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SUPPLEMENT

When Big Labor and Big Government Strike Hands

BY DONALD R. RICHBERG

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Notes on the Contents

Jobs and the Man. This is the editor's piece. For the first time in our history we have a national full employment policy, written on the statute books in the new language of the welfare state; and now for the first time the specter of unemployment appears to mar the ecstasy of boom. Why?

Elephant Traps in the World Trade Charter. The title under which Dr. Michael Heilperin's article appears was supplied by the editor. Dr. Heilperin's title was "The Havana Charter—an Obstacle to World Reconstruction." He has been attending world trade conferences for a long time, including such as the London Conference of 1932, the Bretton Woods Conference of 1944 and the ITO conferences that began at Geneva and ended at Havana, where he acted as technical economic adviser to the delegation of the International Chamber of Commerce. He is the author of several books on the international aspects of trade and monetary policy.

We Stagger from Crisis to Crisis. Bernard Baruch is speaking of the state of our national defense, not from the military point of view but as one who knows the meaning of mobilization and total strategy beforehand. This is the most important article in the book.

The Song of the Turning Worm. Here are excerpts from several speeches by Benjamin F. Fairless of United States Steel, who lately has been saying things that big business has been aching for a long time to hear somebody say. If he intends them to affect public opinion and if he has them printed and sends them around in the mail, he may hear from the new Select Committee on Lobbying, which is trying to find out why big business goes to Washington at all and what it does there and has asked it to account for "each expenditure by your organization relating to any attempt to influence, directly or indirectly, the passage or defeat of any Federal legislation."

The Silent Banker and the Rotting Dollar. Senator Harry P. Cain recently conducted and lost a one-man filibuster against the extension of federal rent control. He is full of old-fashioned convictions and makes here some hard sayings about what seems to him the indifference of bankers to the abasement of the currency.

The Closed Shop. Murray T. Quigg is already known to the readers of AMERICAN AFFAIRS. This is an essay on one of the troublesome questions of our time. But we know, he says, the simple principle that should govern the solution.

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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GARET GARRETT, *Editor*

JULY, 1950

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Comment

By the Editor

IN his Cheyenne speech the President explained how the government's plan to guarantee loans to little business will work. It will, for one thing, make the banker's heart behave as even he himself might wish it to behave. The President said:

"Thus, bankers would be able to give greater consideration to the human element in deciding whether or not to help a home-town businessman pull through a tight period. They wouldn't have to be quite so hard-boiled in demanding gilt-edged collateral. You know a lot of people say, when they find out what kind of collateral they have to put up for a loan at the bank, that if they had that kind of collateral they wouldn't have needed a loan in the first place. Now, I don't think bankers act like that just because they are mean. It's because they have to be careful. This insurance would make it possible for them to do what they would like to have been doing all the time."

The point being that nobody has to be mean or careful with the taxpayer's money.



THE State Department has raised the pitch of its slogan, "Buy Foreign." . . . The Economic Cooperation Administration at Washington has set up a special division of experts to tell Marshall Plan countries how to beat the tariff and sell more goods in the American market. . . . The President has appointed a special assistant to study the problem of the dollar gap—the problem, namely, that the United States, in the President's words, "is sending abroad much more of the produce of American farms and factories than other nations are able to pay for from the

sale of their own goods and services." . . . Recently the National Sales Executives, Inc. sent a mission of eleven men to lecture British salesmen on how to sell the American way. *Scope*, a magazine for industry, printed a long article on it, with an illustration showing the Americans standing before a large map of the United States trying to teach foreign British salesmen "the secrets of selling to the most coveted market in the world." . . . In September, at Torquay, England, the trade experts of the State Department will meet with the experts of twenty-odd other countries for a third round of tariff cutting, which will widen our door to imports. . . . Meanwhile the executive offices of government will be exerting their utmost powers to move through Congress the famous ITO Charter under which the exchange of wealth among nations would be governed by an international authority, where the United States would sit with one vote against the world. If to all of this you add Point Four, which responds to the aspirations of backward people everywhere, you have the principal features of a global sharing plan that has already cost us more than \$26 billion since the war ended—a program, says the President, by which "we hope to create the conditions that will lead eventually to personal freedom and happiness for all mankind."



IT began with an American loan of \$4.4 billion to England in 1946, which was to save Great Britain alone and turned out to be not enough. Then it developed into the Marshall Plan, which was to save all of Europe. Now, in the President's words, it assumes the character of "a continuous foreign policy that

takes into consideration the whole globe.” Originally the Marshall Plan contemplated only the postwar recovery of Europe. Our undertaking was simply to give her the dollars to buy the food, the raw materials and the machines she needed to restore her productive power. Soviet Russia and all her satellites were invited to come in. The Foreign Minister of Soviet Russia attended the first meeting in Paris, said no, and went home. It was after this that the idea of “containing communism” was added to the expectations we entertained of the Marshall Plan. We would make Western Europe prosperous as a bulwark against it. The productive power of Europe *has* been restored. It is now greater than it was before the war. But a new dilemma arises. Where will she sell her exportable goods? The markets she had before the war are not there any more. Some of her old customers have become self-containing, between East and West Europe there is the iron curtain, and, worse, so many new trade barriers have been raised within Europe that it is impossible for the sixteen Marshall Plan countries to trade freely even with one another. Naturally then they turn to the American market. It is the richest, the highest and now the least protected market in the world. If they can sell their goods here they will earn the dollars to buy what they need—still food, raw materials and more machines. So now what? Having gone so far, what can this country do? Clearly, it must choose to do one of three things—(1) it can go on giving them the dollars to buy American goods, which would be absurd; (2) it can simply let them go, in which case the Communists may get them; or (3) it can buy more European goods whether it wants them or not. The State Department is set on the third course. That is the meaning of its slogan, “Buy Foreign”—the meaning of its resolution to cut tariffs still more.

IT was obvious all the time that with our Marshall Plan billions we were building up competition against ourselves—competition

not only between European and American producers for world markets but competition between them also for the American market when the time came that we should have either to buy their goods or let them down. Gazing at this wonder, the United Nations Economic Commission said:

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

Never before in a selfish world had a nation deliberately set out to buy competition for itself. But the Marshall Plan had a special appeal to American sentiment. It was magnificent sharing. We had fought two wars to save Europe, so why boggle over some billions for postwar recovery? Moreover, as a political fact, we could hardly live in a world with a sick Europe. It behooved us to restore her industrial power and her standard of living. To those few who foresaw what the consequences would be, Mr. Hoffman, the Marshall Plan Administrator, kept saying: “Competition won’t hurt you—at least very little. You ought to like it. We are built on competition. If you cannot take it you are too soft anyhow.” But this was not going to be normal or natural competition. What Mr. Hoffman left out was the peculiar fact that American producers as taxpayers were themselves providing the billions to subsidize their European competitors.

MERELY to provide the billions did not hurt. On the contrary, as the Europeans spent their free billions here for American goods there was, of course, the illusion of an export boom. It was not trade; it was something for which there is really no name. Moreover, the sense of sharing gave us that grand American feeling. But now the flesh begins to feel it and the flesh is less generous than the spirit. The

European goods are coming in and our exports are falling. Suddenly it is discovered that the old satan protection was not dead, only sleeping. The *Congressional Record* now is full of him. Members of Congress are hearing from their people—the oil men, the makers of glassware and pottery, the hatters, the textile industry, the air lines losing business to European lines flying equipment bought with Marshall Plan money, the fisheries, the lumber men, the ironmongers, the machine tool makers, the watch makers, the wool growers, and now even the farmers, who cannot see the sense of importing agricultural commodities while the government at the same time is supporting farm prices and charging the loss to the taxpayer. John H. Williams of the New York Federal Reserve Bank, in a paper entitled, “The Marshall Plan Halfway,” says:

“There is still a real question as to how much the American people have ceased to be protection-minded where it counts. The ITO Charter has not yet been accepted by Congress, and there have been recent indications that formidable opposition is being organized against it. . . . There will undoubtedly be severe political tensions in the United States, the outcome of which it would be hazardous to predict.”



ORGANIZED labor went all out for the Marshall Plan, thoroughly persuaded by the State Department's argument that the solution was to “balance our trade at a high level,” which meant that we should have to buy foreign goods and greatly increase our imports of them in order to go on selling American goods abroad. Trade was a two-way street. Those who sell must also buy. That seemed very plausible. But as instances multiply of American labor being actually displaced by the importation of competitive foreign goods, and as a new and strange anxiety about unemployment, even at a very high level of prosperity, begins to rise, the mind of labor is troubled. The damage so far has been only skin deep and localized; all the same, where it hurts, it hurts, and the government has been obliged to face it. Mr.

Hoffman rejects the idea that when we buy from abroad goods that we produce plenty of for our own use we are in fact importing unemployment. Nevertheless, before the Senate Foreign Relations Committee in February he said:

“True, this new competition will create problems in a few localities. Competition always does. But if there must be some relief in this situation I suggest that it be given directly.”

And Mr. Acheson, Secretary of State, facing the same problem, has suggested “regional relief,” where and if imports cause American workers to lose their jobs. This must be the piece of jigsaw puzzle you throw away—relief out of the public purse for American labor when its unemployment is owing to the importation of competitive goods, the production of which has been subsidized by Marshall Plan billions. Later Mr. Hoffman said that he was not recommending direct relief for the unemployed. What he meant was that:

“If this new competition should result in unemployment it might be a good thing as a matter of public policy to develop programs for the retraining and relocation of workers, such as we had during the war.”

The cost of such retraining and relocation, including the interim living of the retrainees, to be paid for of course by the American taxpayer. The next idea might be something like a Brannan plan for industry. Indeed this has already appeared. On behalf of the woolen-worsted industry it has been proposed that when foreign policy requires the sacrifice of a domestic industry the government shall make indemnity payments to the workers, the managers and the owners, and continue them so long as the importation of competitive foreign goods displaces the production of American goods.



THE world is in a state of extreme and dangerous imbalance. Why? The dollar gap is no new thing. It has been there ever since the star of paramount power crossed the

Atlantic and took its place in the American firmament. The Europeans had possessed it for so long that they thought it belonged to them and could not believe what had happened. *The Economist*, London, recently said:

"The change in the relationship between the old industrial nations and the new industrial giant in the New World has been on the way for the last 30 years. The wars have accentuated but not caused the trend. It has been masked since the end of the conflict, in part by American generosity, in part by the world's desire to buy anything it could at any price. Now the underlying maladjustment between Europe and America is emerging like a reef hidden for a time under a spring tide."



THAT reef is the dollar gap. Nobody knows what to do about it. Because there is no rational idea of what to do about it there are moments when news of the world may seem to you pure hallucination—European civilization in despair for want of American dollars, the United States paying for its own exports, the Marshall Plan creating foreign competition for American industry, the alarm when the first results begin to appear, Point Four to carry American know-how and the American way of life to all the premodern people on the earth, who if they are not clothed and fed and provided with machines, may go Communist and destroy our own civilization. At such a moment you may find it profitable to gaze at a map of the planetary apple on the skin of which $2\frac{1}{4}$ billion human beings live in states of development so extremely diverse that what is thought poverty in one nation equals luxury in others. If it happens to be a map that puts the Western Hemisphere in the middle so much the better. There you see the continents of North and South America, called the New World. It has been there only a little while as time goes; 500 years ago it was not there. It appeared on no map because there was no map of the world, nor did it exist in human imagination. To your right is the Old World—first Africa, then Europe,

which is really a cape of Asia, and then Asia, which goes all the way around and appears on your left. These are the land masses. What lies between the New World and the Old World on the right is the Atlantic Ocean; what lies between the New World and the Old World on the left is the Pacific. Across the midriff of the North American continent lies the United States, bounded on the north by Canada and on the south by Mexico, stretching east and west from the Atlantic to the Pacific. London Bridge was already old before the existence of this land had been even imagined. Total American history is not older than St. James Palace. Our national history began in our great-great-grandfathers' time when fewer than four million colonists clinging to the eastern coast fought Great Britain for their independence. Complete as you see it now, from the Statue of Liberty to the Golden Gate, the country is hardly 100 years old. Yet now here, inhabiting less than six per cent of the earth, are 150 million people who have in their hands an industrial power roughly equal to that of more than two billion other people all put together, besides the richest and most highly mechanized agriculture in the world—the only great surplus country, putting forth its billions as a gift to save Europe, to save all freedom-loving people, to help create the conditions under which freedom and happiness may be enjoyed by all mankind. It was unpredictable and it is still incredible; there was no sign that anything like this could ever happen in the world.



SO there again is the dollar gap from another point of view. The whole world, especially Europe, wants more from this American plenty than it can afford to buy; and the reason it cannot afford to buy it is that it cannot, or has so far been unable, to produce the equivalent to give in exchange for what it wants. Will it ever be able to produce the equivalent? That at last is the crucial question. If the answer is no, then the dollar gap cannot be closed at all.

There is yet no end in sight for the foreign aid program. Mr. Acheson says: "I do not think all foreign aid, certainly in the world and certainly to some parts of Europe, will end in 1952." Yet it was understood that the Marshall Plan was to end in 1952. Now Mr. Hoffman says: "It will take 50 years for Europe to come back, in my opinion, to where she is earning enough to handle what she needs in a given year and service the debt she now has." Fifty years for Europe to get back her old place in the race; but suppose the United States should go on advancing for the next fifty years as it did in the last fifty. Where would that leave Europe? Does the dollar gap impose upon us a permanent moral and political obligation?

FROM the Economic Cooperation Administration, which administers the Marshall Plan, comes a publication entitled, "Midpoint Review, 1950." On the cover is a mighty smokestack belching smoke, as an example of Marshall Plan works in Europe. Inside there is information about what the counterpart funds are used for. As Marshall Plan goods are delivered to the government of a Marshall Plan country, the government sells them to its people for pounds, francs, lira, etc., and deposits the money in a special account. That is the counterpart fund. What it represents simply is Marshall Plan dollars converted into local currency. What the government then does with the money is subject to the approval of the Economic Cooperation Administration in Washington. Great Britain used nearly the whole of her fund to reduce her internal debt. France used very little for that purpose and spent all the rest on her railroads, her mines, for new industrial plants and for power development. Altogether the Marshall Plan countries have used \$1,114 million of Marshall Plan money for internal debt reduction. Meanwhile the internal debt of the United States was rising. Never before has it happened in the world that one country put itself more deeply into debt in order to pay off the internal debts

of other countries. Speaking of Great Britain the Economic Cooperation Administration says: "It was considered desirable to use counterpart funds to strengthen the financial position of the country by retiring internal debt, thereby drawing off some of the surplus currency which presented an inflationary threat." But speaking of the United States . . . *the size of our national debt is nothing to worry about because we owe it to ourselves.*

AT hearings before a Joint Congressional Committee the President's Council of Economic Advisers appeared to expound the new doctrine of wealth, which is this: the old way of making goods cheaper so that the consumer could afford to buy more of them was wrong; the right way is to keep goods dear and increase the consumer's income. Thus a boom may be sustained forever by tying it to the sky. The following colloquy occurred:

MR. KEYSERLING (speaking for the Council of Economic Advisers).—In our report we stated that in some areas we thought there would need to be still further price adjustments. But we also felt that generally, in looking at the situation as a whole, we were somewhere near a reasonably stable and sustainable price level, and that most of the gain in buying which would be needed over the years would have to come in the form of income gains rather than price reductions. We do not say that this is theoretically a better way, but, observing the functioning of the American economy, we cannot see a reconciliation of a constantly falling price level in general with a rising level of production and employment because a constantly falling price level is a dampening influence.

SENATOR WATKINS: Doesn't it increase consumption? All those so-called surpluses we have could be moved now if the price were right, couldn't they?

MR. KEYSERLING: Except that the American economy does not operate in just that way in the long pull.

SENATOR WATKINS: Because we have interfered with it so much. That is the principal reason is it not? We have never given the American economy a real chance. We have so many restric-

tions on it; it is a matter of putting a restriction on here and it throws it out somewhere else.

MR. KEYSERLING: Taking the areas where a price decline would be beneficial, the automobile area, for instance, it is not due to government restrictions that automobile prices are not reduced. . . . I wish that the man who wants to buy an auto could buy for less.

