property. Its most important feature is the introduction of what is termed a “development charge.” This charge is made when a site becomes more valuable as a result of development. For example, if permission is obtained to change the use

of a land site, to make it more profitable, the state takes 100% of the increased value; and *this levy is made even before a brick is laid*. One obvious result is that the incentive to improve property is disappearing, the increased value of the property is entirely confiscated before the improvement takes place.

The Central Land Board, recently formed, can be called in at any time to exercise compulsory acquisition and to make any owner part with his land at "existing use" price.

The latest rent control legislation is the new Landlord and Tenants Bill. On more than one occasion His Majesty's Judges have expressed bewilderment in attempting to construe and interpret the various rent restriction acts which have been passed during the past three decades. The new act is no exception.

Viscount Buckmaster in his last presidential address to the National Federation of Property Owners, in London, pointed out that at present costs of even minor repairs, many landlords were finding it impossible to maintain the houses which they own, as one year's repairs now often swallow up several years' net rent of a small house. This means that the process of decay is progressive. And as it proceeds, homes that are vitally needed are being lost in continually increasing numbers.

Cases are becoming quite frequent where the owners, in despair, are offering their property to the local authorities for nothing. For example, in Glasgow 938 houses and 63 tenement properties have been offered free by owners to the municipal corporation, or city, of which only 286 have been accepted. Hundreds of houses in Manchester and Liverpool, and various parts of Lancashire, have been offered free, but declined, and owners cannot get them off their hands by any means. In every case, the annual outgoings exceed the annual income.

Lord Hylton declared:

"It is financially easier to improve accommodation for cows than it is for the small owner of rent-restricted houses to keep them in repair. Wages of \$80.00 to \$120.00 a week go into houses rented at from 50 cents to 80 cents a week. Yet millions a year are spent on dog and horse racing and football."

It would be easy to draw parallels with publicly owned housing projects in our own country where there was recently an argument as to whether or not television antennae should be permitted in the projects. It is far more pertinent, however, that we emphasize the need for the whole question of housing policy in the United States to be considered in its fundamental aspect: Should the homes be owned by the people, whether for their own occupancy or to let to their neighbors, or should this country move into a program for government ownership of homes?

Why Not Export Free Enterprise?

By John L. McCaffrey, President of the International Harvester Company

AMERICAN industry alone cannot do the world's job. We can do a lot of it, yes. We have been doing a lot of it. But we cannot continue indefinitely to do even as much as we are now doing, let alone the whole job. We have not the capital or the manpower or the plant or the physical resources to be the workshop of the whole world.

But the private enterprise system and the private enterprise idea, set free among the principal nations of the world, can do the world's job. They can do it on a scale and with a success that has never remotely been approached in the past. Private enterprise is the only system that ever has done the job. And the farther we drift or allow others to drift away from the basic principles of private enterprise, the poorer the job becomes and the more people live in want. Collectivism in all its forms has never produced more than two products and it has always produced those two. And they are, on the economic side, scarcity, and on the political side, slavery. Private enterprise alone has been able to produce abundant goods and human freedom.

I do not think we should hesitate to point out these truths to nations who come seeking our aid. They have embraced systems that are not working now, have never worked in the past and are inherently unworkable. Yet they look to us for help. They want money. They want weapons. Is it sensible for us to provide the money and the weapons and not say to them that individual freedom and economic collectivism have never existed side by side and cannot do so? Have we not the right to say to them that in our fight against collectivism we expect to see them friends on our side of the fence? Have we not the right to say to them that if they expect private enterprise in America to assist them, they should assist themselves by liberating the productive energies of their own people through private enterprise?

Is it not time for all nations to decide fundamentally which side they are on? We should not leave any doubt in anyone's mind that being on our side involves something more than lip service to the cause of freedom and something more than accepting the wealth and the goods which private enterprise in our nation produces.

The most important commodity that we have for export is the philosophy and the practice of private enterprise. It will, in the long run, do our friends more good than all the Marshall Plan billions we can possibly loan them.

Horoscopes

The Outlook For 1929 Writ On a Golden Page

Staff

IN the history of disillusionment few chapters are more painful than the one entitled, "Outlook for 1929." On January 1, in *The New York Times*, Alexander D. ("Sandy") Noyes, the grim sire of financial editors, wrote:

"The evident facts are that 1929 begins with a difficult position, that the year's results will depend on how the difficulties are met, and that the activity in each field of activity—the stock market, the money market and possibly general trade—will be determined for better or worse by what happens in the others. *As to the underlying strength of the American economic situation, however, there is only one opinion.*"

S. S. Fontaine, in the *World Almanac's* Financial and Economic Review, said:

"If Wall Street continues to be able to cast the horoscope of business accurately, the outlook for general commercial and industrial prosperity may be considered encouraging. The country has been in a cycle of business growth ever since the postwar deflation was completed in 1921 for it was then that the present bull market or series of bull markets began. . . . *There are many factors, economic as well as moral, that have contributed to the great expansion of investment and speculative activity.*"

The bull market had assumed fantastic proportions. There was a good deal of anxiety about the enormous rise of brokers' loans; but even in this wild speculation Andrew W. Mellon, Secretary of the Treasury, could see more gold than glitter. A state of unexampled prosperity, he said, "was reflected in increased wages and profits from industry and commerce and in the rise in prices of securities, particularly stocks, realized gains on the sales of which increased individual incomes and to an even greater extent the tax collections."

This was the New Era. Albert Ulmann, a famous Wall Street broker, expressed the prevailing opinion of Stock Exchange people, about the tremendous rise in speculative loans, when he said:

"It is quite evident that large corporations, wealthy individuals, and foreign countries are more and more

being attracted by the prevailing high rates of interest through the call money market on brokers' loans. Especially is this so since those loans are made on the soundest possible collateral, namely, the stocks and bonds of leading American corporations."

In his message to Congress on December 4, 1928, President Coolidge had said:

"No Congress of the United States ever assembled, on surveying the state of the Union, has met with a more pleasing prospect than that which appears at the present time. In the domestic field there is tranquillity and contentment, harmonious relations between manager and wage earner, freedom from industrial strife, and the highest record of years of prosperity. In the foreign field there is peace, the good will which comes from mutual understanding, and the knowledge that the problems which a short time ago appeared so ominous are yielding to the touch of manifest friendship. The great wealth created by our enterprise and industry, and saved by our economy, has had the widest distribution among our own people, and has gone out in a steady stream to serve the charity and the business of the world. The requirements of existence have passed beyond the standard of necessity into the region of luxury. Enlarging production is consumed by an increasing demand at home and an expanding commerce abroad. The country can regard the present with satisfaction and anticipate the future with optimism."

On January 28, 1929, President Coolidge thought we were writing a golden page of history. He said:

"Working in that spirit which forcefully asserts itself in time of need, the executive and legislative branches of the government, with the backing of the people, have inserted a golden page in our history. It fittingly portrays that peace hath its victories no less than war. In the short period of seven and one-half years, the public debt has been reduced \$6,667,000,000. The total saving in interest alone from this and refunding operations is \$963,000,000. Four reductions in taxes have returned to the people approximately \$2,000,000,000 a year which would have been required had the Revenue Act of 1918 remained in force. Two and one-half million

people have been entirely relieved of all Federal taxation. . . .

"The output of our factories increased during that interval nearly 60%; in some cases, such as iron and steel production, it was more than doubled. The production of the mining industries as a group was at least 50% greater last year than seven years before. The construction of new buildings was much more than twice as great in 1928 as in 1921."

In all the literature of forecast during the first quarter of 1929 there was nowhere the slightest premonition that the most frightful economic disaster of all time was just around the corner. From the chorus of optimism, the following examples are selected at random:

William F. Whiting, Secretary of Commerce: "Through the last year the country has made steady progress. Prices in industry have not been unduly high and have remained fairly stable.

"In the financial world there is plenty of money for all legitimate undertakings.

"Insofar as our government is concerned the finances are in sound condition. The debt has been reduced to manageable proportions, the revenues are ample for all needs and during the last year there has been another reduction in taxes, the full benefit of which will be more generally felt during the coming year. For all these reasons, I look forward with confidence to continuing progress for the year ahead."

Federal Reserve Board's Summary: "Industry and trade continued active in December, and the general level of prices remained unchanged. Banking and credit conditions at the turn of the year were influenced chiefly by seasonal changes in the demand for currency and by requirements for end of year financial settlements. . . .

"The general level of wholesale prices, as measured by the Index of the United States Bureau of Labor Statistics, remained approximately the same during December as in the preceding month. Average prices of iron and steel, automobiles, copper, and building materials continued to advance slowly, and prices of farm products, after declining during October and November, also rose in December, reflecting higher average prices for raw cotton, oats, rye, and some grades of wheat, offset in part by lower prices for corn and cattle. In the first three weeks of January the price of rubber advanced sharply, and wheat, corn, potatoes, and flour also increased, while silk and sugar decreased somewhat, and hides reached the lowest level in more than a year. Banking and credit conditions in January were influenced chiefly by the seasonal decline in the volume of money in circulation."