THE government has not forbidden the motor industry to reduce the price of automobiles. That is so. It is true nevertheless that fear of government is one of the reasons why automobiles are not cheaper. Here is strange matter, new in our time. When you look at the motorcar industry as a whole you see extreme disparities. At one end of the scale is Kaiser-Frazer, borrowing heavily from the government to keep itself in the race, on the plea that it cannot borrow any more from the banks. In the middle are several old companies whose stockholders are not very happy. At the other end are the profit makers, notably General Motors, Chrysler and Ford. Yet all of these are competing for the consumer's dollar with automobiles among which there is no great disparity of intrinsic value. Dollar for dollar one is almost as good as another. Now, when Mr. Keyserling says automobile prices ought to be cut, what does he mean? Who shall do the cutting? A price at which General Motors can continue to produce cars at profit might ruin some of the others; and if it should ruin Kaiser-Frazer what would become of the millions of taxpayers' money now invested in that venture by the government? But that is the least of it. Mr. Keyserling evidently was thinking of General Motors, which recently reported a perfectly fabulous profit. Looking at the figures Mr. Keyserling, like many others, seems to have said, "Why can't they pass some of that along to the consumer by cutting the price of cars?" Well, then, suppose General Motors did cut the price of cars, what would the Federal Trade Commission say? It probably would say, "This is unfair competition. You are trying to kill your competitors. Your motive obviously

is monopolistic." If the Federal Trade Commission did not act, then something else would happen. General Motors' profit is owing to the fact that it produces automobiles at a relatively low cost. Now if it should cut the price accordingly—to something like cost plus a moderate profit—its sales would probably increase to a point at which it would find itself in possession of more than half the entire field; and then certainly it would encounter the antitrust division of the Department of Justice, which now is prosecuting bigness as monopolistic; besides the Celler Committee and all that hostile feeling that runs in Congress against great concentrations of corporate power. So if you were General Motors, having fairly earned your fabulous profit in a competitive market, what would you do with it? Would you plow the profit back into more plant and equipment? That would make you only bigger and bigger—the same liability again. Would you pay higher wages than anybody else? In that case you might be accused of unfair labor practice; it would be said that you were trying to wreck the wage structure arrived at by industry-wide collective bargaining; or, again, you might be accused of an unfair trade practice—paying higher wages than your competitors can afford to pay, with intent to injure them. Will the Council of Economic Advisers solve this riddle?

PLANNERS sow the seeds of riddle. Now some of them are growing up. Here it is fear of unemployment along with great prosperity—actually the prospect of a labor surplus while riding the greatest boom we have ever known. In Great Britain it is scarcity created by full employment. "Ironically enough," says *The New Statesman and Nation*, England's most important Socialist weekly, "the success of full employment is largely to blame for the housing shortage." It goes on to explain why.

"So long as full employment is maintained and the government keeps a proper balance among conflicting priorities, the demand for houses will always exceed supply. . . . This paradox—that

full employment means the end of 'abundance' and that Fair Shares brings with it an era of scarcity—gave the Tory party their opportunity in the recent election. . . . Few of those whose housing needs are desperate have the inclination to reflect that an abundance of cheap houses for sale can only be achieved by drastically reducing effective demand—that is, by throwing enough people out of work or else making them so poor that they could not dream of buying a house."

Therefore, owing to full employment, security, subsidies and the guarantee of a minimum standard of living for everybody, the working people of England can afford better housing than they ever had before. As they can afford it, so they demand it, but so long as the Socialist Government insists that the minimum house shall be one with built-in cupboards and two toilets the number that can be built is far less than the number required, and "for tens of thousands of families the chances of getting a new house in the next ten years is remote." Once upon a time the castles of England had neither running water nor indoor toilets. Fifty years ago a rich man's country house might have only one toilet. Now the poor man's house shall have two. It is right, says *The New States-*

man and Nation, for the government to refuse to build the slums of the future, as the wicked private builders would do, and yet it is obliged to wonder whether those who are waiting for houses that cannot be built fast enough would not choose simpler habitations.



AT the annual meeting of the Industrial Relations Research Association, Professor Sumner H. Slichter read a paper on "The Social Control of Industrial Relations." He asks: "What are the principal aspects of industrial relations which require some sort of social control?" Then he gives nine—such as the protection of labor's right to organize, the right of an individual to join the union in case it is a closed shop, restraint upon the power of the union to deprive the individual of his livelihood by expulsion, the scope allowable in industrial conflict, the conduct of arbitration, and so on to the end of nine. But the simple right of a man to work—the right not to join a union—is not included. Did Professor Slichter forget it? Or has that become a nonexistent right in this country?

One Bottle for Bust or Boom

WE learned then that the people had to use their government as a means of mobilizing the resources of the whole country to restore the economy and start it moving upward again. That same lesson about the role of government still applies today. The people, using their government as an agent, found the means to lick the depression. Now we are employing the same means of well-designed government programs to help strengthen and steadily expand the national economy.—*President Truman in his Cheyenne speech.*

The ultimate result of shielding men from the effects of folly is to fill the world with fools.—*Herbert Spencer.*

Winds of Opinion

There are many kinds of socialism now. In Europe there are national socialism, Christian socialism, democratic socialism, Soviet socialism. In this country we have the regular Socialist Party and the Socialist Labor Party. And lately, for the first time on a national scale, we have developed what may be called Pendergastian socialism. The Pendergastian Socialist is cynical. He doesn't care for socialism, but he doesn't mind. He brings it about in course of handing things out. He gets his name from a political machine which flourished once in Kansas City. Some of the people in that machine are dead, some are in jail, and some have moved to Washington.—*Senator Harry F. Byrd.*

When two Americans discuss Labor Britain, they are really arguing about the future of the U.S.A.; and many of those who denounce British Socialists most violently do so with a full awareness that if our experiment succeeds over here it will be tried, sooner or later, on the other side of the Atlantic.—*The New Statesman and Nation.*

We must have the imperturbability of a General McAuliffe to say "nuts" when an industrially primitive and illiterate country tries to bluff us as to our respective abilities to wage industrialized warfare.—*Professor Edwin G. Nourse.*

It is beginning to dawn on us that, unless we introduce drastically new policies, our subsidization of Europe may run on and on, year after year, at excessive and perhaps even increasing expense to the American taxpayer. In fact, the dollar shortage, which measures the insolvency of Europe, has threatened to become chronic and permanent.—*Lewis H. Brown.*

When they get into a tight place economists usually dive into charts.—*Senator Watkins.*

The "invisible" nationalization of money is the eruptive symptom of a profound change in the cultural pattern of the Occident. Separation of physical force (the state) and economic power was the unwritten organic law of liberal, capitalistic society. By abandoning gold, a uniquely subtle machinery of uncontrolled and arbitrary rule over production and distribution has been handed to men who already wield the power of government. That still

leaves the door open for ultimate checks by democratic techniques, you may think. In reality, the democratic process is much too clumsy, and its inherent, vested pressures much too strong, to permit as a rule more than holding and delaying action.—*Dr. Melchior Palyi.*

In the first two years after the war six building workers were needed to do the work done by four before the war. At the beginning of this year it was still necessary to employ five men to do what four men used to do. This broadly was the general state of the building industry as a whole disclosed by the recent report of the working party on building operations.—*The Times, London.*

I fear for the future of our country. We are rapidly becoming isolated in the world. On the continent of Europe the German people hold the balance of power between the East and West. Lenin's thesis, which is still the paramount objective of world communism, is, "He who controls Germany controls Europe" and I say that a communist Germany means a communist Europe. It means the isolation of the United States. It means that our country will be placed at grave disadvantage in the world, and that we will become inferior to the Slavic states.—*Senator Eastland of Mississippi.*

Our confusion is compounded by the fact that some of our leaders—at least we have the right to look on them as leaders—are "shooting from the hip." They give us didactic, arbitrary answers on things which need facts and interpretation and not merely someone's prejudiced view.—*General Dwight D. Eisenhower.*

It is tragic to hear Americans speak of contests between the President and Congress as though we were mere bystanders at a prize fight. The Congress has no army, no bureaucracy, no courts, no jails, no propaganda arm. Its one real power, the power to withhold money from the bureaucracy, has meaning only to the extent that people support the representatives who guard the purse.—*Edna Lonigan.*

We, who once clenched our fists in helpless rage at the Nazi bombing of Warsaw, Rotterdam and London, have now become the leading exponents of "strategic bombing"—that carefully impersonal term for the mass murder of helpless civilians. We, who first conceived the idea of a covenant to abolish

war, have now placed our hope for peace in the hands of scientists, instructed at all costs to keep us "ahead" of all other nations in devising ever more horrible weapons of mass destruction.—*James P. Warburg.*

I don't think I will live to see the hydrogen bomb developed and I hope I don't. I hope they don't learn to trigger it, but if anybody does I hope we do. I believe if we have weapons like that it would prevent others from using them.—*Admiral Nimitz.*

I hope to see a Congress elected this fall that believes in international cooperation, wholeheartedly—a Congress that believes the welfare of the United States demands a continuing foreign policy that takes into consideration the whole globe, instead of just one county, or one district, or one state.—*President Truman.*

It seems that when public funds are to be expended no one has any interest in what happens to them, no matter what his responsibilities may be under his oath of office. I dislike to make such a statement, but unless this body and the House of Representatives exercise their prerogatives in connection with the purse strings of the government, much of the money appropriated will be thrown away for no good purpose whatever.—*Harry S. Truman when he was Senator from Missouri.*

Security today is being made to include security against one's own fault, improvidence, or ill-luck, or even defects of character; to fulfill this expectation the law seems more and more to be called on to pull him out of the ditch, bind up his wounds, set him on his way, and pay his hotel bill. Relief from the burden of poverty, want, and fear are laudable humanitarian ideals, but much at least of the program, if not beyond practical attainment, is certainly beyond practical attainment through law.—*Dr. Roscoe Pound, formerly dean of Harvard Law School.*

My interest in the cooperative movement is of many years' standing and began long before my election to the Senate. It is based on my conviction that there should be an alternative to the profit system as we know it. That alternative should not be old-fashioned socialism or state socialism, or communism.—*Senator Flanders.*

If men are not creatures of soul, as well as of body, they are not better than the field mule,

harnessed to the plow, whipped and goaded to work, cared for in the measure of his cost and value. But too often, today, we incline to describe the ultimate in human welfare as a mule's sort of heaven—a tight roof overhead, plenty of food, a minimum of work and no worries or responsibilities. If I doubted that man is something more than a mere educated animal I should personally be little concerned in the question of war or peace.—*General Dwight D. Eisenhower.*

The Economic Cooperation Administration has just hired five new press agents at a cost of \$39,450 a year and engaged a magazine "consultant" at the rate of \$50 a day when consulted. ECA also reveals it is looking for additional magazine and newspaper writers to act as press agents. The appropriation for publicity for ECA in this country is \$285,000 for the fiscal year.—*Representative Norris Poulson.*

American industry is replete with mechanical cadavers, economically dead but not yet buried. This condition, I am convinced, is due to a significant weakness in current managerial practices: re-equipment policy is not scientific but is the product of industrial folklore handed down from one generation of managers to the next.—*William J. Kelly, president of the Machinery and Allied Products Institute.*

Viewed only from the standpoint of its military effectiveness there seems to be little reason to attach such great significance to the hydrogen bomb. While it is a terrible weapon, its military effectiveness seems to have been grossly overrated in the mind of the layman. What is probably much more serious about the hush-hush subject of the hydrogen bomb is that here is a weapon about which the average citizen is so ill-informed that he thinks it can save the country from attack. The most tragic part is that the hydrogen bomb won't save us and it isn't even a very good addition to our military potential.—*Dr. Robert F. Bacher, former member of the Atomic Energy Commission.*

I cannot name a learned profession that has not clouded its philosophy and practice in a jargon of its own. The need for clear communication is desperate. Medical science has never before so much needed the support of responsible and accurate reporting. New knowledge, new skills, new techniques and drugs are constantly pouring from the laboratories. The application of modern medical science depends upon the understanding of the public.—*Dr. Leonard A. Scheele, Surgeon General of the Public Health Service.*

Jobs and the Man

By Garet Garrett

IN this scene of prosperity the specter of unemployment is wrong. Moreover, it was forbidden to be there. Four years ago the government assumed responsibility for full employment. The Employment Act of 1946 declared it to be "the continuing policy and responsibility of the Federal Government to use all practical means . . . to coordinate and utilize all its plans, functions and resources . . . to promote maximum employment, production and purchasing power and to maintain stable and prosperous economic conditions."

The law created in the office of the President a new instrumentality, the Council of Economic Advisers, charged with two duties—first, to run clinical charts on the economy, showing its temperature, its pulse, its blood pressure and its metabolism, and, second, to recommend the proper medicine when symptoms of malaise, fatigue or illness appear.

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The controlling idea was one of great simplicity to begin with. It was assumed that if the economic machine could be held in high gear, if the gross national output of things could be kept rising, and if at the same time enough spending money could be put in the hands of consumers to enable them to clear the market, as the economists say, then you could take everything else for granted, including full employment.

Well, the gross national output did go on rising in a notable manner and consumers did all the time have enough spending money to clear the market of everything that was produced, to the point in fact that gray markets began to appear because people were willing to pay premiums for the immediate satisfaction of their wants; and yet the main thing that had been taken for granted did not follow. For the first time in our history unemployment began to rise under conditions of lavish prosperity. Fewer workers were employed to produce a greater quantity of things.

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In the year 1948 production was $23\frac{1}{2}\%$ higher than in 1946, but employment increased less than seven per cent.

In the year 1949 production declined less than $1\frac{1}{2}\%$; but the decrease in employment was more than $2\frac{3}{4}\%$.

During 1949 payments to the unemployed out of public compensation funds amounted to \$1.7 billion, which was a new high record, and at the end of the year so many unemployed had exhausted their

benefits that in a number of areas only one third of them were receiving anything at all.

This year so far we have been treading the peaks in both the production of goods and the consumption of them. The economic machine is in high gear; the wheels are turning faster than ever before. Nevertheless, the number of unemployed has been greater than in 1948. Both the American Federation of Labor and the CIO have been talking of an unemployment crisis, citing areas in which one tenth or more of the labor force was out of work.

In his message to Congress May 5, proposing a program of five steps to put more vim and vigor into small business, the President said:

"While our business system is thriving, it is not growing fast enough. While employment remains at a high level, we are not creating all of the new jobs necessary if we are to absorb the growth of our labor force. *Despite the upturn in business we now have more unemployment than we had a year ago.*"

The Secretary of Labor says:

"The nation's labor force has been expanding more rapidly than our economy. The problem we are confronted with is this: How are we going to get more jobs, more jobs for those who are unemployed and for the new entrants into the labor market?"

He was just then looking at a map of the United States on which had been indicated by pins forty-three areas in which unemployment was becoming critical.

At the end of the first quarter Philip Murray of the CIO was saying, "The machine is displacing the man."

THE two factors commonly identified as tending to create unemployment are:

1. The increase of population, and
2. the increase of output per worker, owing to more and faster laborsaving machines, better methods and the general progress of technology.

From the natural increase of population the labor force now expands at the rate of 600,000 a year, rising toward 800,000. These are new workers wanting jobs each year.

From the progressive improvement of technology, meaning machines and know-how, there is a normal

increase of output per worker estimated from 2 to 2½% a year. This means that merely to maintain the gross national production we should actually need, say, one million fewer workers each year.

Thus by simple arithmetic you arrive at the conclusion that for full employment during the next five years we should have to create twelve million more jobs, calculated as follows:

Increase of the labor force.....	3,500,000
Workers displaced by machines.....	5,000,000
Add those now unemployed.....	3,500,000
Total.....	<u>12,000,000</u>

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Still, why the anxiety? The rate at which the population grows is a little higher than it recently was, and yet no higher than it has been before. Once the faster it grew the better we liked it and named it first among our resources. So many more people to produce wealth. Why now suddenly does it seem to be regarded as a liability, requiring measures to be taken lest we find on our hands a surplus labor force? And as for laborsaving machines and methods—technology, that is—have we not learned from our history that machines create more jobs than they destroy?

What, if anything, is new in this situation? Why now does the necessity to provide jobs become an urgent problem, and why should it have so much of the aspect of an impending national emergency that government must take steps to avert it, even invoking the power of public credit for that purpose, besides exhorting business to expand faster and faster? Why for the first time does the specter of unemployment mar the festival of boom?

Well, take the new worker—not six or seven hundred thousand, but just one as an individual. How formerly did the young man out of school enter the labor market? He went looking for an employer who could afford to hire him.

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The employer has not changed. He is one who has a plant, tools, raw materials and customers and is in business for profit. The workers in this plant, using the tools that are put into their hands, transform the raw materials into goods that the employer sells to his customers. From what the employer receives from his customers in payment for these goods he must deduct the cost of the raw materials, the cost of the wear and tear on the tools, and the cost of maintaining the plant—all of this first because if there are no raw materials, and if the tools cannot be replaced as they wear out, and if the plant itself falls down, then of course there can be no jobs. Out of what is left the employer pays wages. If after wages there is anything left he keeps it. That is his profit. If there is nothing left he will not stay long in business. So you see there is a wage at which the employer can afford to hire this new worker and a

wage at which he cannot. That is still true, no matter how much else has changed since bargaining about a job was a quick and simple business. The employer said how much he could afford to pay. The new worker had to make up his mind whether to take it or leave it. If he took it he had a job.

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But how now does a young man out of school enter the labor market? Behind him is a minimum wage law which says that his least wage shall be 75 cents an hour; it is illegal for an employer to pay him less. There is behind him also the law of hours which says that the standard day's work shall be eight hours; if he works more than eight hours he shall be paid overtime at 1½ times the minimum hourly wage. There is yet no law to say that the employer is obliged to hire the new worker. Suppose the employer says: "I cannot afford to pay you the minimum wage. I should lose money on you, and if I did much of that I should have to go out of business, and then what would become of the jobs of these other workers?"

In that case there is no job for the new worker. It is all very well to say that human labor ought to be worth 75 cents an hour and that an employer who cannot pay it ought to be more efficient or that he ought to raise his price to his customers. But the subject here is jobs. How much unemployment is owing to the rise in the legal minimum wage last year from 40 cents to 75 cents, especially in the fringe areas of business, cannot be reckoned definitely. The amount of it at this time of boom is probably not very large. It is mentioned only as one of the rigidities that now appear in the economy.

IT is much more important to consider what happens to the new worker who joins the union, which he must do in almost any of the great industries. It may be one of the big unions that has used its collective power of bargaining to raise wages too fast, thereby, as the economists say, pricing itself out of the market.

Everybody knows there is a point beyond which wages cannot rise without reducing the demand for labor. Yet this is a point that can never be actually fixed beforehand. You know it only when the consequences begin to appear in the form of unemployment. And even then it will be denied, many saying that the cause of unemployment is not the high wage but something else. More and more as collective bargaining grows, it is a point that is forgotten. And more and more the powerful unions with anything like monopolistic control of the labor supply insist that the basis shall be the corporations' ability to pay. And since, first, that basis will always be the rich corporation's ability to pay, and since, secondly, that wage then becomes immediately hori-

zontal throughout the industry, all the less profitable corporations are at a disadvantage.

Even so, the fact that either the industry as a whole or the most profitable corporations in it may be able immediately to pay a higher wage, does not necessarily mean that the higher wage will not cause unemployment. Steeply rising labor costs will cause industry to make large capital outlays for labor-saving machines, so that fewer workers are required to maintain production. This has been taking place recently in a very large way and there are signs that output per worker now is rising in a remarkable manner. How much unemployment is thereby accounted for we do not know. It is supposed to be high.

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Thus one has to look again at technology. It is true in our experience that machines have made many more jobs than they have destroyed. But that is history of other times under other conditions. What was true may not be currently so, or it may have been modified. This is a matter that needs to be explored.

In its May *Bulletin* the Federal Reserve Board discussed the unfamiliar problems of economic policy that rise from the "failure of employment opportunities to keep pace with the 800,000 to 1,100,000 persons added to the nation's labor force each year." Measures such as may be used to meet large-scale cyclical unemployment are not appropriate in this situation. The fact that production tends to increase faster than employment, the Board says, is owing to "new machinery and equipment of highly efficient design," and to the selection of more efficient workers that becomes possible as soon as there are more workers than jobs. For the first quarter of 1950 unemployment benefits were being paid at the rate of \$2.2 billion a year and in many states the unemployment compensation funds were running out because payments were much larger than the intake from taxes; and yet at the same time the production of goods was at an all-time high.

Formerly laborsaving machines were introduced in a competitive spirit and the motive was profit. A man said to himself: "If by using more machines I can reduce the labor cost of my product, then I shall be able to cut the price, double my sales and make more money."

That was one thing. It is another when the man is thinking first of survival—when he says to himself: "Unless I use more laborsaving machines and do the same amount of work with fewer wage earners, this rising labor cost will ruin me."

In one case he is thinking of getting his labor cost down in order to reduce prices to his customers and so increase his sales. That means greater production. In the other case he is thinking only how to reduce labor costs in order to save his economic life. It may be, and indeed it is very probable, that when neces-

sity acts in place of the simple competitive profit motive, such intensive mechanization of industry as now is taking place will actually create unemployment instead of creating more jobs, as our machines formerly did.

It is a relevant and maybe a significant fact that in the past few years capital outlay for machines has been increasing faster than capital outlay for plant. This is discovered by the Machinery and Allied Products Institute. It says: "Computed at constant prices, equipment expenditures for the five years from 1946 to 1950 were up nearly 150% from the 5-year period from 1926 to 1930. Plant expenditures, on the other hand, were 10% lower in the postwar period than they were in the late 1920's."

IN any case, the power of organized labor to resist a downward revision of wage scale is an immovable political fact. The underside of the wage scale is rigid. Wages can move only up, never down. Labor would sooner face unemployment than a cut in the wage rate, knowing of course that the unemployed will somehow be supported because unemployment now is a responsibility of government.

In this position it is supported by a doctrine that now governs economic thinking in Washington. The doctrine is that purchasing power generates production, whereas formerly it was supposed, the other way around, that production generated purchasing power. If the new doctrine is true, then it follows that to cure unemployment you put more money in the hands of the people, almost no matter how; if they have the money they will demand more goods which will call for more production and thus create jobs.

But this leads you into an extreme difficulty of logic. One way to put more money in the people's hands is to raise wages. If, therefore, the trouble is a surplus of labor for want of enough productive jobs the thing to do is to increase the price of labor. When you say it that way it cannot make sense. Certainly if labor were a commodity you would never think of trying to sell a surplus of it by raising the price.

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Nevertheless you will see that every proposal so far advanced for dealing with unemployment in case it gets worse is either to raise the price of labor or to keep it from falling. One proposal is to shorten the work week by five hours without reducing the content of the weekly pay envelope, so that more workers will have to be employed to maintain production. So far as labor cost is concerned, the effect would be the same as if wages had been raised. The American Federation of Labor says:

"An increase in consumer purchasing power through wage raises is one way to make more jobs and reduce

the current record-breaking postwar total of unemployed workers. . . . Wage raises are essential this year to increase workers' buying. First, in cases where a company does not otherwise have enough income to grant substantial wage increases, let unions propose to management that they work together to reduce unit costs of production. This will create income out of which gains to workers and management can be paid. . . . A second measure to lift wages is the organizing drive to win a million new members."

The CIO is proposing a new office of government to deal with unemployment, an unemployment emergency fund, assisted migration of workers away from depressed areas, a revival of the New Deal's Civilian Conservation Corps to absorb young people wanting jobs, and more public works.

The President proposes more unemployment compensation for longer periods; also more old-age pensions to draw people faster into retirement out of the labor force. One effect of such measures, beyond relieving distress, is to protect the price of labor—that is to say, to keep both the older workers and the unemployed from pressing their labor for sale on the labor market. Out of necessity to sell their labor at some price, eight or ten million unemployed would be a serious hazard to the standard wage structure. Made work out of public funds has somewhat the same effect.

ONE wonder of the American system has been that it was always normal for wages to rise and for the cost of human satisfactions to be progressively cheapened at the same time. Thus, for example, the highest-paid automobile workers in the world and the cheapest automobiles. But this was true long before automobiles, long before any minimum wage and hour laws, before there was any industry-wide collective bargaining—true ever since the discovery (an American discovery it was) that wages are paid out of production, not out of profits as the old economists believed, wherefore profits and wages may rise together to almost any point, provided you kept production rising. It was technology's part to keep the labor cost down while wages went up. This it did by putting more and better tools into the hands of the worker, so that his output per hour increased as much or more than his wage. Always it was a race between, on the one hand, technology working to keep the labor cost down, and on the other hand, labor struggling to get wages up. When labor got a little ahead then perhaps all that technology could do would be to keep costs where they were, so that the higher wage need not be passed on to the consumer. When technology got a little ahead then, without reducing wages, prices could be reduced, thus making it possible for con-

sumers to buy more, with the result that production increased and there were more jobs. The principal beneficiaries of this exciting game were the wage earners and the consumer. If technology lost, then both the wage earner and the consumer would lose too.

So it was and that is how it worked in a climate of free enterprise, when the profit motive was respectable and when unlimited competition was the regulator—the free market, the free price and the free contract. But the climate has changed. How well it is working now we hardly know because the effects of the new climate have not fully appeared. The tendency of unemployment to rise at a time like this when all the other indices of prosperity are running out of the charts at the top, is a sign that something is wrong. Certainly markets and prices are no longer free in any such sense as they once were. The great regulatory power no longer is competition but government policy.

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Even competition now is limited. To be lawful it must be *fair* and the Federal Trade Commission will say what is fair. No automobile manufacturer today would dare to do what Henry Ford did thirty-five years ago, when he raised wages to a minimum of \$5 a day and at the same time cut the price of his car until his competitors wept. They had either to adopt his methods or go broke. They did both. That was the kind of competition that made it possible to produce in this country the lowest-priced automobile with the highest-paid labor in the world. And but for that kind of competition, employment in the motor industry might be one half what it is or less.

Today an automobile producer who behaved in that rugged Ford manner would be obliged to defend not only his economic sanity but his motives. He might be charged with an unfair labor practice in paying more than the current wage, with intent to discredit the collective bargaining of the union; or for having cut the price of his car in a radical manner he could be charged by the government with two crimes, namely, first, intent to ruin his competitors, and, secondly, the intent to monopolize the market. And it would be now that one of his hurt competitors would be Kaiser-Frazer, into whose business the government itself has put a great deal of public money under the pretense of fostering competition in the automobile industry.

NOW to the rigidity of the wage structure you have to add rigidity of the price structure. This was inevitable. Once the government had assumed responsibility for full employment as a matter of public policy it was obliged to take the next

step, which was to stabilize prices. This means that the government will use its total monetary, fiscal and economic power to keep prices from going down, for if prices go down people will begin to think of depression and the boom may break. The argument for holding prices at a high level is formulated by the President's Council of Economic Advisers as follows:

*"There is, of course, an inherent dilemma in the dynamics of price reductions. On the one hand, the effect of a reduction in prices is to increase the buying power of money. On the other hand, it can create unfavorable anticipations which outweigh the favorable effects of the cut in prices in the short run. Had the decline in prices during the first half of 1949 been more drastic, it might have precipitated a much more serious decline. Looking to the longer run, the Council takes the position that whatever adjustments are called for in the price and income relationship should generally take the form of increases in income in response to increases in productivity rather than of further general reductions in prices, which would make difficult the course of business progress and perhaps cause recession."

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Thus prices, like wages, can go only one way. As they go up, the cost of living rises. Then relief, if any, must come not from a reduction of prices but from a further rise in the people's income. That would be all right for the people who receive wages and salaries, provided wages and salaries went up too, but what of people whose incomes may not rise? On this point the Council of Economic Advisers says:

"Furthermore, the general position which the Council has taken should not be construed to imply insensitivity toward the problems of people on fixed incomes. But people on fixed incomes fall into several classifications. First, there are public employees, such as teachers, particularly in some of the poorer sections of the country, whose salaries have fallen far behind increases in the cost of living. Manifestly, there would be no way without a large depression to bring the whole price structure down to the point where these people would regain the ground that they have lost; and any such economic calamity would probably injure them also. The only relief for people in this category is improvement in their money incomes through broad public effort. In the second place, there are families of very low income, not publicly employed, who also earn so little that they cannot possibly look to changes in the price structure to bring them up to a satisfactory standard of living. Their progress must come through a wide range of measures, including improved educational opportunity and health services, further industrialization in some areas, better minimum-wage laws, and, above all, private and public policies designed to

promote the stability and growth of the economy as a whole which will raise the general standard of living particularly in the lowest portions of the income structure. Where superannuated people are living on low fixed incomes, in the form of inadequate retirement benefits or pensions, their situation must be dealt with through the liberalization of social security. There are also numerous people who live on fixed incomes derived from estates, insurance policies, and so forth. While many of these people have been hurt by the rise in the cost of living, there is no possible way of readjusting the whole economy to their particular needs."

Note from estates, insurance policies, and so forth. No mention of government bonds. Yet what has happened to the people who live on fixed incomes derived from estates, insurance policies, and so forth, has happened also to the people who have bought government bonds during the past fifteen years. And now government policy forbids that anything shall be done about it.

Perhaps never before was the liquidation of the middle class described with such charming blandness. The rise in the cost of living has halved its buying power; that much of its wealth has been transferred away. It is too bad. But the loss is permanent because prices cannot be permitted to fall.

THERE is not and never was in this country a middle class fairly comparable to the very definite and conscious middle class of Europe. Nevertheless it is well to reflect on the fateful consequences that may be traced to the destruction of the middle class of Europe by inflation and socialistic leveling. It was celebrated as a transfer of political power to the people; but what really happened was that the power passed to the gods of totalitarian government.

What we call the middle class here has not been destroyed; it has only been hurt. By edict of government policy the hurt is permanent. Its former purchasing power can never be restored. The President's Council of Economic Advisers says so flatly. But will it end there or will the income of the middle class be gradually reduced to zero, as all pure Keynesians think it should be?

Towner Phelan says:

"It is our thesis that these vast government hand-outs will be continued, expanded, and increased. They will be financed by inflation because there is no other way to finance them. It is our thesis that inflation is slowly liquidating the middle class and that the destruction of the middle class leads directly to the police state."

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The fate of the middle class is in the mill. So much strange material has been cast into the hopper that now the grist is unpredictable.

* From Hearings by Joint Committee of Congress on the Economic Report of the President, Leon H. Keyserling speaking for the Council of Economic Advisers.

Especially is that true of full employment policy. What that grinds into may be most unexpected. This is to be explained.

The idea that—

- (1) *by manipulation of credit and money,*
- (2) *by fiscal policy, and*
- (3) *by exercising its power to influence the flow of savings and investments,*

a government could plan and guarantee full employment is an idea that derives from the late John Maynard Keynes, a brilliant fantasist who was Great Britain's soothsayer in time of trouble. It had never been proved beyond algebraic formula; nevertheless it swept the imagination of a world that remembered in its sleep the miseries of the great depression. It was written into the United Nations Charter, Article 5: "The United Nations shall promote a high standard of living, *full employment*, and conditions of economic and social progress and development." As a member of the United Nations this country was committed to it, hence the Employment Act of 1946, under which the government assumes responsibility for full employment. The program of the Socialist government of Great Britain was, of course, founded upon it. Recently the United Nations has brought forth the design for a global full employment policy in a Keynesian world, proposing that creditor nations shall provide debtor nations with purchasing power, so that hereafter no nation, simply for want of money, shall be unable to buy what it needs.

SINCE the war there has been full employment in Great Britain for the first time in many years and the Socialist government takes credit for it; but there are few who will say it was the full employment policy and not the American dollar that saved Great Britain from a very different experience. So nothing is proved there.

In this country since the war there has been very high employment, but again there are few who will say it was the Employment Act of 1946 that did it. The major causes have been three, namely, the satisfaction of a deferred demand for goods of all kinds, the export boom from giving \$26 billion in aid to foreign countries, and thirdly, the cold war, calling for enormous expenditures on a defense program.

Indeed, abnormal events have so distorted the view that there has been nowhere a chance to prove whether the idea comprehended in the term full employment policy will work or not, or how it will work if it does, or whether it was a popular delusion that went over the world. How strange, therefore, that it has become deeply rooted in social and politi-

cal thinking, so deeply that it is unwise for any politician to challenge it.