Lawrence E. Mahan, President of the Real Estate Mortgage Trust Company, St. Louis: "A real estate review of St. Louis and its metropolitan area during the year 1928 will serve as an accurate barometer of conditions in the trade territory in the South and West. The year was marked by a well-balanced development in all branches of the real estate field."

John G. Lonsdale, President of the St. Louis Clearing House Association: "All in all, it may be said that business

has passed through a successful year in point of production, earnings and employment. It has entered 1929 with a feeling of confidence supported by sound underlying factors. Credit has kept pace and appears ample for all commercial demands. It would, therefore, seem that 1929 will see a continuation of prosperous times."

M. W. Alexander, President of the National Industrial Conference Board: "There is no need, however, of despairing of our prosperity; the manufacturing industry's problem is not so much a problem of overproduction as rather of underproduction of the kind of goods in demand. For it is common experience that the new, be it an entirely new article, or an improved product, or merely a newly 'styled' product, always finds ready customers. The trend of construction shows no indication of any serious decline; indeed, our rapidly changing standards of housing both for the residential and commercial uses, would seem to indicate an entire rebuilding of large sections in most of our cities within the next decade or two at a rate faster than normal population increase would call for. Costs, however, must be kept down and reduced wherever possible. Further mechanization, engineering research and ingenuity, and such increase in speed as is in accord with sound construction principles, appear to me the chief means by which this end may be achieved."

Union Trust Company of Cleveland: "There is every prospect that the number of cars made in the first quarter and the first half will be unprecedented. Output for the first six months may reach 3,000,000 cars and trucks. This would be a larger total than for any full year before 1923. One immediately stimulative factor is the reported low level of stocks of cars in dealers' hands. An actual shortage of low-priced cars exists, while stocks of all cars are estimated at 20% below one year ago. The outlook is for an extraordinary volume of motorcar production, a fact which should have a stimulating effect upon many lines."

Federal Reserve Bank of Kansas City: "The favorable conditions which provided an impetus for this record volume of business were visible at the turn of the year and, allowing for the usual slackness in January, the year 1929 had a very good start."

Federal Reserve Bank of San Francisco: "Seasonal declines in industrial activity and in employment during December were smaller than in most previous years, retail sales expanded by more than the usual amount; wholesale trade was in moderately large volume; the supply of credit was ample for the needs of business, although at somewhat higher rates than prevailed earlier in 1928."

"Iron Age," January 31: "Improvement in railroad buying is of particular interest. To a steel trade that has become accustomed in recent years to regard restricted purchases of rolling stock as a normal condition, the addition, in one week, of 12,000 freight cars to the pending list is impressive. Orders for 110,000 tons of rails, following the placing of 73,000 tons in the previous fortnight, are also reassuring, and it is now predicted that bookings for the current winter buying movement, although about 10% smaller to date, will reach a total equaling that of a year ago."

"Iron Trade Review": "From the nature of recent orders and pending inquiry, this gain will be maintained.

The great bulk of commitments represents tonnage requirements, specifications for which will flow over a number of months."

State Bank Division of American Bankers Association: "All told there were 14 states in which there were no bank failures at all reported in the 1928 period, nine of these also having a clean record in this respect for two or more years. The states with the clean 1928 record were Alabama, Arizona, Connecticut, Delaware, District of Columbia, Maine, Massachusetts, Nevada, New Hampshire, New Jersey, New Mexico, Rhode Island, Vermont and Washington. In the four states of New York, Utah, Virginia and Wyoming where the count remained the same as the year before, the numbers of failures were small, there being only one in New York and Wyoming each, two in Utah and three in Virginia."

Guaranty Trust Company of New York: "It may now be said, therefore, with somewhat more confidence than was possible a month ago, that present conditions favor the outlook for a continuance of active and prosperous business at least during the next few months and, as far as can now be seen, throughout the year. Coupled with the auspicious start made by the leading industries is the fact that consumers' demand appears to be keeping pace with manufacturing operations, thus affording a sound basis for sustained activity."

John Moody, President of Moody's Investors Service: "Briefly, 1929 promises to be, in the security markets, largely a duplication of 1928, but with greater shake-outs, wilder movements, both higher and lower prices. We have ahead of us a further constructive period for the American investor—the long pull investor, who unlike the mere temporary investor, is patient enough to ride with our growing country for an extended period, and is not so foolish as to sell the United States short."

Arthur Lehman, of Lehman Bros., bankers: "When I say the outlook for business is doubtful, I mean it literally, and not euphemistically as predicting poor business. Production has been at a high rate during the past year and it is difficult to see where in many lines an expansion could arise. On the other hand, the purchasing power of the country should continue at a very high level at least for some six months to come. The condition during the second half will depend in the first place on the credit situation, which is now not very clear, and in the second place as it always does, on the farm outlook."

Charles M. Schwab, Chairman of the Bethlehem Steel Corporation, January 1, 1929: "We have reached in this country an amazing degree of general prosperity. American business on the whole no longer faces an uphill climb. The problem today is an entirely new one. It is what to do to make prosperity permanent. No one, of course, has any patent rights to continuing business success. But I venture to suggest a few fundamental considerations which all of us may find helpful to keep in mind. These ten rules seem to me to hold the key to lasting prosperity.

"1. Pay labor the highest possible wages. Prosperity is ultimately related to a liberal wage scale.

"2. Treat labor as a business partner. Successful indus-

try depends more on human relations than upon the organization of men or machines.

"3. Conduct business in the full light of day. Public confidence and public suspicion may be separated only by a door.

"4. Remember that the law of supply and demand is inexorable. And it would also be well to remember that there is no necessity for producing an excess.

"5. Live and help live. Even prosperous industries cannot afford to have the backward industries to fall behind the procession—prosperity to be permanent must be equally distributed.

"6. Welcome new ideas. To establish permanent industries we must always be prepared for change.

"7. Never be satisfied that what has been achieved is sufficient. Smugness and complacency do not promote progress.

"8. Operate business on the most economical basis. Price-cutting, overexpansion, uneconomical methods of distribution are just as harmful to business and to the public as price-fixing, monopolies and rebates.

"9. Look ahead and think ahead. It is easier to avoid depressions than it is to cure them.

"10. Smile, be cheerful, and work upon the basis that the fundamental business of business is to promote the happiness of human beings."

Moreover, there was at this time the hallucination of clarity. Business was no longer blindfold. It had provided itself with new instruments for reading deeper into the future. Governor Norris, of the Federal Reserve Bank of Philadelphia, said:

"A generation ago business was a rather haphazard affair. The average businessman had to guess at existing conditions, and had very little information upon which to base his expectations for the future. The ordinary-size businessman can now conduct his operations with the benefit of much more exact knowledge of conditions than was formerly available to him. At least once a month he gets reliable information as to production, consumption, stocks on hand, forward orders, and market prices, of all the principal staples. He also gets an accurate picture of collections, failures, foreclosures, money rates, and the amount and character of bank credit in use. With all this information at hand, he is able to place his orders, fix his prices, and make his sales much more intelligently than was possible under the old conditions."

Since then, economic forecasting has become a kind of horoscopic science. The instruments have been much improved. Some new and wonderful ones have been devised by the government for its own special use, and this was extremely necessary, because now the government is charged with the responsibility not only to anticipate bad intentions in the weather vane but to change the weather before anything happens.

The Threat of a Garrison State

How Freedom is Imperiled by the rise of Military Authority and the decline of Civilian Control

ONE of the cardinal articles of the American tradition is that the military authority shall be under civilian control. The Constitution says: "The President of the United States shall be Commander in Chief of the Army and Navy of the United States." Generals have been elected to the office of president, notably Washington and Grant, but as civilians, not as generals; and never has the military mind controlled the country's policies either in foreign or domestic affairs. One might have thought, therefore, that anything tending to jeopardize that tradition would arouse intense and very vocal foreboding. And yet news of the struggle that now is taking place between the civil power and the military establishment has been strangely neglected. The Hoover Commission on the reorganization of the Executive Branch of the Government treated it with deep anxiety. In March this year the Armed Services Committee of the House of Representatives issued a report in which the decline in the power of Congress as against the military authority is set forth in a guarded but significant manner.

Its conclusion is that the National Security Council should clearly define the nation's program for peace and security in order that the military people in the Pentagon should not alone "assume such responsibility." It sees the possibility that Congress may be

reduced to a "by-stander role in issues pertaining to the national defense," and adds:

"The appointment of a career military officer as chairman of a committee composed of civilians on the Assistant Secretary or Undersecretary level is an unfortunate and undesirable precedent which inverts the civilian-control concept so closely identified with unification. . . . The removal of Admiral Denfeld was a reprisal against him for giving testimony to the House Armed Services Committee."

But the most forthright and careful statement of the problem that has so far appeared is from the Committee for Economic Development, entitled, "National Security and Our Individual Freedom," which comes to the startling conclusion that the rise of military authority, together with the necessities of an adequate security program under modern conditions, now raise "new threats to our freedoms and to our way of life." The report was prepared by the CED's Research and Policy Committee, of which Marion B. Folsom of the Eastman Kodak Company is chairman. Other members of the Committee, to mention only some of them, are such as Beardsley Ruml, William Benton, John D. Biggers, W. L. Clayton, Gardner Cowles, Chester C. Davis, John M. Hancock, George L. Harrison, Jay C. Hormel, Eric Johnston, Fowler McCormick, Philip D. Reed, Harry Scherman, and H. Christian Sonne. The salient features of the report are reproduced here.