MEANWHILE, however, there has been time to re-examine it. All the economists in the world have been exploring its necessary implications. Some reject it on the ground that the ultimate price will be too high; others accept it, price and all; but there is general agreement among them as to what the price will be. They find—and this is hardly anywhere disputed—that a full employment policy is bound to be inflationary. If labor is fully employed its collective bargaining power is greatly increased. It has the advantage of what is called a seller's market. In a perfectly human way it will press continually for higher wages, and thus the price of labor will tend always to rise. If the price of labor rises so will all other prices rise, and to beat the rising cost of living labor will demand higher wages still. This is the endless spiral.

Many economists come to this conclusion regretfully. Even Sir William Beveridge in his book, "Full Employment in a Free Society," which was the blueprint for Great Britain's planned economy, was bound to say a full employment policy would work on one condition. Labor would have to be reasonable. And if it were not reasonable it would have to be coerced. Great Britain now is finding that out. A serious crisis is developing from the fact that the unions are in revolt against Sir Stafford Cripps' wage freeze; yet if wages go up production costs will rise and that just now would be disastrous for Great Britain.

The unhappy conclusion is bluntly stated by Dr. Gottfried Haberler in the *Aussenwirtschafts*, Bern. He says:

"It is generally realized that the price of full employment is continuous inflation or the most severe regimentation, both of which would endanger economic progress."

Looking obliquely at this country, *The Economist*, London, says:

"Given the political pressure on governments to adopt an extreme definition of 'full employment' and thus to put all sellers, including the sellers of labor, into an impregnable bargaining position—given also the existence of Mr. John L. Lewis—the pursuit of full employment is in danger of turning into the creation of permanent inflation. Experience suggests that, of the three objectives—full employment, stable prices and free collective bargaining—it is possible to have any two, but not all three, certainly not in their full versions. Surely the choice that this imposes is one of the crucial central issues of employment policy."

The point of all this now appears as you return to the question about what is happening to the

middle class. The question was whether the hurt it has already suffered is the end. Now if it is true that a full employment policy is bound to be inflationary continuously, and if we are irrevocably committed to that policy, you have the answer. As prices rise it will be hurt more and more.

Writing in the *American Economic Review*, Professor W. A. Morton says:

"We have set up full employment as a symbol to be worshiped without realizing the sacrifices that unreasoning obedience to it might demand. Faced with this situation, some hold that we should accept a gradually rising price level as a necessary consequence of trade unionism and full-employment policy and sacrifice the fixed-income group and creditor classes. Others suggest that fixed-income groups be abolished by making all bonds, pensions, and annuities subject to changes in the price level. All such proposals are, however, self-defeating, for if all incomes moved up together the advantage of inflation to any single group would be nil."

BY now it ought to be evident that we need to know a great deal more about unemployment. There are many causes and from different causes come different kinds of unemployment. It may be cyclical. It may be catastrophic. It may be, as Lewis H. Brown says, chronic unemployment having its cause in wrong government policies. In any case, if a true diagnosis calls for bitter medicine no government can administer it. That is why government measures, both curative and preventive, are bound to accord with the fallacies that happen to be uppermost in the public mind.

Fifteen years ago government policy rested on the puerile assumption that the American economy was finished. It had grown to full stature; further expansion of its productive capacity was a liability. There was in fact too much capacity already. Competition was an evil because it depressed prices. Therefore, it had to be limited. Little competitors were chisellers trying to destroy the value of human labor. The Blue Eagle would attend to them. A little tailor who charged less than the Blue Eagle price for pressing a pair of pants was sent to jail.

President Franklin D. Roosevelt was then saying: "The people of this country have been erroneously encouraged to believe they could keep on increasing the output of farm and factory indefinitely and that some magician would find ways and means for that increased output to be consumed." The "unnecessary expansion of industrial plant," he said had caused evil competition, overproduction, waste and unemployment. "Therefore we must make sure that as we reconstruct our life there be no soil in which such weeds can grow again."

Now, using public credit as fertilizer, the govern-

ment is trying to make those same weeds grow faster. If there is danger of unemployment it is owing to the fact that they do not grow as they once did. Mr. Truman says:

"Small independent businesses are important to the growth of our economy. . . . They provide the vigorous competition that is at the heart of our private enterprise system. . . . They are a constant source of new jobs."

Expansionism has become the magic word. The economy must be expanded continuously and infinitely, with the help of government. Mark, however, that the words both *expansion* and *competition* now mean only what the government intends them to mean. Big business is already too big. It must not expand any more. Therefore, it is small business that must expand. As for competition, that also must come from small business. The government will put forth its hand, not only to arrest the growth of big business but to strengthen small business in order that it may compete with big business.

This turns the old New Deal doctrine upside down. The New Deal put the antitrust laws on ice, or, as Mr. Roosevelt said, "limited their operation," precisely in order that big and responsible business, under a "rigorous licensing power" might enter into codes or agreements to limit production, raise prices and keep the little chisellers out.

The government's experts now are persuaded, and have half persuaded the people, that what retards the growth of small business is the want of cheap money. Private bankers are too careful; they think only of their own profit and forget the profit of the community. So now the government will take the risk; the government will see to it that small business gets cheap capital. Certainly many will enter business if they can get the money for the asking, without having to save it or talk a hard banker out of it or wait for the aunt to die.

It seems never to have occurred to anybody in the thought machine in Washington that when a small business man who is already there is taxed to provide the money the government lends so generously to a man who will set up on the next corner, he—the small business man who is already there—is in the position of having been obliged to subsidize his competitor.

If the government were not draining away savings at the source there would be more venture capital in the reservoir. If a man in small business could keep his profit and put it back instead of dividing it with the quarrelsome tax collector he could grow much faster. And if it was certain that in time of bad weather there would not be another Blue Eagle many small enterprisers might be just as willing to risk their own money as that of the taxpayer, even again in a world of free markets, free prices and free contracts.

The Birth of Point Four

Washington Correspondence

Washington

PAGES 7811 to 7849 of the *Congressional Record*, May 25 last, might very profitably be printed as a study of lawmaking by what now we call the democratic process. Point Four was born. The facts are these:

- (1) The lawmakers did not write the law.
- (2) The law came to Congress ready-made from somewhere in the dimness of that vast world of excess cerebration commonly referred to as executive government—probably the State Department, maybe the White House.
- (3) The lawmakers stood in hopeless disagreement over what the words meant, and were unable to arrive at a common understanding of them.
- (4) Since Congress was not sure what the words meant, it could only guess how they would be interpreted by executive government, or what executive government would do with them, and this was bitterly debated.
- (5) Many who voted for the law could not afterward say for sure what they had done.

Senator George, who voted for it, said:

“It contains a great deal of language which has come about, no doubt, as a result of the evil habit, which has grown up in Washington in recent years, of putting a lot of poetry at the head of a chapter and then writing out a lot of poetry thereafter.”

Senator Saltonstall asked:

“Is not some of the poetry to which the Senator has referred put in to show the other countries what we expect of them if they are to get any technical assistance under this measure?”

Senator George replied:

“I think so; but candor compels me to say that it is also put in to soft-soap a situation which might not be altogether acceptable here. I have found that to be the case in the past, and I must be wholly frank about it. It is altogether unnecessary for such language to be included.”

Senator Taft said:

“It seems to me perfectly obvious that a complete study should be made of this program. First, we should appoint a commission to study for a year, or perhaps two years, what our post-ECA program should be. The ECA program was purely a temporary program. It was solely to meet an emergency. The arms program is

solely a temporary program, a program to meet an emergency, both emergencies caused by the actions of Russia. But we are here taking up a proposal for a permanent program to do something this country has never done before. . . . It is a revolution in the policy of the United States.”

Senator Millikin said:

“Through this back-door approach we are asked to commit ourselves fully, without limitation of time and scope of purpose, to a full-fledged Point Four program which probably equals in importance—and might even surpass in importance—the ECA program. I suggest again that that is very unsound legislative procedure. I suggest again that it does not do justice to the subject or to the Senate, and I doubt whether it furnishes an adequate opportunity for the people of the United States to know what we are doing here and what we are being asked to fasten upon them.”

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Sections of the bill were read back and forth across the Senate chamber until they were known by heart, and the confusion only deepened. What *did* the words mean? Senator Connally, chairman of the Foreign Relations Committee, who was moving the law to a vote, took the position that many of the words meant nothing, and that the meaning some Senators read into them was cancelled by other words. Senator Donnell read from Section 402 the words:

It involves confidence on the part of investors, through intergovernmental agreements or otherwise, that they will not be deprived of their property without prompt, adequate, and effective compensation,

and then said:

“If that is not a statement that our government ‘through intergovernmental agreements or otherwise’ is willing to see to it that American investors do not suffer loss, then I do not understand the English language.”

Senator Connally retorted:

“The Senator’s understanding of the English language is very defective, I will say to him, because the language does not mean that at all. There is nothing in the bill to that effect. What is meant when the section says ‘it’ is the attitude which ‘involves confidence on the part of the investors, through intergovernmental

agreements or otherwise,' that they will not be deprived of their property without prompt, adequate, and effective compensation. I favor that. Does the Senator want American property confiscated?"

Senator Donnell said:

"Of course, I do not want American property confiscated. But at the same time I do not want to enter into an agreement with unrestricted provisions which may justly be susceptible of the construction that the government is indicating a willingness on its part to guarantee the investors against loss."

Senator Connally said:

"My answer is that that is merely imagination. There is nothing in the bill, express or implied, contemplating it in any way."

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All the law did, Senator Connally insisted, was to declare a policy; and why should the Senators be worried about that? The total expenditures for Point Four in this law would be less than \$35 million, until the Congress voted more money. This was a little thing. Senator Connally went on:

"Some Senators say that when we declare a policy that means we have got to go down in our pocket and get some money. It does not mean anything until Congress acts. A policy cannot be eaten. A policy cannot be worn. Nothing can be done with a policy unless it is backed up by money or commodities or resources of some kind. It is a mere declaration of our good will to these countries, of our desire that they progress, and that they develop, and that their resources be developed. I do not think the Senator from Missouri is really against that in his heart. He will not be against it after November. As soon as he gets out of the woods in the present campaign he will see a light and he will be for this broad Christian attitude toward other nations of the world. But until November he is going to be as tight as Dick's hatband."

Yet before he had made up his mind to vote for what executive government wanted, Senator Connally himself had said—this in the course of committee hearings:

"A good many people are apprehensive of this program, that while we are only appropriating \$35 million at the beginning, it is just getting a foot in the door and the expenses of this thing will go from year to year, and just as Secretary Thorp mentioned a while ago there, they will come up with a project, some country will say, 'Oh, now you have sent these experts over here and they have smelled around, we have a big project for \$100 million and we want you to carry out your promises now and give us the \$100 million.'"

Senator Millikin and others read this from the committee record, thinking perhaps to embarrass

Senator Connally, in view of what he had just said on the floor of the Senate; but Senator Connally did not mind in the least. He was never one to be embarrassed by a little contradiction like that.

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What had happened may now be somewhat clarified.

For his inaugural address in 1949 President Truman wanted something like a dramatic highlight, and somebody suggested the idea of offering technical assistance and American know-how to all the backward people in the world as a bold new program. That became Point Four. It was neither bold nor new, nor was it a program; but on the assumption that the American Government now would do it, instead of leaving it to private enterprise, which had been doing it for many years, the idea seized the imagination of the world.

Several tentative bills to implement it were introduced in Congress, but nothing really happened until the State Department this year began to write the Foreign Economic Assistance Act of 1950. This was an act to continue the Marshall Plan and the Marshall Plan, as everybody thought, was going to end in 1952. The State Department meanwhile had made up its mind that American aid to foreign countries would have to go on after 1952. The Secretary of State had said so in Europe. How to continue it, and how to prepare the American mind for the necessity to continue it, was a problem that worried the State Department experts until somebody said, "Why, here it is. Let's write Point Four into this year's extension of the Marshall Plan. That will prepare everybody for going on after 1952." And so it was done.

Thus the Foreign Economic Assistance Act of 1950 arrived on Capitol Hill with Point Four written in, just as the State Department wanted it, although properly it did not belong there at all.

The Senate Foreign Relations Committee did not like it and whittled it down a good deal before bringing the Foreign Economic Assistance Act of 1950 to the floor of the Senate. One of the things it did was to put a five-year limit on Point Four. The result was that the Senate passed a diluted version of the executive government's Point Four.

But on the other side of the Capitol the House passed the Foreign Economic Assistance Act of 1950 with Point Four exactly as the State Department wanted it. Then in the usual way the two bills—one by the Senate and one by the House—went to conference to be reconciled. The House conferees insisted on the House bill in a very obstinate manner, and the Senate conferees therefore came back to the Senate with a conference bill containing Point Four as the State Department had written it and as the

House had passed it; and the Senate then had either to junk the whole Foreign Economic Assistance Act of 1950 or accept Point Four in that form. That is where the row began.

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Senator Millikin opened the attack. He said:

"The main business before the Senate is to legislate the extension of the ECA program with a view to its ultimate demise. Intruded into this important concern is the inclusion, by oblique and backdoor strategies, of the so-called Point Four carry-on program, which is limitless in scope and duration, indefinite in purpose, and which contains the strong possibilities of harmful results to our country. . . . This off-the-cuff approach to foreign policies of incalculable impact upon the welfare of this nation and of the world flies in the face of commonly accepted precepts for sound legislative procedure, and rebukes the sound advice of a statesman such as the senior Senator from Michigan (Mr. Vandenberg), urging careful preliminary study. . . . How many times are we going to stumblebum ourselves and the world into tragedy by the loose use of words? Remember what has followed the imbecilic notion that Russia was a promoter of the democratic way of life. I suggest that we get rid of these pre-Yalta ghost writers. . . . I suggest that as we go along we shall find that we are giving the President a blank check to inaugurate executive programs. We shall find the Congress will have surrendered its complete control over the subject, except as it provides appropriations for things already done, which it must provide or be accused of breaking the heart of the world.

Senator Connally's interpretation of the State Department's poetry was very different. He said:

"There is a \$35 million limitation in the bill. The purposes of the bill are limited to particular things; to technological assistance and advice. There is not a sentence in the bill, there is not a line in it, there is not a phrase in it, there is not a clause in it anywhere that guarantees to American citizens foreign investments made by them. . . . The purpose of Point Four is to let the people in these foreign areas have our advice and our assistance, so that they will learn how to do these things—not that we are going to do them. We do not need any law to authorize us to go abroad and do these things, if we make an agreement or treaty to do them. However, we want the people of these foreign countries to do them. We want them to learn how to develop their own country and the resources of their own country. . . . We are not assuming any other obligations, except to the limit set forth in this bill. The limit is \$35 million. Even that is subject to veto by the Committee on Appropriations when the appropriation comes before the committee. There are no obligations except those which are specifically set forth in the legislation."

Then Senator Taft said:

"The Senate is familiar with what the State Department has done with the authority to make reciprocal

trade agreements. Into that authority, which permits them to make agreements requiring no ratification by Congress, they have incorporated all kinds of provisions, including all kinds of quotas. They have expanded the power until under this so-called GATT they have almost written ITO into agreements which they have based on that theory. Here we give them power to make other agreements which would not have to be submitted to Congress. They are not treaties. What a technical cooperation program is, I do not know. However, it seems clear to me that, in view of the way the State Department has stretched its powers in respect to reciprocal trade agreements to cover anything, it could outline all kinds of agreements and projects, to be financed by us, with no treaty whatever, and then come to the Congress for money. They could say, 'Here is an agreement we made under your authority. We made this agreement with Iran under your authority. We are going to develop Mesopotamia. We made this agreement. Are you going to back out on the agreement, after you authorized us to make it?' We can say, 'We did not authorize it.' To which they can reply, 'We understood the language to mean we had the authority, and we claim that authority.' We have here an extremely open declaration of policy, which clearly includes financing with government money, as well as private money, economic development projects in those countries."

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All speaking the same language, using the same dictionaries, trained in the same grammar, yet unable to agree on the meaning of the words in which the executive government had written its Point Four law declaring a global American policy.

Senator Wherry said bitterly:

"Our world planners and world 'do-gooders' have shown their cloven hoof a little too soon. Not satisfied with the small amount which was passed grudgingly by means of the Senate bill, they are trying to cram the whole hog down our throats—under the very transparent covering of meaningless words and unqualified statements."

With that he read to the Senate an official memorandum never before published, entitled, "ECA overseas development projects approved or under active consideration as of May 1, 1950, out of the special fund." The list of such projects was as follows:

- Jamaica irrigation project,
- Mauritius food development project,
- Gold Coast road development project,
- Cyprus agricultural project,
- Northern Rhodesia road project,
- North Borneo road project,
- British Honduras road project,
- Sarawak road project,
- Uganda food production project,
- Tanganyika mechanical cultivation of rice project,
- Tanganyika cotton and food development project,

Tanganyika soil conservation project,
 Tanganyika water development project,
 Tanganyika road development project,
 Uganda cottonseed project,
 Uganda road project (new),
 Nigeria road project,
 French West Africa road development project,
 Conakry iron ore project,
 Algeria soil erosion project,
 Morocco rice cultivation project,
 Cameroons road development project,
 French equatorial Africa road project,
 Belgian Congo soil conservation project,
 Navigation aids on Belgian Congo project,
 Belgian Congo road project,
 Surinam land reclamation project.

If works like these could be performed all over the world under the Marshall Plan, which was very definitely designed to assist European recovery, was there anything that could not be undertaken anywhere in the world within the free poetry of Point Four?

The debate lasted five hours. Then, just as the State Department wanted it and with all the obscurities intact, the law was passed. The vote was: Yeas 47; nays 27; not voting 22.

Mankind and Point Four

William Yandell Elliott

Williams Professor of History and Political Science at Harvard

SO, while the ultimate objective must be "all mankind," it is equally clear that the program must be highly selective and must demand the fulfillment of essential conditions for American assistance before that is made available. This protection is not capable of accomplishment through the leverage of the Point Four program only. It must be accomplished by total use of our diplomatic counters.

If the rest of the free world is serious in backing the Atlantic community and the inter-American pacts, and in its profession of devotion to freedom, the signs of this cooperation must be produced, or there will quite certainly be a marked political slackening in American willingness to bear the burden which it has imposed upon itself. An India that begins to buttress the war potential of Red China and Moscow with its resources is no field for United States development at public—or, for that matter, at private—cost. Already the signs of a weakening in the bipartisan foreign policy are not lacking.

The chances are that the strategy of the Republican Party would be to confront an incipient de-

pression with cuts in expenditures rather than an increase in foreign aid, particularly if an outcry for a domestic public works program were irresistible. Avoidance of a drift back to isolationism demands political strategy that will get practical results.

It seems out of scale today to recall that Joseph Chamberlain as far back as 1902 spoke of the British Titan as growing weary "under the too vast orb of his fate." Britain, as Atlas, hardly shouldered as much of the globe as the United States must bear today; and Britain, in the main, managed to own a great part of it and to make it pay! "Bear ye one another's burdens" is a sound Christian doctrine; but there, too, *reciprocity* is the keynote. It may be that the United States should join the side of the Lord in this matter by helping those who help themselves. We should use all our powers of persuasion and bargaining to induce the spirit of self-help rather than dependence.

No one has ever yet found a way to force mankind to be free, despite Rousseau and Marx. But it can be cajoled into slavery, or merely fall into it, if people and leaders are not fit for freedom. As for happiness, that is an even more elusive bird. It does not always come when called, and hardly ever when ordered; though, as Tolstoy observed, the ox who loves its yoke may think this freedom, and possibly happiness.

The democratic way to freedom is open only to those who can and will pay the price in duty, self-discipline, and individual responsibility. Centuries of effort have gone into the making of any modern nation that can aspire to be called free. We can only show the way by keeping our own freedom, and by helping those who will help themselves along the road toward freedom.

Selling Government

By Senator Robert A. Taft

SECRETARY BRANNAN is the best personal propagandist in the Administration. There are hundreds of publicity agents scattered through the Department of Agriculture, to say nothing of its production and marketing administration bureaus throughout the farm states.

Then there's the Defense Department. Why, Secretary Johnson boasted that he had cut the number of press agents in the military establishment in Washington and environs from 493 to 233. Just think, there are "only" 233 press agents in and around Washington now. If they were just propagandizing the military establishment it mightn't be so bad. But one of their real jobs is to make everything the establishment does under the Truman Administration look good.

Elephant Traps in The World Trade Charter

**By Dr. Michael A. Heilperin*

This is a powerful statement of the case against the ITO Charter. Dr. Heilperin speaks with the authority of one who personally observed the evolution of that controversial document.—Editor.

I.

IT is sometimes argued by defenders of the Havana Charter that the International Trade Organization should be supported by all believers in the free enterprise system and those who realize the importance of world trade for the prosperity of the United States. They claim that the International Trade Organization will help the free enterprise system as well as serve the best interests of the United States.

It is essentially because, in my opinion, an International Trade Organization *based on the Havana Charter* would achieve results which are exactly the opposite of those anticipated by its advocates, because in my opinion, it would jeopardize both the free-enterprise system and America's position in the world, that I believe Congress should decline on behalf of the United States membership in the proposed ITO.

The idea of an International Trade Organization to promote better international economic relations and freer trade throughout the world is very desirable, provided national policies of the member governments are directed toward the objective of a well-knit multilateral world economy, ruled by the mechanism of free markets and prices and affording full scope to private initiative and free enterprise. If—and I repeat, *if*—such were the national policies of the various governments, an International Trade Organization would follow almost as a matter of course and, without being really indispensable, as the experience of the second half of the 19th century shows, it would nevertheless perform important functions and render valuable services. A charter of such an organization would be very clear and simple and readily understandable

even to the lay reader; it would be, in brief, the exact opposite of the cumbersome, uncandid, ambiguous document agreed upon at Havana, a document which can be rendered intelligible only by protracted and very painstaking studies.

The charter of a "good" ITO would prohibit the use of import quotas, exchange controls, subsidies of all kinds, and all discriminatory trade practices. It would declare it a duty of every government so to conduct its country's domestic economic affairs as to make it possible for that country to remain economically solvent without the use of restrictive and discriminatory commercial and monetary policies. It would provide for an emergency procedure by which a country faced with exceptional difficulties beyond its own control would be given appropriate external assistance to overcome these difficulties without resorting to measures which disrupt the network of international trade. The charter of an ITO of which the United States should really want to be a member would place multilateral trade and free private enterprise on top of the list of desirable objectives. Indeed, whenever privately conducted trade is allowed to proceed without major governmental interferences its worldwide multilateral pattern develops as a matter of course. It did so in the past and it would again in the future if economic forces were to be allowed once again to take their course.

THE Havana Charter bears no resemblance to the document of which I have just tried to outline the major required contents. It is true that you will find provisions which prohibit the use of import quotas, subsidies, and discriminatory practices in the Charter but these provisions are immediately so thoroughly clarified by exceptions, reservations,

* Address before the Synthetic Organic Chemical Manufacturers Association in New York.

and special directives, as to lose all practical significance. It is possible for advocates of the Charter to point to these provisions in support of their contentions. Opponents of the Charter, however, can point to a multitude of provisions which go the other way and which, by contrast to the first group, are *operating* provisions. These are provisions leading to action or permitting action to take place which stands in crass conflict with the alleged objectives of the ITO and the obligations of its members. An obligation which one is at liberty not to live up to ceases to be a true obligation. The French philosopher La Rochefoucauld defined hypocrisy as "the homage that vice pays to virtue." The "vice" of trade restrictionism and of discrimination pays occasional homage to the "virtue" of freer trade throughout the Havana Charter. That is the best that can be said about that document as an instrument of freer trade.

It will be readily objected that the kind of ITO I think that the United States might properly join would find in the world of today very few adherents. This, to my mind, is a valid observation. At the time of drafting the Havana Charter there weren't more than a half dozen countries really devoted to principles of economic liberalism. All the others had governments which, to a varying degree, believed in the virtues of nationalistic economic planning and in the notion that it is a proper function of government strictly to control a country's foreign trade and foreign payments (as well as its domestic economy). They attached the greatest possible importance to maintaining unlimited sovereignty with regard to their national economic planning. This being the state of affairs in the world, there was an obvious conclusion to be drawn, namely, that the kind of ITO the United States desired to set up was not at that time a practical proposition. We should thereupon have dropped this project until such a time as the condition of the world and that of national tempers would allow genuine international economic cooperation to come to life.

No such wise course was, alas, pursued by the American negotiators. It became apparent early in the ITO conferences that the U. S. delegates had set their hearts on establishing an ITO—*any* ITO—and that they were willing to go to great lengths of compromise in reaching a universally acceptable agreement. It was my good fortune to follow from very close quarters both the Geneva and Havana Conferences of 1947–1948 and to see at firsthand the progress—if one may call it so—of negotiations which led to the adoption of the document now known as the Havana Charter. Elsewhere I have recounted the story of the Charter's progressive deterioration* and concluded by quoting the follow-

ing passage from the famous essay *On Compromise* written in the last quarter of the 19th century by Great Britain's statesman, Lord Morley:

"A principle, if it be sound, represents one of the larger expediences. To abandon that for the sake of some seeming expediency of the hour, is to sacrifice the greater good for the less, on no more credible ground than that the less is nearer. It is better to wait, and to defer the realization of our ideas until we can realize them fully, than to defraud the future by truncating them, if truncate them we must, in order to secure a partial triumph for them in the immediate present. It is better to bear the burden of impracticableness, than to stifle conviction and to pare away principle until it becomes mere hollowness and triviality. What is the sense, and what is the morality, of postponing the wider utility to the narrower? Nothing is so sure to impoverish an epoch, to deprive conduct of nobleness, and character of elevation."

Unfortunately the concept of *limits of compromise* was not present amongst our negotiators and they overstepped these limits so considerably as to put their signature eventually under a document which is the negation of American aims and which can truly be described, in my opinion, as a *charter of economic nationalism*. Indeed, one title of distinction of that document is that it is probably the *first* international charter of economic nationalism ever written in the long history of the civilized world.

II.

I HAVE said that the Havana Charter would jeopardize free private enterprise as well as America's position in the world. I shall now proceed to explain the reasons for that double indictment—to which I would add the following third count: The Havana Charter, instead of setting the stage for a revival of multilateral world trade, contributes to making such a revival very difficult indeed. Instead of promoting world trade the rules of the Charter would promote its disintegration.

The Charter is a very long and intricate document: by the process of careful study, however, one can discover amongst its many provisions several of which the significance is basic and which by themselves define the kind of world in which we would have to live if the ITO were now established.

The first and most important of these provisions is buried in paragraph 4 of Article 21. It establishes a priority of national—and nationalistic—economic planning over the requirements of good international economic relations. A country is free under the Charter to pursue domestic policies which inevitably lead to balance-of-payments difficulties and, once these difficulties occur, it is free to adopt import quotas, to control by government regula-

* *Fortune*, September, 1949, "How the U. S. Lost the ITO Conferences."

tions the composition of its import trade, and to engage in various discriminatory practices. The Organization, on the other hand, is allowed neither to object nor to point out that a change in that country's domestic policies would make it internationally solvent, thereby removing the need for the use of import quotas, etc. In the words of Mr. Walter Nash, who was until recently Finance Minister and Deputy Prime Minister of New Zealand, and who is one of the principal authors of the Havana Charter, "when a conflict arises between the desirability of pursuing policies of economic development and full employment on the one hand and the desirability of avoiding quantitative restrictions on the other, the domestic policies will take precedence."*

As if there were a possible shade of doubt as to the Charter's intent, we find in another Article—Article 6—a broad directive to the ITO to "have regard, in the exercise of its functions under other Articles of this Charter, to the need of Members to take action within the provisions of this Charter to safeguard their economies against inflationary or deflationary pressure from abroad." What this means in simpler language is that a member government is free to surround its country with trade barriers in order to insulate it from what goes on in the world economy. It is well to remember, however, that such policies of economic "insulation" have considerably aggravated the economic depression of the Thirties and substantially contributed to the breakup of international economic relations during that distressing decade.

Thus for the first time in an official document, socialistic planning is given precedence over international order, and economic "insulation" the right-of-way over operating requirements of the world economy.

AS is well known, the Havana Charter deals not with matters of commercial policy alone but also with full employment and economic development. To be sure, an international agreement on principles of commercial policy was the original objective of the State Department; however, leadership in the drafting of the Charter having passed, in the course of the ITO conferences, from the American delegation to those of state socialistic countries, chapters on full employment and economic development acquired a very important place in the Charter.

In the course of a conversation I had with him in Geneva in the late summer of 1947, Dr. Coombs of

Australia, another of the principal authors of the Charter, told me that he considered the employment and development provisions of that document as being the two main pillars of the ITO. When we read these two chapters, however, what do we find? Constructive proposals for maintaining national prosperity and employment amongst increasingly abundant international trade? or ways of promoting the growth of backward areas within the context of an expanding world economy? By no means. All we find in these two chapters are abundant sources of exceptions to the "rules" which prohibit quantitative restrictions and discriminatory practices. Article 21, paragraph 4, represents the invasion of the commercial policy provisions of the Charter by the socialistic preoccupations with national planning for employment and development and constitutes the ultimate negation of the entire purpose of a "true" ITO.

Under the Charter the government of the United States (as do governments of other member countries) assumes an obligation to "take action designed to achieve and maintain full and productive employment and large and steadily growing demand within its own territory through measures appropriate to its political, economic and social institutions" (Article 3). Now it is important to note that under the existing political, economic and social institutions of the United States the government hasn't got the power to take any such action. This was well recognized when the so-called Murray Bill, introduced in Congress in 1945 and hotly debated, was turned down in favor of The Employment Act of 1946. The former would have required the United States to accept just this kind of obligation as is imposed upon it by the Havana Charter. The latter realized that it was not within the power of the U. S. government to live up to such an obligation without major changes in our political, economic and social institutions.

It is safe to forecast that should the United States join the ITO, Congress will be seized with a new version of the once-discarded Murray Bill and that we would start moving with increasing speed in the direction of state controls over our economic life. The climate would then become increasingly harsh for free private enterprise.

IT is all too easily forgotten nowadays that the successful functioning of multilateral trade requires the adoption by every government of domestic policies which assist the maintenance of its country's international solvency. This was the core of the "unwritten rules" of the gold standard and it could easily be shown that it must be so under *any* system of international economic equilibrium. The

* Report by New Zealand Delegation on the Conference Held at Havana, Cuba, From 21 November 1947 to 24 March 1948; Department of External Affairs, Publication No. 58.

Articles of Agreement of the International Monetary Fund accept this principle, albeit only implicitly. A member of the Fund who runs into balance-of-payments difficulties can obtain relief from the Fund but must seek to improve its balance-of-payments position; the longer it fails to regain balance the more certain it is to become ineligible for further use of the Fund's resources, in other words, to lose its good standing with the Fund. We have seen that under the ITO Charter there is no parallel obligation. On the contrary: a country in persistent balance-of-payments difficulties can obtain a degree of freedom of action in terms of restrictive and discriminatory commercial policies which is not available for countries whose international solvency has been better preserved. Considering how many countries have governments that are more concerned with preserving their freedom of action in terms of national economic planning than with preserving their country's international solvency, there can be no doubt in my mind but that they will preserve their freedom of action under the ITO even at the risk of falling into bad standing with the International Monetary Fund. Thus, the ITO would undoubtedly spell the doom of the International Monetary Fund.

There is no reference throughout the Charter to multilateral trade and that omission I consider to be one of the most candid features of this uncandid document. I happen to know that in the closing phase of the Havana Conference it was considered in certain circles whether a general resolution in favor of multilateral trade might not be appended to the Havana Charter, thereby opening the door for possible future improvements in that direction. That idea was, however, given up without an attempt at realization because it was anticipated that the Conference would never agree to an unqualified statement commending multilateralism.

III.

WITHIN the short compass of this paper I cannot, of course, discuss the many other provisions of the Charter which, important though they are, are less basic than those already mentioned. I shall even gloss over the unfortunate investment provisions of the Charter partly because they have received wide airing and partly because they are less fundamental than those mentioned. After all if private capital doesn't obtain sufficient assurances of fair treatment in foreign countries it simply won't move abroad. The defense against wrong provisions is easy and the effect may readily be a change in the provisions themselves.