National Security and Our Individual Freedom

A Statement on National Policy by The Research and Policy Committee of the Committee For Economic Development

CHANGES in the world distribution of power, added to revolutionary developments in military weapons, have fundamentally changed the character of our security problem.

Historically, we have been slow to fight and quick to disarm. We have opposed large standing armies. We have opposed economic controls for military purposes except in a shooting war. We have opposed peacetime censorship.

Our past defense policy has been successful in large part because of our distance from potential aggressors. But in today's era of atomic bombs, of planes faster than sound, of electronics and of germ warfare, distance loses much of its value as a defensive barrier. Potential allies are no longer in a position to insure us time for rearmament. Possible aggressors can act swiftly, secretly and with the cooperation of individuals within our borders. In

such aggression, the great manufacturing, supply and operating bases in America seem the natural targets of first attack.

In this new situation we are painfully learning that our security program cannot be kept to a minor budget or to an incidental effect on our peacetime lives. While we continuously exert every effort to prevent war, at the same time we must be prepared to fight at a moment's notice.

On military defense alone we are now spending over \$14 billion a year, fifteen times as much as before the last war. In addition, billions of dollars are to be spent on the rearming of other nations.

But our security program is only partly a matter of rearmament. The European Recovery Program on which we spent over \$4 billion in fiscal 1949 is in large part a security measure. So also are such projects as atomic energy, our foreign broadcasts and the conduct of much of our diplomacy and incoming intelligence.

Estimates of the cost for rearmament and other forms of security expenditure at home and abroad during the next few years amount to \$20 billion or more as an annual minimum. This is nearly a tenth of our national production. It is truly a tremendous expenditure of national resources.

The security program affects our lives in still other ways. It is reflected in peacetime selective service. It is reflected in the loyalty investigations. It is reflected in high and still higher taxes and their effect on our behavior. It is reflected in censorship over scientific and technical information. It is reflected in the confusion of citizens unable to evaluate national policy because of limited knowledge and information.

Our Security Program Threatens Our Individual Freedoms

Though adequate security is essential to protect our freedoms, the program aimed at security raises new threats to our freedoms and to our way of life. *Under it there has been a great increase in the role of the military in our government, a great increase in bureaucracy, and expanding dominance of government over industry and an increasing interference with individual freedoms.*

Much of this is inevitable. When we increase our military defenses we necessarily increase the role of the military in our government. When we increase the share of our resources devoted to armament, we unavoidably enlarge the scope of government in industry, in politics, in science and education and in every sphere of life.

We have already given up important freedoms without adequate challenge. *Freedoms unexercised may be freedoms forfeited.*

This trend, particularly if coupled with fear and

hysteria or with complacency and ignorance, may produce policies which, in the name of security, endanger essential liberties. Security measures, uncurbed by the requirements of freedom, can undermine our free institutions. Public apathy and the pressure for security can lead us along a dangerous road—a road that ends in what has aptly been called a garrison-police state.

In a garrison-police state, the soldier and political policeman rise to power while the institutions of civilian society and of freedom shrink. In the name of security, channels of public information dry up; the press becomes a mere purveyor of official handouts.

Cut off from significant information, editors, commentators and group leaders become less accurate in their judgments. The process of public discussion atrophies.

Political parties decline. The power of Congress dwindles. Administration by civilians shrinks, relative to administration in uniform. The courts weaken.

Cut off from information, the power of the citizen fades. Local plans are subordinated to central purposes. The free market is constricted. Labor is hedged in by special regulations. Consumers find their range of choice reduced. Decisions come to be made by an all-powerful government. All freedoms suffer.

Freedom depends on adequate security measures. *But the security program threatens two major institutions on which our freedom depends; the traditional supremacy of the civilian over the military and our system of individual liberties. Herein lies the dilemma.*

Civilian Supremacy is Essential to Freedom

The men who drafted our Constitution provided that a civilian—the President—should be Commander in Chief of the armed forces. They insisted also on the civilian control represented by the authority of Congress and, beyond this, by the power of citizens to elect the Congress and the President. This civilian principle has been advanced in many other ways; by appointment of civilian secretaries of the War and Navy (and now Defense) Departments, by civilian control of the War Production Board in World War II, by civilian control of the Atomic Energy Commission.

The purpose of this civilian control of the military is clear—(1) to protect free institutions, (2) to insure that military measures fit into the larger programs of national security and national policy, of which the military is only a part, and (3) to promote efficiency in the military establishment itself.

There is today no direct challenge to the principle of civilian supremacy nor to the legal chain through

which it can be exercised. But the magnitude and character of our security program make the effective exercise of civilian supremacy increasingly difficult and all the more necessary.

The Difficulties the President Faces in Exercising Civilian Supremacy

As Chief Executive and as Commander in Chief of the armed forces, the President is the constitutional manager of our security system. In the discharge of his responsibilities, he must work through many agencies. The Department of Defense is responsible for the military aspects of security. The Department of State is responsible for developing and carrying out a foreign policy geared to our security. Many other agencies play important roles, among them the Atomic Energy Commission and the Economic Cooperation Administration.

To assist in coordinating the work of these many agencies, the President relies upon his cabinet, upon a few immediate advisers, and upon such staff agencies as the Bureau of the Budget, the Council of Economic Advisers, the National Security Council and the National Security Resources Board.

The complexity of our security organization suggests the magnitude of the burdens placed upon the President. He urgently needs an effective staff to provide him with a comprehensive and balanced review of the security program. For such review the President requires the efficient operation of the two top-level cabinet committees, the National Security Council and the National Security Resources Board.

These two agencies, though not well known to the public, are potentially two of the most powerful and valuable agencies designed to assist the President on security matters. They were established by the National Security Act of 1947 (amended in 1949). The National Security Council was created to advise the President on the integration of domestic, foreign and military policy. It now consists of:

- The President
- The Vice President
- The Secretary of State
- The Secretary of Defense
- The Chairman of the National Security Resources Board

The President may add additional members.

So far the National Security Council has not fully lived up to its high potential, though it has made important progress. It has been effective in dealing with certain emergency matters. But it does not appear that it has yet formulated a comprehensive set of current and long-range security policies covering both foreign and domestic aspects of the

problem. As a result, the President is seriously handicapped in carrying out his responsibility to recommend a balanced and comprehensive security program to the Congress and the people.

The National Security Resources Board, which also reports directly to the President, was created to advise the President on the coordination of military, industrial and civilian mobilization. Under a civilian chairman, the board consists of:

- The Secretary of State
- The Secretary of Treasury
- The Secretary of Defense
- The Secretary of Agriculture
- The Secretary of Commerce
- The Secretary of Interior
- The Secretary of Labor

The National Security Resources Board has not lived up to its potential. It was established to prepare a sound mobilization plan, to formulate stock-pile policy, to relate the demands of our security policies to national capacities and resources and in general to survey the impact of security programs upon the economy in times of peace or war. It has been characterized by lack of clarity of purpose and by inability to establish satisfactory working relationships with other security agencies. Its failure to fulfill its purposes not only handicaps the National Security Council in its policy deliberations but further weakens the hand of the President.

The National Security Act also set up a new executive department of the government, the Defense Department, under a Secretary of Defense, who is designated as the principal assistant to the President in all matters relating to the Department of Defense. The act also provided for the Joint Chiefs of Staff as principal military advisers to the President, to the Secretary of Defense and to the National Security Council. The Act further established a War Council to advise the Secretary of Defense on broad policy matters affecting the armed forces. It established a Munitions Board to deal with such matters as procurement and the military phases of industrial mobilization plans. It established a Research and Development Board to deal with scientific research. Finally, it reconstituted the three military departments of Army, Navy and Air Force.

The Difficulties the Congress Faces in Exercising Civilian Supremacy

The Congress also has encountered great difficulties in exercising its responsibilities for national security policy.

At least two thirds of the committees of both houses are concerned in one way or another with

security policy. The committees on Foreign Relations, Armed Services and Appropriations are obviously concerned. But other standing committees such as Agriculture, Labor and Finance also deal with aspects of security policy. And such joint committees as those on Atomic Energy, the Economic Report and the Economic Recovery Program are likewise involved.

Problems come before Congress in piecemeal fashion. Present procedure exposes and irons out some inconsistencies. It eliminates some superfluous items and assures a certain degree of economy and efficiency. But no Congressional agency is responsible for looking at all aspects of security policy with a view to inconsistencies, duplications and oversights. Neither House has a committee structure designed to secure a balanced, comprehensive view of security policy as a whole. There is as yet no agency in the Congress to parallel the National Security Council. Congress is not yet organized to deal with security problems on a broad and balanced basis.