This is not the case, however, of those provisions of the Charter which establish the wrong kind of

economic system, which entrench socialistic planning at the expense of expanding world trade, and which place private trade in an increasingly weak and precarious position. The Havana Charter should be rejected by everybody who wishes the establishment of a world economy because it represents the negation of such an economy. It amounts to a code of law which accepts as legitimate most all illegal practices which occur from time to time in actual life. For the United States there is, in addition, a special reason not to become a member of the ITO. This reason lies in the fact that membership in that Organization would practically destroy for this country the possibility of pursuing beyond the ITO the goal of restoring multilateral trade. Our hands would be tied, we could neither object to trade restrictions and discriminatory practices adopted by countries invoking balance-of-payments difficulties or economic development to justify their actions, nor could we retaliate in kind because of our own solvency and of our high degree of economic development.

Under the Havana Charter we are obliged to apply the most-favored-nation treatment to all members in good standing of the ITO, even to those who by their policies discriminate against the United States, and it must be always kept in mind that import quotas are discriminatory by their very nature and that to speak of a nondiscriminatory administration of such import quotas is simply absurd.

The "universalist approach" to the problem of restoring the world economy to its former health having failed, as witnessed by the contents of the Havana Charter, the American Government might wish someday to seek the reconstruction of multilateral trade by other means, namely through bilateral negotiations with a small group of countries who are of like mind with us. Our bargaining power in such negotiations would include the application to these countries of lower tariff rates and the limitation to them of the most-favored-nation treatment. By joining the ITO we would throw this bargaining power away. Having stood up many times publicly in opposition to the ITO I found it incumbent on myself to discuss an alternative approach to the reconstruction of world trade. Without going into this problem here, let me merely state that as a member of the ITO the United States would not have the possibility of developing any such program.

THE advocates of the Havana Charter declare themselves undisturbed by the fact that in the ITO the United States like every other member would have one vote. Yet the "one country, one

vote" voting procedure creates an absurd and intolerable situation in that it places the large trading nations of the world in a permanent minority while the majority is permanently vested in the large number of countries whose stake in world trade is small, whose experience in commercial policy is recent, and who are animated by a fierce spirit of nationalism, economic and otherwise. It is true that the United States was not often outvoted in the course of the ITO negotiations. This was due, however, exclusively to the fact that American delegates always accepted damaging compromises in advance of a ballot.

Adherents of the Charter deny that the "one country, one vote" voting procedure will have the bad effects mentioned above. Their argument is based upon three considerations: one, a country's position in international organizations is not measured merely by its numerical vote, and that the United States would exercise always an influence greater than the one vote it would formally possess; secondly, all the countries other than the United States have conflicting interests, and to anticipate that they would, all of them, "gang up" on the United States is to take an unduly dim and unrealistic view of the actual probabilities; and finally, adherents of the Charter consider that the fear of the "one country, one vote" voting procedure assumes bad faith on the part of other countries in accepting commitments under the Charter; they, the defenders of the Charter, assume, on the contrary, throughout that other governments will always act in complete good faith.

Here again my own judgment differs from that of the defenders of the Havana Charter. True, the influence of a country in international councils is not measured by its numerical vote. But the fact remains that the influence of the United States upon the final shape of the Havana Charter was negligible and not at all at variance with the minority position we had on the councils which drew the Charter up. This is perhaps obscured by the fact that our delegates were far too prone to recede from their earlier positions and to rationalize the unhappy compromises which they accepted; but we have before us the Charter as a determining proof of America's position in the ITO conferences.

Secondly, as to the alleged diversity of interests of the other fifty-odd countries—these countries may have many interests at variance but they are all at one in their desire to have practically complete freedom in the use of quantitative trade restrictions and discriminatory practices. They are also at one in their wish not to be exposed to un-

favorable American reactions when they use these instruments of policy to which the United States is supposed strongly to object.

I have heard a great many references on the part of defenders of the Charter to the "miracle" of agreement that took place among these fifty-odd countries. But looking at it more closely one cannot help wondering whether that agreement meant anything. What *did* these countries agree upon in the end? On their right to do as they please, a right which only two among them would be deprived of because these two countries are both economically developed and financially solvent. That all the other countries should have agreed to the Havana Charter is not miraculous. That one of these remaining two countries should object to the Charter is not miraculous either; the only thing that *is* miraculous is that the American signature should appear at the bottom of the Havana text. I have no doubt that if we tried to amend the Charter at any foreseeable time in the direction of free-enterprise multilateral trade we should find an overwhelmingly massive vote against us.

As to the question of good or bad faith, that is in the present context largely a matter of definition. Is a country in good faith which accepts the principle of eliminating import quotas but sees to it that its own right to continue having them is safeguarded by escape clauses and special provisions? I think it is better not to go into that too deeply!

THESE are then, in short, my own reasons for considering that the Havana Charter should be rejected by the Congress of the United States in the interest of world economic reconstruction. Instead of following the will-o'-the wisp of a fallacious universal agreement let us devote ourselves to the task of rebuilding multilateral trade and a prosperous world economy by the only means which will lead to that goal: by making it possible to put an end to import quotas and exchange control and by insisting that an end be really put to these disruptive and dangerous practices; by cooperating wholeheartedly with countries that share our desire to re-establish economic peace in the world; by ceasing to throw away our influence for the good by unnecessarily compromising with economic nationalism and its evil fruit. To reject the ITO Charter is not enough; we need a positive policy for free-enterprise multilateral world trade. If we join the ITO we shall have thrown away the possibility of developing such a policy.



The Joy of Public Money

Washington Correspondence

Washington, D. C.

ANY taxpayer who enjoys to gnash his teeth at what can happen to his money when the government takes it ought to send to the public printer at Washington for a copy of the hearings before a subcommittee of the Banking and Currency Committee of the Senate entitled, "Study of the Reconstruction Finance Corporation." This subcommittee (Senator Fulbright, chairman) had been for some time exploring a conflict of views between the Congress and the directors of the Reconstruction Finance Corporation on how public money should be loaned to private business; and it was getting nowhere because a discussion of broad principles was like seine fishing with a net full of holes. Too many factual situations escaped. Therefore, Senator Fulbright decided for purposes of illustration to take up specific cases; and the case he takes up here is that of the Texmass Petroleum Company loan.

In 1944 a Texas oil operator named Snowden induced "a group of wealthy Bostonians to invest in oil ventures." Parenthetically it is noted that "this type of investment is attractive to taxpayers in high federal income tax brackets because of tax-saving possibilities." Fifteen separate ventures were organized, with Snowden and his partners drilling the wells and taking for themselves "overriding royalty interests." The wealthy Bostonians apparently knew very little about oil; they knew only that they were losing money. In 1946 they formed the Texmass Petroleum Company to buy out Snowden and his partners, and what Snowden turned out to owe the company was written off as a bad debt. The investors went on putting money in until their investment amounted to \$22,480,000, which was much more than any geologist or petroleum engineer would say the properties were worth.

In 1949 the Texmass Petroleum Company applied to the Dallas agency of the Reconstruction Finance Corporation for a loan of \$22,500,000, and then as an afterthought reduced its application to \$18,950,000. The examiner of the Reconstruction Finance Corporation's Dallas agency said it was a bad loan. The review committee of the Dallas agency turned it down. But there was a Dallas Advisory Committee, outside the agency, made

up of men "in the oil business and/or officers of banks specializing in oil loans"; and this outside Advisory Committee recommended a loan of \$15,925,000.

Letting the Banks Out

With Mr. Glidden, manager of the Dallas agency, Senator Fulbright explored this outside Advisory Committee. What follows is from the hearings, pages 46 and 47:

SENATOR FULBRIGHT: I want the names of the full committee, which is a large panel, but at this point just those who are interested and who advised you on the Texmass loan.

MR. GLIDDEN: Mr. Morris is president of the First National Bank of Winnsboro, which is located in the East Texas oil field. Another was Ben F. Read, who for many years was vice president of the Mercantile National Bank at Dallas, in charge of their oil loans. In that time he accumulated a personal fortune in the oil business and resigned from the Mercantile National Bank to take care of his own personal oil property. Another one was George Aldrich, chairman of the executive committee of the First National Bank of Dallas, which is one of the biggest oil loan banks in the South.

SENATOR FULBRIGHT: Was Mr. Adams a member of that advisory committee—Nathan Adams?

MR. GLIDDEN: I think Mr. Adams acted on one of the considerations, yes. Mr. Adams was at that time chairman of the board of the First National Bank of Dallas.

SENATOR FULBRIGHT: Will the First National Bank receive any payment under this loan?

MR. GLIDDEN: Yes, I think they will.

SENATOR FULBRIGHT: Do you know how much?

MR. GLIDDEN: I think it is \$250,000.

SENATOR FULBRIGHT: Do you think it is sound policy that members of the advisory committee should have been permitted to function when the bank has a direct interest in those particular funds?

MR. GLIDDEN: That particular loan of the First National Bank is guaranteed by Jack Frost, who is worth about \$7 million. The First National Bank does not care whether it is paid or not out of this loan.

SENATOR FULBRIGHT: I believe you said Mr. Read is an officer of the Mercantile National Bank.

MR. GLIDDEN: He was not at the time this was con-

sidered. He used to be an officer of the Mercantile National Bank.

SENATOR FULBRIGHT: Does the Mercantile National Bank get any money out of this loan?

MR. GLIDDEN: I believe they do.

There Had To Be a Loan

The directors of the Reconstruction Finance Corporation, acting from Washington, then hired a petroleum engineer named Garrett to appraise the properties. He found their "fair market value" to be \$14,300,000. That is to say, they were worth less than the proposed loan. On the Garrett appraisal the Reconstruction Finance Corporation's examiner at Dallas again recommended that the loan be turned down; but the review committee of the Dallas agency had changed its mind and now joined the outside Advisory Committee in recommending a loan of \$15,638,513, which was \$1,338,513 more than the Reconstruction Finance Corporation's hired petroleum engineer said the properties were worth at fair market value.

In this muddled state, the whole matter then came to Washington. The Reconstruction Finance Corporation's principal examiner in Washington said it was a bad loan. It was then referred to the standing review committee in Washington and this committee of five unanimously reported as follows:

Review committee recommends: Decline for the reasons that—

1. The loan has little, if any, public interest.
2. Proposed rehabilitation is in reality a salvage operation for which there should be a further injection of risk capital. A loan of an amount that would properly rehabilitate and develop the properties is not warranted.
3. Loan is largely a bail-out of investors and certain creditors who presently appear to be faced with a loss.
4. Report of consultant, Mr. M. M. Garrett, is not encouraging as to repayment of loan from earnings and does not find sufficient tangible collateral.

Nevertheless, on September 29, 1949, the Reconstruction Finance Corporation adopted a resolution approving a loan of \$15,100,000 on condition that the creditors, having been bailed out, would agree to come back with \$5 million of their own money, leaving the Reconstruction Finance Corporation holding the bag for only \$10 million.

It was a curious vote. There are five directors of the Reconstruction Finance Corporation. The chairman disqualified himself on the ground that a distant relation was interested. One director was ill. That left three. One voted no and two voted yes. That carried it.

The original resolution gave the borrowers sixty days in which to fulfill the conditions. They were

dilatory, and the time was extended, and the money had not been paid out when Senator Fulbright's committee began to investigate the loan.

So now the directors of the Reconstruction Finance Corporation appear before the Fulbright committee to defend the loan, and they are inclined to hang together because they are defending more than the loan; they are defending the Reconstruction Finance Corporation as an institution. Senator Fulbright is particularly interested in two of them, namely, Dunham and Gunderson, because their two votes put the loan over.

He asks them how they defend it and on what ground they overruled their own review committee.

Curiosities of Defense

Mr. Dunham began with some ebullience. He defended it on the ground that "the oil business as such is a very fundamental business," as he very well knew, coming from Detroit, where he had become aware of the fact that without the oil business there would be no Detroit; on the ground that Texas was a state where people were tremendously interested in oil, and on the ground lastly that it was bound to be a good loan, because—

MR. DUNHAM: After you get to a certain point, you can't lose in the oil business.

SENATOR FULBRIGHT: You can't lose?

MR. DUNHAM: It is the most depression-proof business I know. After your income reaches to a certain point you can charge all your expenses in and you get 27½% depletion.

Senator Fulbright wondered why in that case the Texmass Petroleum Company was in trouble. Mr. Dunham didn't know. He supposed it had been badly managed and maybe there was too much debt. With that he shifted his position and began to defend the loan on the ground of public interest. The following colloquy occurred, page 83 in the hearings:

MR. DUNHAM: I have tried to explain to you that the public interest in this is very substantial. I am a believer in the petroleum industry and Texas is the center and circumference of that industry, both in gas and oil. For instance, I would like to have you know, Senator, that in 1947 two thirds of all the taxes paid in Texas came out of the oil and gas industry. You can't write those things off as being lacking in public interest. Now, it also is a fact that practically all the school and University of Texas permanent funds came from the oil and gas industry.

SENATOR FULBRIGHT: Are those funds in distress at the moment? Do they need your help to keep them going?

MR. DUNHAM: No; I am merely reciting that to show that I think the people of Texas are tremendously in-

terested in the oil business. That is all I could add.

SENATOR FULBRIGHT: I think that is quite correct, but it is difficult for me to understand, if it is so profitable as you stated, and I agree with you that it is profitable and has been extremely prosperous, why they need the RFC's help.

MR. DUNHAM: Because they want to develop faster.

SENATOR FULBRIGHT: Is there a great shortage of oil at the present time?

MR. DUNHAM: There is a shortage of ways to make money. That is why they do it.

It Was To Conserve Oil

Director Gunderson then came to the defense of the loan on the ground that the idea was to conserve oil. If these wells were not properly worked they might dry up and the oil would be lost. Then this exchange occurred:

SENATOR FULBRIGHT: Well, it is common knowledge that there is no shortage of oil in the United States today, is it not?

MR. GUNDERSON: Well, there is a national interest in saving what oil you have.

SENATOR FULBRIGHT: Well, it is also a matter of common knowledge that now is not a period of emergency.

MR. GUNDERSON: Well, I don't know. You read the morning paper and sometimes you think it is.

SENATOR FULBRIGHT: Is there anything in the morning paper to indicate that there is an emergency in the oil business?

MR. GUNDERSON: Well, no. There is something in the morning papers about the Russians turning down Mr. Acheson's note on shooting down our airplanes in the Baltic.

SENATOR FULBRIGHT: Well, do you mean to say that is one of the reasons why you approved this loan last September 29?

MR. GUNDERSON: No, indeed, except that I have understood that in the event of an emergency, that the oil in this country would be inadequate for the uses of the Armed Forces.

SENATOR FULBRIGHT: Would it not be perhaps more in the national interest to delay the production of this oil and have it produced a little more slowly and have it in reserve?

MR. GUNDERSON: Senator, it wasn't my impression that the main purpose of this loan was to accelerate it, so much as it was to see that the wells and properties were operated efficiently to conserve the greatest part of the oil present.

But Mr. Dunham had just said that the borrowers were asking for the money "because they wanted to develop faster."

Senator Fulbright wondered what would happen to the wells if the Reconstruction Finance Corporation did not make the loan. Would the owners just walk off and leave them? Wasn't it reasonable to suppose that if they could not operate them prop-

erly they would sell them to someone who could, and that all the oil that could be profitably recovered would be recovered by somebody. Mr. Gunderson admitted that he thought that would be true to a large extent.

In the Public Interest, Perhaps

Here Director Dunham felt that he had not properly established the ground of public interest, so he took thought and prepared a statement in which he said:

"There is also for consideration the effect generally on the economy in any particular area where a company in an important industry fails, with the resulting effect on other concerns with which it does business, such as banks, vendors, and others, including royalty owners and the effect on employment."

Senator Fulbright read that paragraph from Director Dunham's statement and then set against it the fact that if during twenty years the Texmass Petroleum Company got out all the oil supposed to exist in its reserves the total amount of it would be only what the oil industry now is producing every two and one half days. Hadn't Mr. Dunham made a terrific overstatement about the importance of the Texmass Petroleum Company? The following colloquy then occurred:

MR. DUNHAM: I don't feel, Senator, that that was a selling campaign on that statement. I think there is a velocity to money and it has an effect on the community. The dollar doesn't pay a bill and stop; it keeps on going. I think it is pretty important, even in a small way to a community, to have a business rehabilitated, be it the oil business or be it a machine shop.

SENATOR FULBRIGHT: The size of this industry, though, is so small it couldn't have a very important effect on the oil industry if it should cease to exist altogether.

MR. DUNHAM: I agree with you perfectly that the oil industry would go along without it. But if you do enough failing to do these things you won't have any oil industry or any country.

SENATOR FULBRIGHT: Then it is your theory that it is your duty to prevent any failures in here?

MR. DUNHAM: No; it has nothing to do with failures. Sickness is a normal procedure in the life of a business or person, and when a person or a business gets sick it is well to have a doctor. I think we are the doctors of business and I think it is our duty to get them well.

But After All It Was Sick

Here the defense turns upside down. First the Texmass was a fine investment of the taxpayers' money in a business where you couldn't lose. Now

it is a sick thing that has to be saved, and it gets sicker and sicker as the record goes on.

When Senator Fulbright had proved by statistical comparisons that the Texmass wells were inferior, producing much less than the daily average of all wells in the five states where they were located, Director Gunderson said:

I know, but if we were to take the average of all the businesses in the country in considering each loan, say the average in the grocery business or the average in this or the average in that, and say that we would not make a loan to anybody below the average, we wouldn't make any loans, because practically all the people we have, when they come in, are losing money or have lost money and the reasons may be bad management, they may be a whole lot of things. I think if we feel that they meet all the other requirements of the act, and there is some way to work it out so that our loan will be so secured as to assure repayment and that they can correct the mistakes they made and become a successful operating business, that it is our job to do it.

SENATOR FULBRIGHT: Don't you think it is pertinent, in making a judgment whether they would likely repay it, as to the quality of the properties? Doesn't that have a bearing on it?

MR. GUNDERSON: I don't mean to say that, but I do mean to say that I am not informed as to what an average performance in the oil business is, and I would have to assume that the mere fact they came in and filed an application would be indicative that they probably were not up to the average.

SENATOR FULBRIGHT: Don't you think that it might be appropriate that you inform yourself about the fact?

MR. GUNDERSON: I think, Senator, that I did inform myself about it, probably not all the facts in the oil business, but enough to assure myself that this was a loan that would be repaid. . . . We have a staff of very competent people and we employ outside consultants to give us the data on which we can exercise our judgment. I don't claim to be an oil expert.

SENATOR FULBRIGHT: From our information, your staff and your examiners all unanimously turned this loan down. Now, if you are relying on them, it seems to me it would be very difficult to justify it.

MR. GUNDERSON: Our examiners were very helpful, and I don't believe that the position they have taken or the facts they have provided us with have been anything but helpful, but you have to remember this—that our review committee turns down roughly half of the loans that are brought up, and the board makes 36% of all the loans that they turn down.

Then to Sustain Employment

Mr. Gunderson also prepared a statement in which he defended the loan on the ground that it sustained employment. Senator Fulbright came to that:

SENATOR FULBRIGHT: Now, take the question of employment, Mr. Gunderson. How many people does Texmass employ?

MR. GUNDERSON: I do not know offhand.

SENATOR FULBRIGHT: Well, why did you put it in there if it has no significance? There are about 100 employees.

MR. GUNDERSON: It is around that figure.

SENATOR FULBRIGHT: And they are scattered over six states. Is that correct?

MR. GUNDERSON: That is correct.

SENATOR FULBRIGHT: States which we mentioned a moment ago: Texas, Kansas, Oklahoma, Louisiana, New Mexico, and California?

MR. GUNDERSON: Yes.

SENATOR FULBRIGHT: Is it not true that today oil field workers have no trouble at all in finding employment?

MR. GUNDERSON: I think they probably can.

SENATOR FULBRIGHT: Now, when you approved this loan to the Texmass Company of \$15,100,000, the employer of 100 people, that was undertaking to put out about \$151,000 per employee, of which the government's share is \$101,000 per employee, scattered over six states. Is it your opinion that this will assist in promoting maximum employment?

MR. GUNDERSON: No doubt that it will assist in promoting maximum employment. Any loan continues the employment of people.

Or Hardly At All

In a disarming manner Senator Fulbright desired to be assured that the directors of the Reconstruction Finance Corporation had not been thinking of the investors, who, according to the review committee, were going to be bailed out. He received this assurance. Mr. Gunderson said the directors had not been thinking of the investors at all, or hardly at all; and certainly in this loan that was not a consideration. Senator Fulbright then requested Director Gunderson to read out loud from a statement prepared by Chairman Hise, who, although he was for the loan, excused himself from voting on it because a distant relation was interested. From the Hise statement Mr. Gunderson read as follows:

"It is the merger of various interests that involves the rescuing of the interests of a tremendous number of people. . . . So . . ."

The questioning was resumed.

SENATOR FULBRIGHT: He refers to a tremendous number of people being rescued. I would assume from that that he thought that was a significant reason for granting the loan; is that correct?

MR. GUNDERSON: I think it follows that a lot of people are helped, but I can only speak for myself. I would not approve any loan if the sole reason were to protect an equity holder's investment.

And as it turned out, there were 350 investors and 100 employees. So where did the public interest lie?

The hearings closed with the following exchange:

SENATOR FULBRIGHT: Does the RFC still propose to disburse this loan on or before April 27, 1950, if the borrower meets all the conditions?

MR. HISE: I have heard no discussion to the contrary. You asked us to hold up the disbursement until you could have a hearing here and discuss the matter.

SENATOR FULBRIGHT: Mr. Hise, I don't recall that I asked you to hold up disbursement of this loan. I asked you if you were going to.

MR. HISE: Well, maybe I misunderstood you. We try to cooperate.

SENATOR FULBRIGHT: I want the record to show that I don't believe I directly, at any time, requested you to hold up disbursement, although I would not say you were unreasonable in assuming that you were not only to hold it up, but not make it at all. That would be a fair statement.

MR. HISE: Well, we try to cooperate with you.

SENATOR FULBRIGHT: Then the answer is that you do propose to disburse the loan?

MR. HISE: I think that would be a fair assumption.

That was on April 27. On May 17, the Reconstruction Finance Corporation did disburse the loan. That is to say, the Texmass Petroleum Company got the money.

Where the Sugar Is You Will Find the Flies

Jesse Jones on the RFC

SENATOR FULBRIGHT wrote a letter to Jesse Jones asking him what he thought of the Reconstruction Finance Corporation as it now operates. It would be an opinion worth having. The Reconstruction Finance Corporation was created in the last year of the Hoover administration (1932) and Jesse Jones was its first chairman. He managed it for thirteen years—through the depression, through the prewar defense program and through the war. His answer to Senator Fulbright was in part as follows:

"My dear Senator:

"My views about the RFC are mixed. I have a great affection for the Corporation to which I devoted thirteen years of my life, and have pride in its accomplishments during that period. . . . But I am saddened by the way it is now being misused. It was a privilege to work with the Congress in meeting the emergencies that seemed always to be lurking just around the corner.

*

"The Corporation was created an emergency agency when millions of our people were on short rations, when

there was no market for farm products and no demand for anything but a square meal. It is hardly necessary to do more than name the date of February 2, 1932 on which the Corporation was organized to bring back the memory of the depths of the depression.

*

"To meet the ever-increasing problems the RFC Act was amended many times giving it additional powers. These amendments came in a steady stream soon after the Corporation got started, but always after careful consideration by Congress. Prompting every one of those amendments was a problem of an emergency nature to be met by the extension of RFC's powers.

*

"However, it was always assumed the RFC was doing what private enterprise was not in a position to do, and when the situation was met the Corporation would cease operations. It was never with the thought of creating a government bank to compete with private enterprise that the RFC was created or maintained. It was always with the idea of doing an emergency job which could be accomplished in no other way.

*

"The depression was over by the late 30's, but the war clouds were gathering and the existence of the RFC with its experienced personnel was a 'natural' to take over war work, in which it did a herculean task. At the war's end, our banking structure having been fully restored and able to provide credit for all legitimate purposes, the RFC should have been placed in liquidation. That it was not is no credit to the government, for the functions which have heretofore motivated the RFC do not appear to be those that now keep it in operation.

*

"Excuses are found to make loans, and in large amounts, that under no circumstances can be justified. The RFC should not be regarded as a source of easy money, a place where improvident loans may be made for personal or political reasons; a bank of issue for the socialization of the nation's economy and a spigot where funds flow to those who are classed as acceptable risks because of political expediencies.

*

"As for the future of the RFC, I think it should be given a decent burial, lock, stock and barrel. I say this first, because none of the conditions which prompted the creation of the RFC and the various amendments to its powers exist today; second, government lending in competition with private business is not a proper function under our free enterprise system; third, because it is being prostituted when making such loans as the Kaiser-Frazer, the Lustron, the Texmass and the Waltham Watch Company; fourth, because there is ample credit for all legitimate and justifiable loans.

*

"I mention these foregoing loans because they are the ones that have been greatly publicized. I am not familiar with loans by the Corporation generally, but have no doubt that many of them will work out. I did notice in one of the Corporation's reports, probably at the end of the year, an item carried as 'Loans for Consolidation of Debt.' That sounds very much like loans to pay creditors

of the borrower which should not be a function of the Corporation and I am sure was never intended by the Congress.

*

"As publicized, the Kaiser-Frazer loan was made to put men to work. The country can absorb only so many automobiles and if Mr. Kaiser does not make them, others in the industry will, and with private funds. If Mr. Kaiser does not employ the men to make automobiles, the industry in that same vicinity will. If he does not use government money to carry automobiles for his dealers, private money will, at least it will for the more standardized automobiles. There are automobile finance companies throughout the country for just that purpose, but of course they cannot compete with government funds. Banks are also glad to lend on automobiles because they have learned that people will pay for them.

*

"It is well known that stockholders of the Kaiser-Frazer Company have lost heavily on their investment in the stock of that company. Much of this loss ultimately comes out of the Federal Treasury as tax deductions. But if the automobiles were made by one of the more experienced companies, the Treasury would collect taxes from the stockholders' dividends as well as from the manufacturer on its profits in making the automobiles.

*

"As for the Texmass loan, there is no lack of credit for properly secured loans in the oil and gas industry. Banks and insurance companies are eager for such loans. But it appears that several million dollars of this loan is to be used in making payments on loans now held by large life insurance companies, and a substantial sum to pay banks. Certainly this is not a proper function for the RFC. If the loans are good the insurance companies and banks would want to keep them. If they are bad, they should not be unloaded on the government.

*

"Again, if a concern as old and experienced as the Waltham Watch Company could not make a go of its business in such good times as we have been having since the war's end, the government certainly could not, so why the loan!

*

"When the government finances business it is competing with private enterprise from which it gets much of its income. When it finances improvident business it takes from the profits of competing business, gets no taxes from the improvident, and loses on its loan.

*

"A thorough investigation of the making of the Kaiser-Frazer loan, the Texmass loan, the Waltham Watch loan and the Lustron fiasco is clearly indicated. And this might be helpful to the Committee in determining its recommendations for the future of the Corporation.

*

"While I do not believe there is any lack of justifiable credit anywhere in the country, as long as the RFC is in the lending business, it will get applications for loans. Some people would prefer to borrow from the RFC rather than from their local banks. Some may feel that they can go to their Congressmen or their United States Senator or possibly to the White House and bring political pres-

sure to bear on the government lending agent. The lending agent may feel that his job is a political one and that to hold it he must go along, or he might even feel that the judgment of men in high places in government might be better than his, and accordingly approve a loan that should not be made.

*

"With the RFC all set for business, it is natural that those in charge of it would rather make loans than not, in order to justify their employment and the continuance of the agency. And some people wanting to borrow money would like to be in a position to say to their bankers, 'If you don't let me have the money, I will get it from the RFC.'

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"Proper management of the RFC, if it is to be continued, is vital to the integrity of our government, but it should be liquidated.

*

"I have made these observations, comments and suggestions from my long experience with the Corporation, and wish to remind you that where the sugar is you will always find the flies.

Respectfully,

Houston, Texas

JESSE H. JONES"

Boom Stuff

The London Economist

By its American Correspondent

THIS boom psychology is appearing also in government affairs, where programs and commitments could prove much less reliable than they now seem. The protests that come from some domestic interests at a suggestion of just a few more imports are ominous; a farm price support program that is nearly swamped by surpluses of some commodities, even during an extreme boom, raises doubts; and a plan for the nation's prosperity that is based on a 50% increase in house building over the highest level of all times is imaginative, to say the least. The same psychology is visible in international affairs. Last year's readjustment, so small as to be invisible in annual figures of total outlay, gave rise to an apprehension abroad which suggests that some people must be setting standards of stability and height for the American economy that historical and functional considerations indicate cannot possibly be fulfilled. Calculations calling for imports by the United States far above the levels attained in the present great boom are surely, to put it mildly, optimistic. And some of the exhortations on "proper performance by a creditor" contain figures that must rest on assumptions, or dreams, possible only if America has really executed and buried the business cycle.

We Encounter World Law

Washington Correspondence

Washington, D. C.

A VERY sore but dormant controversy was torn wide open when last April the California Court of Appeals decided that California's Alien Land Act was null and void because it was in conflict with the United Nations Charter. As an international treaty, said the court, the United Nations Charter has become "the supreme law of the land." And this interpretation is strictly in accord with the Constitution of the United States, which says specifically that a treaty "shall be the supreme law of the land and the judges of each state shall be bound thereby, anything in the Constitution or laws of any state to the contrary notwithstanding."

The question is: Can the Constitution of the United States, therefore, be amended or avoided by international treaties?

It is a very old question, going back to the days of Chief Justice Marshall, but so long as it arose only over such matters as migratory bird laws and boundaries it was not very important. It is a vastly different question when we begin to sign treaties like the United Nations Charter, the North Atlantic Pact, and the proposed International Trade Charter, touching economic and social policies, down even to the rights of individuals and minorities. In the extreme case, a Universal Declaration of Human Rights by the United Nations, actually now pending, might supersede our own Constitutional Bill of Rights; or it might morally oblige us to pass the Fair Employment Practice Act that has been so long and bitterly debated in Congress.

During a debate in the Senate on the California court's decision the following passages occurred:

MR. FERGUSON: If we follow the opinion of that appellate court, namely, that the United Nations Charter automatically nullifies a law of California, then we may find, if that is the law of the land, that various statutes of the states have been nullified by the Charter of the United Nations.

MR. DONNELL: Precisely; and furthermore, we may find that many other laws of the states may have been nullified by the North Atlantic Treaty, which goes much further than the United Nations Charter goes in respect to the obligations imposed upon the signers, of whom the United States of America is one.

MR. FERGUSON: When the distinguished Senator read from the text of the United Nations Charter,

I noticed that its effect may be to nullify or make void all statutes in any state in relation to distinctions made between the sexes; and, in addition, we may find that by that means equal rights have already been established in the United States.

MR. DONNELL: It is entirely possible that a court might so hold, in my opinion. . . . It is not my understanding that this case holds that a treaty supersedes the Constitution of the United States. It is my understanding, however, that the case does hold that a valid treaty, in that case the United Nations Charter, supersedes the laws of a state and the constitution of a state. . . . I wish to make it perfectly clear that I do not think a treaty could supersede the Constitution. It would simply be in line with the power of the Constitution. However, the effect of a treaty may possibly be to vest in the Congress of the United States a vast reservoir of power to legislate on matters which perhaps previously had been confined to the states entirely or in large part.

The Court's Reasoning

The reasoning by which the California Court of Appeals arrived at its conclusions was as follows:

"In the period of 30 years since the alien land law was adopted we have revised our opinions concerning the rights of other peoples. Out of the travail of World War II came the concept of respect for human rights and for fundamental freedoms for all without distinction as to race, sex, language, or religion as expressed in the Charter of the United Nations.