The Difficulties the Citizen Faces in Exercising Civilian Supremacy

Under our form of government the final review of security measures—and in many cases their initiation—lies with the public. To carry out this responsibility, the citizens should have the advantage of an efficient organization of the legislative and executive branches of government. The present faulty organization produces needless public confusion as to security policy.

The citizen also needs much basic information he now lacks. The government must withhold certain specific information in order to keep it from potential enemies. The problem is where to draw the line.

Recently the line has been drawn heavily on the side of secrecy. Our government is following a much more comprehensive program of secrecy than in any previous period when we were not at war. Moreover, our people have been cut off from important information through censorship, both formal and informal, by foreign governments. To an unprecedented degree the public is depending for its foreign intelligence upon what our own government agencies decide to disclose.

Great danger is inherent in a poorly informed public. Even more important is the public apathy toward security policies due to lack of adequate and reliable information necessary for responsible discussion and judgment. An alert and well-informed citizenry is essential to the effective working of civilian supremacy on which our democratic processes depend.

Each of the links in the chain of civilian control,

carrying through the President and Congress to the citizen, can and must be strengthened. Without effective civilian control there is danger that security policy will be made more and more by the military alone and in terms of the individual problems of military defense for which they are responsible, rather than in the larger terms of security and freedom.

Maintenance of Our System of Individual Liberties is Essential to Freedom

The requirements of security and the fear and hysteria generated by the threats to our security require constant vigilance to preserve our individual liberties.

We must deal vigorously and effectively with subversive activities. But we must also maintain the safeguards to individual liberty. A threat to our liberty arises when the loyalty of individual American citizens is called into question. First, the loyalty of government employees is examined. Then investigations extend to the managers and employees of industries working on defense contracts. Suspicion readily spreads to scientists, educators and students engaged in research. An atmosphere of suspicion favors the growth of political police. Agencies with power to investigate sometimes degenerate into organs of oppression and intimidation. Necessary investigations into loyalty can deteriorate into witch hunts which threaten the whole structure of individual freedom.

A more indirect threat to individual liberties comes when the security program endangers the free economy which underlies so much of our individual freedom. Under conditions characteristic of a free economy—free markets, individual initiative, and a minimum of direct government control—our great power as a nation has developed. Our society looks to individuals to make the multitude of decisions about production, consumption and other elements of economic activity. We depend on the action and interaction of individuals and enterprises to produce a sound and expanding economy.

While this free economy is not perfect, it is the most flexible instrument yet devised to provide the individual citizen with maximum opportunity for the development of his capacities. This is a statement often made, but perhaps it cannot be repeated too often.

A security program of the present size threatens our free economy in three major ways: (1) by the burden of taxes on economic incentives; (2) by the control of business activity through government contracts; and (3) by the likelihood of recurrent

proposals to impose direct controls over economic activity, in the name of security.

The new billions in taxes weaken the incentives imperative to the successful working of our free economy. Heavy taxes can weaken the incentive to produce.

The more that government purchases dominate the market, the more businessmen become, in effect, hired administrators of government contracts. The free market is thus narrowed. As government purchases rise, the power of government to use uneconomic means to control production is increased. Carried far enough, the expansion in government purchasing can destroy a free economy.

The pressure for direct controls to strengthen the military program is great. In wartime this pressure is overwhelming. But now the question of direct controls is quite a different matter. The preservation of the free economy becomes an essential objective. The use of such powers for security or other reasons would reduce the area in which free-market forces were able to operate and, carried far enough, would undermine the free economy.

Security bought at the cost of destroying our system of individual liberties or our free economy would be self-defeating.

An Adequate and Balanced Security Program is Essential to Freedom

Though our freedom is threatened by our security program it would be threatened even more gravely without it. Freedom cannot survive in today's world without reasonably adequate security.

An adequate security program obviously requires a large military establishment. But it must also include such nonmilitary weapons as diplomacy, world information, economic aid and an effective intelligence service.

In the working out of an adequate security program, the chain of civilian control has a dominant role to play. The military, whether army, navy or air, are specialists. They are trained to be responsible for military matters but not for the broad questions of security and freedom or the relation between security policy and other elements of national policy. Such broad questions are necessarily a civilian responsibility.

Even in military matters, civilian leadership can be important. In 1940, public opinion was ahead of the official military and administrative opinion as to the country's capacity to produce and use planes. Similarly, civilian pressure has been a primary force toward unification of the armed forces. An effective civilian control can offset any tendency for the military to prepare to fight a possible War III with the weapons and strategy of War II.

A satisfactory balance and timing must be main-

tained between the different parts of the security program and between this program and other national programs if it is to be effective and not a greater threat to freedom than is necessary. *At the present time, there is reason to believe that our security program is neither efficient nor in balance.* There are evidences of low efficiency, and despite the Unification Act of 1947 and the changes effected in the summer of 1949, the nation's defense forces are characterized by deep-seated service rivalries, by widespread conflict over basic strategic concepts and weapons, and by an alleged low state of morale in one of the services.

Toward More Effective Exercise of Civilian Supremacy

The strengthening of civilian control requires action at each level to aid the President, the Congress and the individual citizen in the exercise of their respective responsibilities.

At the Executive level: To aid the President in developing a balanced policy with respect to security and freedom, we recommend:

(1) *That the National Security Council be developed as the principal executive agency on which the President relies for formulating and reviewing comprehensive and balanced security policies.*

(2) *That there be added to the council three full-time civilian members without other governmental responsibilities.*

To help achieve a balanced and well-rounded security program, the three new full-time civilian members of the Council should be chosen for breadth of experience and outstanding judgment. They should be appointed by the President with the approval of the Senate, and serve at the will of the President. They should have the standing of Cabinet officers and should attend Cabinet meetings at the discretion of the President. They should be kept free from all duties not directly related to the work of the Council. At present, the regular statutory members of the Council are already overburdened with great administrative responsibilities. The three additional members would be available for continuous top-level work on security problems.

We further recommend:

(3) *That the role of the National Security Resources Board be clarified and developed.*

(4) *That a full-time Chairman of the Board be promptly appointed.*

The work of the National Security Resources Board is closely related to the over-all responsibility of the National Security Council. The Chairman of the Board is a member of the Council and should bring to bear in the Council's deliberations the views of a board and staff concerned with the rela-

tionship of security needs to the nation's economy. Only a full-time chairman can perform this vital function. It is imperative that the President clarify the role of the Board and appoint a full-time chairman who can concentrate his energies on the economic phases of our security problems.

We further recommend:

(5) *That within the Department of Defense there be a strong civilian staff independent of control by the military services to aid in developing and evaluating defense policy.*

As far as the military aspects of the security program are concerned, the chain of civilian supremacy has to start in the Department of Defense. In order for civilian control to be effective and to make its contribution, civilians have to be in touch with the work where it is being done. For the Secretary of Defense to perform his civilian role he needs a strong civilian staff in close touch with the various aspects of defense policy as they are worked out.

At the Congressional level: To strengthen the hand of Congress in achieving a proper balance of security and freedom, the Congress should take positive steps to coordinate the various aspects of security policy. To this end we recommend:

(1) *That a Committee on National Security be established in each house of Congress, representing all committees of each house whose jurisdiction covers a significant part of the field.*

(2) *That as far as possible these Committees on National Security act together in the manner of a joint committee.*

Adequate staffs would be essential for the successful operation of the Security Committees. They are needed to assemble and organize the material on the basis of which balanced policy can be made.

These Security Committees would parallel at the Congressional level the activities of the National Security Council. They would be reviewing rather than hearing bodies. With the help of competent staffs they should maintain a comprehensive and balanced picture of the security policies of the nation and their relation to freedom, enabling them to report to the other members of Congress and to the public on the picture as a whole or on particular aspects as occasion arose. There should be close cooperation between the security committees of the two chambers, and with the National Security Council.

At the Public level: To encourage and assist the citizen in exercising his responsibility for security policy, we recommend:

(1) *That one full-time civilian member of the National Security Council be made responsible for a more effective flow to the public of information relating to national security.*

(2) *That the President devote a part of his annual message to the Congress and the public on the State of the Union to a discussion of the problems involved in the national security program and their relation to freedom.*

(3) *That vigorous effort be made to stimulate discussion throughout the nation on the problems of national security and their relation to freedom.*

The assignment of one of the proposed full-time members of the National Security Council to be responsible for a more effective flow of information to the public would tend to counteract the present trend toward undue secrecy. This official should study all security regulations and recommend to the President changes designed to provide all possible access to information without sacrifice of basic security. He should examine the practical administration of security regulations with a view to creating an atmosphere favorable to legitimate disclosure. And he should constantly press for the release of information.

There is no more essential job to be done in America than to keep the sources of public opinion as free as possible from blocks and obstacles.

It will be necessary to keep security regulations under continual study to make sure that the curtain of secrecy is not drawn tighter than necessary. Some information must be withheld. But we believe that the regulations could be so drawn as to provide the citizen with much more information than he now receives.

More important than the letter of a regulation is the spirit in which it is administered. At present, there is one-sided emphasis upon the importance of secrecy in the indoctrination of officers both military and nonmilitary.

Toward Preserving Our System of Individual Liberties

To strengthen the forces which operate to preserve our individual liberties, we recommend:

(1) *That one full-time civilian member of the National Security Council be made responsible for reviewing the effect of security measures on individual liberties and advising the President thereon.*

(2) *That the section of the President's annual State of the Union message devoted to the national security program (recommended above) include a review of the relation of the security program to individual liberties.*

(3) *That the National Security Council, in reviewing the security program, give particular attention to the danger of undermining the free economy.*

The preservation of individual liberties must rest primarily on an alert public opinion. By having a

full-time civilian member of the National Security Council responsible for analyzing the effects of security policies and measures on our liberties the danger of unnecessary limitations on liberty can be reduced. These analyses can also provide the basis for the Presidential review of the subject. Such periodic reports on the effects of the security program on liberties could greatly aid the public in exercising its responsibility for preserving liberty.

In appraising the threats of the security programs to the free economy, the National Security Council should give particular attention to the magnitude of the program both because of the resources it absorbs and the harmful effect on incentives which results from the heavy taxation necessary to support it. The Council should also give attention to the existing procurement machinery with the object of reducing to a minimum the danger of government coercion of private business through contract controls and the danger of coercion of individuals through job assignments and similar restrictions. Finally, the Council should maintain a strong presumption against the use of direct controls to carry out a security program in a situation short of war, since direct controls tend to limit production, hold down the standard of living and undermine the free economy on which so many of our freedoms depend.

Toward a More Balanced and Efficient Security Program

The recommendations made for preserving our freedom will also help to produce better balance and reduce waste in the security program. In particular, strengthening the Executive through broadening the role of the National Security Council and the National Security Resources Board, strengthening the Congress through the establishment of Committees on National Security, and strengthening the citizen in exercising his responsibilities will all help the development of effective security. Measures for preserving our individual liberties and for preserv-

ing incentives and maintaining freedom of markets can also contribute to security.

In addition we recommend that both the executive and legislative branches of the government conduct a continuing review of the security program to see:

(1) *That waste and inefficiency in security expenditure is kept at a minimum.*

(2) *That the security program itself is kept in internal balance, both as among the various types of military expenditure, and as between military and other forms of security expenditure.*

(3) *That measures to further the security objective and measures to further other important objectives of national policy are kept in balance. An over-all review of all national policies, their timing and their economic cost, is needed to appraise their effects on both security and freedom.*

The committee believes that such a review is especially needed because, in its opinion, the present security program tends to be unbalanced; it tends to overemphasize the military at the expense of non-military measures. An informed diplomatic service, a strengthened Voice of America and a more effective intelligence system would cost relatively little compared to military arms. Their contribution to security could be many times that of an equal expenditure. We believe that the desirability of expanding each of these activities should be given careful attention.

The new requirements of national security threaten our freedom. A major security program requires big government and means greater interference in the lives of us all. The danger is likely to be with us a long time. We must, therefore, have a security program that is continuously in balance, both internally and with other government programs. It must be efficiently administered and must avoid waste in the use of limited national resources. We must maintain our dynamic free economy and we must ensure the flow of information to the public necessary to the operation of democratic government.

WHEN a dictatorship gains power, it is by various groups conceding the power piecemeal, not perceiving what it must add up to in the end. Men enslave themselves, forging the chains link by link, usually by demanding *protection as a group*. When businessmen ask for government credit, they surrender control of their business. When labor asks for enforced "collective bargaining" it has yielded its own freedom. When racial groups are recognized in law, they can be discriminated against by law.—*From The God of the Machine, by Isabel Paterson.*

Review

The Not-So-Cold War

A book by James Burnham, author of "The Managerial Revolution."

THE title of James Burnham's new book*—"The Coming Defeat of Communism"—is a curious symptom of the very danger he warns us against—the danger of optimism. But what he writes is not cheerful. In chapter after chapter he exposes our illusions, our mistaken assumptions, our failure to realize that we are already engaged in a war for our existence. "The catastrophic point of view," he says, is not in this age a "neurotic phantom." It is an age of crisis, but most people refuse to recognize the fact.

It is not true that we have recently been winning the cold war, as is popularly assumed. Our partial victory in Berlin was far outbalanced by the Communist conquest of China. And even Tito's defection was a "gift," not a consequence of our policies. The most we can now claim is to have stopped retreating. To congratulate ourselves on the fact that the situation is not as bad as it would be if we had continued the policy of trying to "get along with Stalin" by giving way to him all along the line, is, as Burnham points out, like congratulating a businessman because he has avoided bankruptcy and is only a few millions in the red. This simile is an apt one. The Kremlin, at small cost to itself, has drained vast sums and energies from the United States in Greece, Turkey and Berlin, and has retained its power to veto European recovery by the strength of its fifth columns in such countries as France and Italy, and by its control of half Europe.

United States policy has not, and cannot, produce any major positive gains so long as it remains defensive and has no positive objective. The Marshall Plan is merely an emergency defensive measure, since Western Europe's economic problems cannot be solved, and it must continue to depend on American subsidies, unless the Iron Curtain between East and West is lifted. The "eternal containment of Communism" is not a feasible policy; "we must either drop back to appeasement (masked as a deal), or go forward to the offensive." The only possible "agreement" we can ever come to with the Soviet Government is one which leaves Communist power intact, and free to extend whenever and wherever the opportunity offers. If this is what we are aiming for we should "listen to Henry Wallace,

or Professor Schuman or Harlow Shapley." If we reject appeasement we must pass to the offensive with "the destruction of Communist power" as the objective of our policy.

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So long as we try to dodge the issue we can have no effective policy. Hoping, like Mr. Micawber, for "something to turn up," or in Mr. Acheson's words "waiting for the dust to settle," is not a policy. Unless we start taking the initiative away from the Communists and cease merely reacting defensively to Communist attacks, we are doomed to defeat.

Burnham writes:—

"Our policy is subordinate to, determined by, theirs . . . they select the issues, the field, and even the mood of combat. . . . (This) has been continuously proved during these years since 1945. While their diplomatic rhetoric was friendly (in form), ours was wooingly effusive in both form and substance. After they turned to denunciation, we, reluctantly, and long after, began introducing a few harsh adjectives about them. They ask for a Foreign Ministers conference, and we attend. They carry on a war in China, and we "review our Far Eastern policy." They say that we are warmongering imperialists, and we reply apologetically that we want only peace and friendship. They demand half the Austrian economy, and we beg them to be content with the oil fields, the Danubian shipping, and enough reparations to keep Austria permanently bankrupt. . . . They carry out pogroms of genocide in the Baltics, Bessarabia and Soviet Georgia, and we beat our brains out over the negro problem. They exterminate within their borders all suspected sympathizers with the West, and we, in the United States or Japan or the American Zone of Germany, grant Communists all democratic rights. . . . They stage great strikes in France and Italy and we pay for them."

It is Burnham's basic contention that, granted our present ideas, including our refusal to recognize the fact that the Communists are already fighting us by all means short of outright war, we must either passively await the moment when it suits the Soviet Government to shift to a total armed war, or we must ourselves begin a "preventive war." He believes that there is a third alternative: turning the tables on the Communists by ourselves resorting to "a political, subversive, ideological, religious, economic, resistance, guerrilla, sabotage war."

Our ignorance of the fact that we are already at war with the Soviets, as against their clear appreciation of the fact, constitutes, in Burnham's view, our greatest disadvantage, and is the reason why we refrain from passing over from the defensive to the offensive. Although "the war" is not, as yet, and perhaps never will become, a "total armed mass war," it is not a "cold" war. Much blood has already flowed in Greece, in China, and other parts of the Far East, in battles between what one can term the

*"The Coming Defeat of Communism," by James Burnham. John Day, New York.

auxiliary forces of both sides. And uncounted thousands of the people on our side in the Baltic countries and in Eastern Europe, and within Russia itself, have been shot or sent to the slave labor camps. For them the war is certainly not a cold one.

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Burnham demonstrates that the demarcation line between war and peace has vanished now that we are involved in a world-wide struggle with the Communists, whose objective is domination over the whole world, and who have at their command a "resistance movement," or fifth column, in every Western country. The traditional kind of openly declared war involving the total armed forces of both sides, anticipated in America's present war plans, will never take place if the Communists can continue to gain their objectives by their present methods. The United States is therefore running the risk of being defeated before it is fully aware that the battle has started . . . by not recognizing the fact of the present war, and acting appropriately, we fail to use our opportunity to make the possible formal war of the future easier, surer in outcome, and less destructive . . . "and thus eliminate our chance, which is an excellent chance, of winning the world struggle against Communists . . . without fighting a total armed mass war."

Burnham then proceeds to outline the methods by which Communist power could be undermined in the present "political-subversive-resistance" phase of war. He points to the many weaknesses of the Soviet Union: its economic backwardness and lack of a sufficient number of skilled workers, technicians, engineers and so on; the hatred of the majority of the people within the Soviet Empire for their Communist masters; the restiveness of the satellite nations under the Soviet yoke and the people's discontent with the lowering of their standard of living which Communist rule entails; and also the "theoretical-moral crisis" in Communist morale—a malaise which results in the spread of the Titoist heresy.

If, Burnham continues, American policy had been aimed at helping to develop the resistance spirit in the Communist satellite countries "much more would have been accomplished toward the defense of Western Europe, and much more quickly and cheaply, than can be expected from the conventional approach of the Atlantic Pact."

He thinks it is not yet too late; that the Soviets are still too vulnerable to be likely to risk full-scale war in the near future, so that "for two or three years we are free to act in almost any way that we choose in relation to the Soviet Union and to Communism, without a serious risk of armed conflict, and with no risk of military defeat."

Even the State Department seems now to have come around to the view that "Communists are

always emboldened to further aggression by friendship, conciliation or appeasement" (which like the Nazis they interpret as "bourgeois" weakness and degeneracy), whereas they yield and retreat and offer concessions when they come up against firmness and power. But it will, no doubt, take more than Burnham's persuasive and logical arguments to convince either the Administration or the American people that we must pass over to the offensive in the not-so-cold war, at the risk of our involvement in full-scale war.

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Some of his suggestions will strike anyone who has had actual experience of life under the Communist terror as unrealistic. For instance he proposes, in a chapter entitled "Propaganda Attack," that "there ought to be in every country of the world, at least one newspaper, magazine or publishing house defending the point of view of the World anti-Communist offensive," and that "where they do not exist they ought to be created." It is indeed astonishing that Burnham, who is an expert on Communism, appears not to know that anyone who even thought of setting up such a publication (presuming he could acquire a printing press from us by parachute) would be liquidated as soon as he got out the first issue. Similarly with "personal letters" which Burnham also advocates as a propaganda weapon: in the Soviet Union anyone who corresponds with relatives abroad fears arrest, and anyone who should talk to others of the contents of letters opposing Communism would certainly disappear into a slave labor camp.

This is not to deny that something can be done in the way of smuggling contraband literature and letters into the Soviet Empire. Within the newly conquered Communist countries at least censorship and control are probably not yet fully established, so that in some of them at least Burnham's suggestions are not so fantastic as in the case of the U.S.S.R. It is also not to be denied that it is of the utmost importance that we should give the people of the Soviet Empire hope of eventual liberation by endeavoring to establish contact with them in every possible way, by convincing them that we *are* opposed to Soviet tyranny, are seeking to undermine it, and no longer regard Stalin as a peace-loving democrat. But, after all, the problem is not to turn the Russian and satellite peoples against their government; most of them are by now far more anti-Communist than we are. The problem, to which neither Burnham nor anyone else has found the answer, is how a people can overturn a totalitarian government except in times of all-out war.

Burnham makes detailed suggestions for the use of refugees and exiles from the Soviet Empire, not only for intelligence purposes, but also for the prep-

aration and transmission of propaganda to their homelands and as our liaison with the internal Resistance movements. They should also, he thinks, be trained as "Cadres of Liberation" in preparation for the time when the Communist power is withdrawn, or overthrown, in their homelands.

Few will question the soundness of his argument that the United States should long ago have recognized the valuable services which could be rendered by the exiles and refugees, and that we should welcome them as allies instead of treating them as unwanted displaced persons. But when he turns to discuss the potentialities of the resistance movements in Communist countries Burnham seems too optimistic. His examples of what would be done with our help by the internal opposition to Communist rule are drawn from experiences under Nazi rule, when conditions were not similar. The Nazis never proceeded quite so far as the Bolsheviks in the use of terror as a means of ruling. Burnham cites, but dismisses, the argument of the Polish Generals Anders and Bor to the effect that acts of sabotage, strikes, disobedience, assassinations and agitation, which were in varying degree possible in the countries occupied by the Germans, are impossible under the Communists, or would result only in the annihilation of the anti-Communist forces.

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It is strange that the author of "The Coming Defeat of Communism," while admitting the strength of the German resistance to Communism, omits Germany from his calculations when discussing "What can be expected of Europe." He speaks of France and Italy as the "two major countries of Western Europe"—a statement technically correct, since Western Germany is not a sovereign state but practically a colony—but totally unrealistic in any estimate of the relative importance of the Germans and the French or Italians in deciding the fate of Europe. In spite of total defeat, occupation, dismantlement, annexations of territory, and the loss of their eastern breadbasket to Poland and Russia, the German people have not been eliminated from the scene and may yet swing the balance between the West and Soviet Russia. There is little doubt that Stalin would consider the Germans infinitely more valuable allies than the French, whose desire to keep the Germans down prevents us from pursuing an intelligent European policy.

Burnham's treatment of the German problem is both cursory and unrealistic. He does not discuss the vitally important, but extremely controversial question of German rearmament, although a realist must admit that there can be little hope of defending Western Europe, much less of "converting" the Germans to "democracy" if we continue to deny to them the right of self-defense. He also fails to point

out that dismantlement, the ceilings placed on German production, the prohibition of scientific and industrial research, and other restrictions on the West German economy, impose a huge burden on the United States taxpayer. Instead of showing the absurdity of our having allowed the British and French to tear down German factories in order to eliminate their competition on the world market, while ourselves providing Marshall aid to make good the loss, Burnham writes:

"Which would be more important, to spend a billion dollars to rehabilitate German industry with no political result except to make the Germans feel again their nationalist oats, or to spend a million dollars on a thoughtful plan that would strengthen the political moral, and organizational ties of the German trade unions with the West?"

*

In general Burnham gives too little weight to the imponderable, or moral, factors, which play an important part in determining the fate of nations. Thus he does not analyze the causes for the spread of the Communist disease at home, as distinct from its growing power abroad. He does not explain why the false lure of Communism is able to attract men and women sincerely seeking to establish a more just social and world order. Nor does he appear to realize that the Communists are equally successful in leading us to act against our own interests by playing upon our hatreds, fears, resentments, jealousies and desire for revenge, as well as upon the "greed and ignorance" of businessmen.

In an otherwise excellent and illuminating chapter on "The Suicidal Mania of American Business," Burnham similarly displays his unwillingness to probe deeply into the causes for our readiness to be duped, influenced or misled, by the Communists into betrayal of our own interests. He ascribes the curious propensity of many American businessmen to support those determined to destroy them and the system under which they operate, to "ignorance, greed and cowardice." This may be a sufficiently satisfying explanation of why some rich men, and wealthy Foundations, donate huge sums to Communist fronts and propaganda agencies, or unwittingly support institutes run by Communist-sympathizing professors. But it does not fully account for the fact that one finds leaders of the business community wanting to "trade with the enemy," and advocating appeasement. It seems necessary to investigate more deeply the basic reasons for our pusillanimity in face of the Communist menace.

Our association during the war with the Communist totalitarians has naturally increased their influence in America. It can be eradicated only if we face the moral, as well as the power, issue in our struggle to defeat the Communists. We cannot

eradicate the poison which has produced some symptoms of totalitarian thinking at home. But if "The Coming Defeat of Communism" can awaken us to the dangers which threaten us from without, one can also hope that we shall be better prepared to combat the insidious influences which are weakening us at home.—*Freda Utley.*

How to Act on the Kremlin's Fear

TO the growing idea that in its cold war with the Soviet power this country has neglected the psychological weapon, a powerful pamphlet* entitled, "Thought War Against the Kremlin" has been contributed by Bonner Fellers. Here is one with a record speaking. It was Mr. Fellers who perfected this weapon and used it against Japan in the last war, and for his success with it he was awarded the Distinguished Service Medal with the Oak Leaf Cluster. His first criticism of American strategy is that it is defensive:

"In the cold war now under way, Stalin strikes and we parry the blows. He blockades Berlin and we are forced to mount a massive and costly airlift. He attacks the sovereignty of Greece through his satellites and we counter with a Truman Doctrine. His fifth columns undermine recovery in Western Europe and America responds with a multi-billion-dollar Marshall Plan. His Red Army, portentously armed, faces west and we come up with plans for military assistance, our second multi-billion-dollar program for Europe. Unfortunately, there is no guarantee that these passive defense measures can keep the peace. Each sweeps us into deeper responsibility. The advantages in modern warfare, however, are overwhelmingly with the *offensive.*"

We should take the offensive, he says, and play upon the Kremlin's one nightmarish fear, which is the fear of its own people. How may we know this to be true?

"The gigantic secret police system—many times bigger than the Czars had or needed—provides a measure of the Soviet regime's distrust of its people. The continual purges, the millions of political prisoners, the everlasting panicky campaigns against internal espionage and sabotage—are all evidences of the deep gulf dividing the governing clique and the masses.

"The iron curtain, it is clear, is primarily designed to keep out 'dangerous' thoughts; to keep the truth about

the outside world and its intentions from reaching the people on the Soviet side."

The great undertaking therefore should be to reach both the people of Soviet Russia and the people of the sovietized satellite states with a continuous message of peace and friendship and make it so atmospheric that the iron curtain could not stop it. There could be a chain of broadcasting stations around the entire periphery of the Stalin empire, some of them official, to carry the Voice of America, and some unofficial, for greater freedom. Mobile secret radio stations are possible. Then, "radar-guided aircraft and gliders freighted with thought bombs"—mystery planes sowing the truth from the Soviet sky. There could be systematized indoctrination of Red troops in occupied areas, from Korea to Germany, hundreds of thousands of whom are continually returning home because the Kremlin is afraid to expose them too long to Western influences. And what use could be made of the deserters, exiles and expellees! Mr. Fellers says:

"The present Allied toleration of deserters should be openly changed to encouragement. Stalin's occupation troops must be apprised that the democratic right of political asylum will protect them. More than that, private organizations to care for military exiles, to help them find work and homes, must be set up. The flow of deserters—often as high as ten thousand a month—can be turned into a flood, disintegrating the Red forces.

"At least half a million Soviet citizens who 'chose freedom,' refusing to return to their enslaved country, are today living wretched, hunted lives in Western Europe, Greece and Turkey. So are hundreds of thousands of escapees from the satellite areas, and their numbers are growing.

"In terms of thought warfare, these exiles represent so much dynamite against the enemy in the cold war. Most of them have staked their lives to escape Communism and will stake them again to destroy Communism and liberate their enslaved people."

And what should be the theme of our propaganda? Simply, that we have no quarrel with the Russian people, only with the Kremlin; that our concern for freedom and human rights embraces the Russian people; that what we owe to Russia as a wartime ally we owe not to the Kremlin but to the Russian people, who could save Russia from Hitler and could not save themselves from tyranny. Mr. Fellers' entire case rests upon the assumption that:

"Discontent is widespread in Stalin's empire, not only among the masses but in the new ruling classes. But the people feel themselves hopelessly isolated from the free world. The first effects of an intelligent psychological campaign will be to break that isolation, which will release a surge of hope and renewed courage."

—G. G.

*"Thought War Against the Kremlin," by Bonner Fellers. Henry Regnery Company, Chicago.

The Soviet Worm in School Libraries

Staff

A FEW weeks ago the Associated Press reported that Baltimore's Department of Education had directed school principals to burn Russian publications addressed to the school libraries. The Superintendent of Schools said: "We are not circulating that sort of propaganda in the public schools."

The Allegany County Superintendent of Schools took the same position, saying: "The obvious purpose of sending this material is to worm the Soviet philosophy into the schools."

But the Frederick County Superintendent of Schools thought differently. Any attempt to suppress such material, he said, only advertised it, and caused people to read it who would otherwise have passed it by.

The Associated Press report added: "The Soviet Embassy in Washington acknowledged some months ago that it was sending publications to schools throughout the country. The main one is a slick-paper picture magazine entitled *U S S R*."

The *U S S R*, published as an information bulletin twice a month by the Soviet Embassy in Washington, ten cents a copy if you have to buy it, is probably the most adroit work of Communist propaganda produced in this country. A school child who had been told that communism was Godless and founded on a materialistic philosophy would have been astonished on finding in the school library a copy of the January 13 number of *U S S R*. On the front cover was Santa Claus, with a long white beard, wearing a red robe and a green sash, surrounded by smiling children. Behind him was a tall, lighted Christmas tree, and in the background some half-life-size toy animals with children massed behind them—all of this in a palatial interior hung with chandeliers. It would never occur to the child to think that such a picture might be made up, nor hardly could a public school pupil of teen-age be expected to notice that the children solidly massed in the background were not behaving as children would normally behave at a Christmas tree festival.

On looking at this *U S S R* cover the child's reaction would very probably be exactly what the Soviet Embassy intended. The child would exclaim: "Why this is Christmas in Russia, just like here."

One a little older might reflect: "If communism celebrates the birth of Christ as we do, how can people say it is Godless?"

After having made this impression on the American child, no harm is done if the Soviet Embassy leaves itself a little hole of escape, just in case some grown-up might be curious. On the inside of the cover, in the lower left hand, in small type, is this: "The Cover: Grandfather Frost is greeted by Moscow children at an annual New Year's Day party when gifts are exchanged and gaiety reigns."

So it is not Santa Claus, if the children would take the trouble to read the small print on the inside, and so much for that: but on page two it is Stalin who represents the spirit of peace on earth and good will to men, against all "warmongers," the chief "warmonger" being the United States, according to Soviet doctrine, although that isn't mentioned here. The piece here is entitled, "Peace Prizes Established," and it reads:

"The following is the text of the decree of the Presidium of the Supreme Soviet of the U.S.S.R. on the institution of International Stalin Prizes 'For the Strengthening of Peace Among Nations':"

- "1. International Stalin Prizes 'For the Strengthening of Peace Among Nations' are hereby instituted. Prizes are awarded to citizens of any country of the world, irrespective of their political, religious and race distinctions, for outstanding services in the struggle against warmongers and for the strengthening of peace.
- "2. It is established that persons awarded an International Stalin Prize will receive:
 - a) A diploma of Laureate of the International Stalin Prize;
 - b) A gold medal bearing the image of J. V. Stalin;
 - c) A money prize of 100,000 rubles.
- "3. It is established that International Stalin Prizes 'For the Strengthening of Peace Among Nations' will be awarded annually, in numbers ranging from five to ten prizes, by a special committee on International Stalin Prizes formed by the Presidium of the Supreme Soviet of the U.S.S.R. from among representatives of the democratic forces of the different countries of the world.
- "4. The award of prizes is to be made each year on the birthday of Joseph Vissarinovich Stalin—December 21.

"The first prizes are to be awarded in 1950."

*

Much of this number of *U S S R* is devoted to the adulation of Stalin on the occasion of his 70th birthday. There is a long piece by the grim Molotov, on Stalin and Stalin's leadership, in which he writes:

"In contrast to the lands of capitalism, where the blind laws of spontaneous economic development, accompanied by inevitable periodic crises and ever-

increasing aggravation of social antagonisms, dominate and set the general tune, the Soviet State is based on entirely different foundations.

"In our country, as a result of the socialist revolution and the elimination of the exploiting classes that followed, there have been created the conditions for a planned upsurge in the whole national economy, of which no capitalist state can even dream. Not only the implementation of the upsurge of the country's economic life is organized according to a uniform plan of prospects for the future in the Soviet Union, but planning is introduced also into all other branches of social life, for the purpose of accelerating the general and all-round upswing in the culture of the peoples of the U.S.S.R., and for the development and efflorescence of science and the arts.

"It is only in this connection that one can understand the increasing successes of Soviet science and engineering, including the well-known achievements in the sphere of mastering atomic energy, which has so amazed and puzzled all sorts of people unfriendly to the U.S.S.R. Every passing day makes more apparent the profound, principled and practical significance of the struggle that has developed against pseudo science.

Two pages of half-tone engravings are given to the Moscow subway, Russia's marvellous and unnecessary showpiece. Then a long editorial piece entitled, "As 1950 Came . . ." which begins:

"The year 1949, keynoted by the Soviet Union's fight for peace, ended with the moving days of the celebration of J. V. Stalin's 70th birthday, when millions, not only in the U.S.S.R. but throughout the world, participated in observances which constituted a most powerful peace demonstration."

In the first 600 words of the article the word *peace* occurs fifteen times. The rest of it is devoted to statements touching the superiority of Soviet Russia's economic and social order. Then this paragraph:

"In the whole vast Soviet Union, as 1950 dawned, there was not a single person suffering the dreadful scourge of involuntary unemployment, not one who feared destitution in sickness or old age, not one who did not know that every possibility is open to him to make his life still better and more prosperous on a continually rising scale."

It would be a wise child who, on reading that, might ask: "And was there no involuntary employment, either?" Meaning forced labor.

*

In an article reporting the six-day meeting of the Women's International Democratic Federation at Moscow, Tito gets his, in this fashion:

"Another enemy has attacked us,' the Greek delegates told the session. 'This is Tito and his band. Theirs

is an attack cowardly and cruel, which has increased the difficulty of our struggle. The warmongers are rejoicing that they have acquired a new ally in Tito, who has turned his weapons against us.'"

The conference, says this report, was attended by women from Viet Nam, India, Pakistan, Syria, Lebanon, Iran and other countries in Asia. It was also attended by delegates from the Soviet Socialist Republics in the Asiatic part of the U.S.S.R. Guests included representatives of the women of Algeria, Nigeria, Madagascar, and Equatorial Africa, and also from England, America, France, and Holland. Continuing, the report says:

"With great attention the session followed the speeches of the American delegates, who reported that the common people of America are coming more and more to realize that a war, should it be unleashed by the instigators, will only bring death to millions of people, will bring with it the horrors of modern air raids, and the destruction of treasures that have been created by the work of many generations. The women of American are coming more and more to understand that the policy of the warmakers is directed against the interests of the masses."

*

In this one number of *U S S R* there is everything the Soviet Embassy wants to put over as propaganda—first, the great theme of a Russian peace for the whole world; then hatred of the warmongers, who are all the people who do not want the Russian peace; lastly the sins of capitalism, Tito, the Atlantic Pact.

On the inside of the back cover is the solicitation, partly as follows:

"Dear Reader:

The postman brings us daily evidence that many thousands of Americans are eager for more truth, more facts about the Union of Soviet Socialist Republics. . . . Among these people are many of your friends, associates and relatives. Most of them missed the fine articles and revealing photographs you enjoyed last year. . . . Teachers would have enjoyed a dozen pieces on education, on the role of the instructor, night schools, vocational training, and the growth of enrollment. Where else would you have read the story of the meetings of the All-U.S.S.R. Peace Conference, expressing as it did the great desire of all Soviet people for a peaceful, democratic world? Then there were the stirring replies of Soviet workers to the friendly messages of the workers of Coventry and the youth of Philadelphia to underscore this continuing fight for peace in the U.S.S.R."

Fancy a corresponding work of American propaganda being mailed by the American Embassy in Moscow to Russian schools and Russian teachers.

LETTERS

Autopsy on the Death of a Business

To the Editor of AMERICAN AFFAIRS:

Since the publication of "Suicide of a Business" in the Autumn, 1949, number of AMERICAN AFFAIRS, I have had to order a second printing of my pamphlet: "Mergeritis."

In the *Wall Street Journal*, Mr. Roger Barkann, Chartered Life Underwriter, suggests that we killed the Allied Oil Company by ignorance and that our interests could have been saved through a life insurance plan. Mr. Barkann makes a recommendation without having all the facts of the case in hand. As owners of Allied Oil, my partner and I worked very closely with competent underwriters in exactly the fashion that Mr. Barkann recommends. From the beginning, we had the type of "buy-and-sell" agreement that Mr. Barkann suggests, with insurance to supply the finances in the event of the death of either partner. On our incorporation in 1925, we needed only \$10,000 coverage on each of us to meet this foreseeable contingency. But with the years, Allied grew larger and we kept on buying more and more coverage to insure our "buy-and-sell" agreement. As we grew older the rate increased. We finally arrived at a point where the dollar cost of the insurance was prohibitive.

Mr. Alvin H. Shairman seems to have mixed the point of my little tract. The company is not dead. We had a good executive force—in fact the personnel we developed is carrying on the business of Allied Oil today as a subsidiary of Ashland Oil & Refining Company. As far as the customers and employees are concerned, there has been no change. Only the two owners have been removed. Our problem was not one of finding adequate personnel to carry on the business. Our problem was to protect ourselves against government's tax laws in the event either partner died.

Mr. B. Outerbridge suggests we were remiss in not selling the company to our employees. This is easier to say than to do. He assumes that the employees are willing as well as able to buy a company. In recent years I have known of at least three small businessmen who have tried to turn their companies over to employees. In one instance the company was a printing establishment which was offered to about twelve of the older employees. Even though the initial cash investment would have required but a few thousand dollars from each of the participating employees, they did not want to assume responsibility for ownership.

There are many legal ramifications and tax problems in any attempt to sell a company to its em-

ployees—or even to make a gift of the company to its employees. I am sure that if Mr. Outerbridge will discuss his "solution" with competent legal and tax counsel—as we and our management did many times—he will learn why this "simple" solution is not the answer.

I am writing at this length for two reasons: One, to assure your readers that every possible avenue was explored before we decided to take the merger route. Two, to establish again the fact that we chose the solution which would not only protect the partners but would also meet our responsibilities to our employees and customers, who had vested interest in Allied Oil.

Cleveland, Ohio

W. W. VANDEVEER

A Student's Dilemma

To the Editor of AMERICAN AFFAIRS:

I write to thank you for the copies of AMERICAN AFFAIRS you have sent me for the last two years. I should like to suggest a possible topic for a future article.

After two and a half years at Princeton, I have come to the conclusion that the one thing that most contributes to the winning to socialism of the students by the professors is the depression of 1929–1940—as explained by the Keynesians here. If there were a good, elementary, and competent analysis of the causes of the depression, what should have been done, what was done and why these measures failed it could do immeasurable good. The work would have to deal with the depression alone, make no outcry of "socialism," but simply and impartially refute the Keynesian claims of overproduction, the failure of the free economy, and the like. I have been able to find no work which would begin to meet these specifications.

And while I am in the suggesting mood, let me offer this one. The attack of the socialists and Keynesians is two-pronged, the one being that of the "failure" of capitalism to prevent the depression, and the other (relatively minor, but nevertheless very potent) being an exposition of the viciousness of monopolies, which the *laissez-faire* economy purportedly creates and maintains. Again, on the latter subject I have read no refutation. And in my own thinking on the problem, I have bogged down at one point, which is this: supposing that a concern grew naturally over the years to a point where it possessed enormous capital resources, and a vast share of the business in which it was engaged, would it not be able to achieve complete and permanent control of the market by manipulating its sale prices (backed by its large resources) to squash actual and potential competitors with lesser resources? Not that this situation would be *per se* bad,

but the natural temptation would be to charge far higher prices than a competitive market would sustain, which would be uneconomic. Perhaps you can help me on this.

Cuyler Hall, Princeton

ROGER MACBRIDE

At the World's Bedside

To the Editor of AMERICAN AFFAIRS:

I am writing you because I find fault with two attitudes expressed in your article, "At the World's Bedside," *AMERICAN AFFAIRS*, October, 1949. First, it does not appear fair to unreservedly criticize the Europeans as you do throughout, nor, secondly, to make a generalization about Europe, and then to bear it out by speaking specifically of socialized England. I would characterize this latter device as an intellectually dishonest one. May I cite a few examples?

Your history of the development of European trade points up the fact that those "have" nations have always wielded their power, a generally known principle of human behavior. Your statement: "From having owned the whole world she (Europe) comes to be its principal object of charity" might give the impression that this sort of weakness is a European one only. We all know that this is the United States' decade, and if we prove to be a bit more enlightened and a bit more altruistic in our role as leader than other nations have been during their times, let us not vitiate our advantage in this respect. In our position as world leader we must be spiritually big, leaving petty crinations behind.

Later, you write, "She (Europe) cannot accept American competition. For one thing, she (Europe) doesn't believe in free competition; secondly, she fears it." Can one make this accusation without first putting the shoe on the other foot and asking oneself honestly whether the United States would believe in, and be able to accept, free world competition? I believe that you would agree with me in answering, "no."

The philosophy of self-sufficiency to which almost every nation of the world has fallen heir is, indeed, an unfortunate one, but it is not a uniquely European failing. Even the United States, motivated by fear of war, is attempting to become increasingly self-sufficient.

To continue, I would thoroughly agree that Europe is now, and will increasingly in the future, compete with American goods on the foreign markets. I can think of no healthier world condition than that of economic competition. We of the United States can rest easy, for as you point out, "the surplus of the most efficient country will sweep

the markets of the world under conditions of intensely competitive trade." You may reply that "conditions of intensely competitive trade" do not exist in Europe today because of socialism, but you have not convinced me by your article that socialism has spread far in Europe.

I shall content myself with choosing two examples of the confusion between the terms "Europe" and "England." You speak of Europe's problem as being that of consuming more than she is able to produce, and not that of a "dollar crisis." To prove your point, you deal at length with Britain's socialist government. Toward the end of the article, you mention the using of United States dollars to further the enemy principles of socialism. In the next sentence you are speaking of Great Britain again.

I realize that choosing quotations from the text, as I have done, is dangerous, but I have attempted to choose carefully quotations which are in keeping with the spirit of the context.

I send this letter in the hope that you will understand my intent. There are many persons who have reached the conclusion that the Marshall Plan has done more harm than good, and I would not contest their right, or yours, to this conclusion.

Geneva, Switzerland

PAULINE DE SHERBININ

This Crazy Trend

To the Editor of AMERICAN AFFAIRS:

You published a pamphlet by Dr. Millikan entitled "Shall Government Subsidize Our Public Schools?" which is by far the most masterly, thorough, reasonable and complete presentation—pro and con—of the issue of Federal Subsidy to Education which has been produced.

Now the issue is just as burning-hot as ever, for the reason that the National Education Association (of which I have been a member for years, for I am a public school teacher of 25 years' experience) is urging, pushing, pleading and almost threatening every local group of teachers all over the nation *to write, telegraph and urge the members of Congress and the President to push through the pending Federal subsidy bill for education.*

Teachers *should* be intelligent people—but many times I wonder how much of their intelligence they use in such things as this. If any issue, however silly and dangerous, is advocated by the N.E.A., the average teacher thinks it must be O.K., and joins in the hue and cry in favor of it! Astounding, but true. Well, I want to buy 100 copies of this pamphlet, to distribute among leading educators, to try to do my part in helping to stop this crazy trend.

South Pasadena, Calif.

(NAME WITHHELD)

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**Shall Government Subsidize
Our Public Schools?**

By ROBERT A. MILLIKAN

(Supplement to the Autumn Number, 1947)

*Note: Extra copies of these pamphlets are available at 25 cents a copy;
ten copies \$1.50; 25 to 999 copies at 10 cents each.*

Special rates quoted on orders of more than 1,000.

Reprints of an article entitled *Laissez Faire*, by Garet Garrett, from the Winter 1949 Number of AMERICAN AFFAIRS, are available at 10 cents per copy up to 100; 8 cents per copy up to 500; more than 500 at 6 cents per copy.

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