"The Government of the United States has traditionally been the leader in espousing the rights of man and has championed the cause of the smaller and less privileged nations. The war of 1898 was fought in support of an oppressed country. The efforts of our government in this regard reached fruition in the convention of representatives of the nations of the earth at which the Charter of the United Nations was adopted. It was promptly ratified by the Senate of the United States, thereby proclaiming allegiance to its principles and providing precedent and example for other countries. The United States has consistently regarded its treaties with other nations as inviolate.

"The Charter has become 'the supreme law of the land; and the judges in every state shall be bound thereby, anything in the constitution or laws of any state to the contrary notwithstanding.' (United States Constitution, art. VI, sec. 2.) The position of this country in the family of nations forbids trafficking in innocuous generalities, but demands that every state in the Union accept and act upon the Charter according to its plain language and its unmistakable purpose and intent.

"Since the Charter is now the supreme law of the land it becomes necessary to examine its provisions and guarantees and to interpret it in the light in which it was adopted by the participating nations. The Organization determined in the preamble 'to reaffirm faith in fundamental human rights, in the dignity and worth of the human person, to promote social progress and better standards of life in larger freedom.' Among the purposes

and principles found in article 1 of chapter I are "To develop friendly relations among nations based on respect for the principle of equal rights; to achieve international cooperation in promoting and encouraging respect for human rights and for fundamental freedoms for all without distinction as to race, sex, language, or religion[.]'" In article 2 it is affirmed that the Organization and its members "shall fulfill in good faith the obligations assumed by them in accordance with the present Charter."

"It is agreed in chapter IX, article 55, that 'the United Nations shall promote universal respect for, and observance of, human rights, and fundamental freedoms for all without distinction as to race, sex, language, or religion.' By article 56 it is declared that 'All members pledge themselves to take joint and separate action in cooperation with the Organization for the achievement of the purposes set forth in article 55.'

"In the address of the President of the United States to the Senate on July 2, 1945, urging the prompt ratification of the Charter by that body he said:

"'It seeks to promote world-wide progress and better standards of living.

"'It seeks to achieve universal respect for, and observance of, human rights and fundamental freedoms for all men and women without distinction as to race, language, or religion.

"'It seeks to remove the economic and social causes of international conflict and unrest.

"'It is the product of many hands and many influences. It comes from the reality of experience in a world where one generation has failed twice to keep the peace. The lessons of that experience have been written into the document.'" (United States Code, Congressional Service, *supra*, pp. 961-962.)

"On December 10, 1948, the General Assembly of the United Nations passed and proclaimed and called upon all member countries to publicize, disseminate, and expound in schools and elsewhere, a Universal Declaration of Human Rights affirming among other things that 'All human beings are born free and equal in dignity and rights. They . . . should act toward one another in a spirit of brotherhood.' (Art. 1.) 'Everyone is entitled to all the rights and freedoms set forth in this declaration, without distinction of any kind, such as race, color, sex, language, religion, political or other opinion, national or social origin, property, birth, or other status.' (Art. 2.) . . . 'Everyone has the right to own property alone as well as in association with others.' (Art. 17.)

"This declaration implements and emphasizes the purposes and aims of the United Nations and its Charter.

"Democracy provides a way of life that is helpful; however its promises of human betterment are but vain expressions of hope unless ideals of justice and equity are put into practice among governments, and as well between government and citizen, and are held to be paramount. The integrity and vitality of the Charter and the confidence which it inspires would wane and eventually be brought to naught by failure to act according to its announced purposes. Its survival is contingent upon the degree of reverence shown for it by the contracting nations, their governmental subdivisions and their citizens as well. This Nation can be true to its pledge to the other signatories to the Charter only by cooperating in

the purposes that are so plainly expressed in it and by removing every obstacle to the fulfillment of such purposes.

"A perusal of the Charter renders it manifest that restrictions contained in the alien land law are in direct conflict with the plain terms of the Charter above-quoted and with the purposes announced therein by its framers. It is incompatible with article 17 of the Declaration of Human Rights which proclaims the right of everyone to own property.

"We have shown that the expansion by the Congress of the classes of nationals eligible to citizenship has correspondingly shrunk the group ineligible under the provisions of the alien land law to own or lease land in California until the latter now consists in reality of a very small number of Japanese. The other Asiatics who still remain on the proscribed list are so few that they need not be considered.

"Clearly such a discrimination against a people of one race is contrary both to the letter and to the spirit of the Charter which, as a treaty, is paramount to every law of every state in conflict with it. The alien land law must therefore yield to the treaty as the superior authority. The restrictions of the statute based on eligibility to citizenship, but which ultimately and actually are referable to race or color, must be and are therefore declared untenable and unenforceable."

Dispute

A limitless vista of litigation opens. Several momentous international treaties have already been signed and more probably will be, with no study beforehand of how or in what number our own laws may have to be modified or nullified when, following the example of this one Japanese person in California, people begin to appeal from them to the law of treaties.

The Attorney General of California has filed a petition challenging the decision of the Court of Appeals. The petition is based on a study by Dr. Manley O. Hudson, who is Bemis professor of International Law at Harvard and Chairman of the International Law Commission of the United Nations. Dr. Hudson holds that the California Court's ruling "was based on a misconception of the human-rights provisions of the Charter." These, he says, are statements of purpose and definitions of powers and responsibilities, imposing no specific obligation on individual member nations beyond cooperation.

He quotes Chief Justice John Marshall as having said in 1829:

"A treaty . . . is to be regarded in courts of justice as equivalent to an act of the legislature whenever it operates of itself without the aid of any legislative provision, but when . . . either of the parties engages to perform a particular act, the treaty addresses itself to the political, not the judicial department; and the

legislature must execute the contract before it can become a rule for the court."

Dr. Hudson says:

"Clearly the charter's provisions on human rights have not been incorporated into the law of the United States because they are not self-executing."

However, concerning a Universal Declaration of Human Rights by the United Nations, Dr. Hudson says:

"If this covenant is signed and ratified by the United States, and if it is brought into force by a sufficient number of nations, it will be on a wholly different basis from that of a declaration.

"It is designed to be a treaty between various nations. As such, depending on a text which has not yet been finalized, its self-executing provisions might be incorporated into American law; the United States is currently insisting that its provisions should not be self-executing."

But in any case, he says,

"a court is not the appropriate agency to determine for the Government of the United States the particular way in which it should cooperate with the United Nations."

The Genocide Convention

The American Bar Association has been making several anxious studies of the implications of treaty law. The subject is so legal and so complex that it cannot be dealt with briefly; but one may take for example the Genocide Convention which was passed last year by the General Assembly of the United Nations and now awaits ratification by the United States Senate as an international treaty. *Genocide* is a new word. It means *race killing*. What could seem more innocent and civilized than an international treaty to prohibit race killing? Yet the American Bar Association finds that if the Senate ratifies it, this treaty will

(1) Supersede every state law and every state constitution and every federal statute on the same subject, and

(2) Subject the basic rights of American citizens to international determination and interpretation or control.

Frank E. Holman, former president of the American Bar Association, tells how it might work.

"Suppose there occurs again an unfortunate situation in some part of the country as actually occurred with the Negroes in the race riots in Detroit, and some years ago occurred in New Orleans in connection with the Italians, and as might have occurred during the last war in connection with the Japanese

on the West Coast, and the city or state authorities attempting honestly to suppress such riots are charged with not having taken adequate measures to protect the racial group involved because some members of this race were killed. These public officials may be charged with 'complicity in genocide' and brought to trial as individuals upon complaint by persons or groups in this country or by persons or groups in other countries like Russia. Among many other things, it is also a part of the crime of genocide to impose measures intended to prevent births within a particular racial group and 'complicity of genocide' is also punishable. Therefore, an organization advocating birth control may be punishable in an international court for 'complicity in genocide.'"

Ewings

Oscar Ewing, Federal Security Administrator, addressing the International Ladies' Garment Workers at Atlantic City, made the following contribution to the sum of light and understanding:

"The American reactionary may be a fine gentleman, complete with country estate. He may love his mother dearly. He may be kind to his underlings. But if he is a reactionary, his ideas add up to the fact that he is against health. Against social security. Against education. Against a living wage. Against everything that means anything to ordinary people. And, in the end, against our very liberty, our opportunity, our hopes for the future. He is against all of these things for everybody except himself.

"Why are the reactionaries against these things? Is it because they are wicked people? I don't think so. I think it is because they are fearful people. We are confronted in America by a league of frightened men.

"The bylaws of the League of Frightened Men provide that you cannot be a member in good standing unless you distrust the people of the United States. You cannot be a member unless you shiver at the idea of scientific progress, unless you quake at the thought of the complexity of our modern civilization, unless you tremble in the face of reality. During the initiation ceremonies, when you join the League of Frightened Men, you must be able to prove that you turn pale when someone mentions the words 'labor union.' Then your face must promptly flush when you hear the dread name of Franklin D. Roosevelt, or when President Truman's Fair Deal is referred to. You must get a prompt case of the shakes at the suggestion that government has a responsibility to the people to help them help themselves to security, employment, health, and education, and that sometimes people are willing to pay real money for this purpose. Finally, you must be able to raise your voice and shout 'socialism' at the top of your lungs whenever you hear of an idea that was born since 1890."

Helping Britain to the American Market

The following notes on Marshall Plan (ECA) activities in Great Britain are from the Anglo-American News, official journal of the American Chamber of Commerce in London.

THE British Industries Fair this year is a reminder of the altered pattern of the postwar trading world. Britain's extraordinary and unfamiliar effort to earn dollars by greater direct export of her manufactured goods, and to save them by finding other sources of needed things she normally would be glad to have from the United States—both these national policies are expressed at the Fair.

Official American anxiety to get the ERP countries off the American taxpayers' hands by 1952 is also reflected.

To many visitors, the Fair's most unexpected participant this year is ECA, assisted by the United States Department of Commerce. Before the war, this would have been unnecessary and almost unthinkable. Now, the world's chief creditor feels it advisable to support the main collective sales effort of its key debtor in the endeavor to find some relief, and later a solution, to a problem involving them both, and calling for adjustments on both sides.

Under a technical aid program, ECA has set up information bureaus in London at Earls Court and Olympia, and another booth at Birmingham for the capital goods industries.

ECA has the help of six high-ranking United States Commerce Department officials, flown over from America, headed by F. Preston Forbes, deputy chief of the Intelligence and Services Division of the Department's Office of International Trade. They arrived in Britain a fortnight before the Fair to start the work which will reach its peak from May 8 to 19, when business inquirers at the Fair may discuss the potentials of the United States market for British goods, the regional characteristics of the market, and hear what services to British exporters are offered by United States Government agencies in Britain.

Industry's Dollar Exports Board met them too, and subsequent contact at the Fair centers with the businessmen whose living depends on successful exporting, should leave on the United States visitors a well-rounded impression of British endeavor.

Supplementing its day-to-day work from the American Embassy in London, the United States Information Service has gone further afield in staging "America 1950,"

an exhibition giving an impression of the American way of life in its various manifestations. Thousands of Birmingham citizens saw it first at the end of March. Then it moved down to Enfield, as an unusual but topical attraction for a town putting on its own "Enfield Can Do It" show, illustrating the place of local business in the British export picture.

Photographs formed the background to "America 1950," giving a regular setting to the books, periodicals and daily papers, and whetting the appetite for the documentary films showing every hour, the self-operated filmstrips for the more enterprising, and the musical recordings ranging from Aaron Copland and folk songs, to the Girshwin, Cole Porter, Rogers and Hammerstein tunes already familiar to Britons through Hollywood musicals and stage shows in Britain.

At Enfield, ECA had an exhibit of its own as a gesture of encouragement for any activity that will help close the dollar gap.

Edward S. Prentice, chief of the Trade Division of ECA in Britain, had some suggestions to make to Enfield manufacturers at the opening, which might give ideas to a wider audience.

Mr. Prentice said that of the 70 firms listed in the Enfield Exhibition handbook, only four specifically mentioned that they were exporting to the United States, and they all made finished products. Having another look at the catalogue he noticed that Enfield's light industries turned out many different kinds of component parts.

"I should be willing to wager that some components, particularly those with high labor content," said Mr. Prentice, "can be manufactured in Enfield, Middlesex, more cheaply, even after paying freight, insurance and duty, than they can be made in Enfield, Connecticut."

Anyway, he suggested, why not look into it? Prices may be found competitive enough to allow the Enfield producer to offer components to American users.

ECA announces its tenth guarantee of the investments in Britain of American industrial companies. This time it is for an investment of \$270,000 by the Dictaphone Corporation, New York, in its London subsidiary, Dictaphone Co. Ltd., which has a plant at Acton. This amount will be loaned to the London company for 10 years at 3% per annum, and will allow it to establish the manufacture of dictating, transcribing, and recording machines.

The British Board of Trade has encouraged the manufacture by Dictaphone in Britain through agreeing to allow import of United States machines and parts so long as the sales proceeds were used for buying British manufacturing equipment for the plant.

The aim is to save not only Britain's dollars but also those of western European and other countries, who will be able to import from the British factory.

ECA guarantees for projects in Britain now reach a total of almost \$5 million.

Song of the Turning Worm

By Benjamin F. Fairless

President of the United States Steel Corporation

(Excerpts from two speeches)

NOW if what the President says is true—if our system is no longer fulfilling our employment needs in this day and hour when we are enjoying a relatively high peak of prosperity—then, somewhere, there is a monkey wrench in the machinery. Let's look around.

*

As a mechanic who has had some slight experience with this great industrial machine of ours, it is my professional opinion that we will do well to look for that misplaced monkey wrench in the Washington gear box. In fact we might find several.

*

We shall certainly find tax laws that discourage investment and that encourage small business men to sell out, and to cash in on their capital gains.

*

We shall find widespread antagonism toward profits and a reluctance to recognize the facts of inflation. Everybody realizes that a worker who earned \$30 a week in 1939 now has to get \$51 in order to have the same amount of purchasing power. Yet few people seem to understand that the stockholder who got a \$6 dividend in 1939, now has to get \$10.20 on that same investment, just to break even with our present-day, sixty-cent greenbacks.

*

We shall find other laws and attitudes that will certainly tend to discourage even the most venturesome newcomer to the field of business, but the biggest monkey wrench of all—the greatest single drawback to the effective operation of our modern economic system—is the amazing but undeniable fact that the minute any man successfully establishes himself in any business nowadays, he automatically becomes a potential jailbird.

*

I am not going to ask you to take my word for that. I shall merely read you a comment written by

Supreme Court Justice Jackson when he was the head of the Antitrust Division in the Department of Justice. He said:

"It is impossible for a lawyer to determine what business conduct will be pronounced lawful by the Courts. This situation is embarrassing to businessmen wishing to obey the law and to government officials attempting to enforce it."

*

In other words, nobody in business, in government, or anywhere else, knows what the law is except the Supreme Court of the United States, and sometimes even the members of the Court don't seem to be too sure about it. So we come face to face with the fact that laws governing business are not really written in Congress, but in the Courts, and what five members of the Supreme Court say the law is, may be something vastly different from what Congress intended the law to be.

*

Again I do not ask you to take my word for it. I refer you to a quotation cited by United States Supreme Court Justice Burton in his dissenting opinion in the Cement Case. There it was pointed out that the basing-point system had been in use by industry for half a century, and that Congress—after repeated study—had steadfastly refused to pass any of the bills proposing to outlaw it. Then it was said:

"We know of no criticism so often and so forcibly directed at the Courts—particularly the Federal Courts—as their propensity for usurping the functions of Congress. If this pricing system which Congress, over the years, has steadfastly refused to declare illegal, is now to be outlawed by the Courts, it will mark the high tide in judicial usurpation."

*

Yet the Court, as you know, did outlaw the selling methods used in the cement industry. The result was that the heads of more than 100,000 American businesses—men who had been conducting their affairs in a perfectly law-abiding manner—were suddenly confronted by the possibility of being classed as criminals.

*

I don't have to tell you that if we persist in that kind of system of law—and if we enforce it impartially against all offenders—virtually every business in America, big and small, is going to have to be run from Atlanta, Sing Sing, Leavenworth, or Alcatraz.

*

And that is no mere personal opinion on my part either. One of the severest critics of this legalistic merry-go-round we live on is Chairman Lowell Mason of the Federal Trade Commission, whose duty it is to enforce many of these laws, and who

can therefore be regarded as one of the nation's outstanding authorities on the subject. He says:

"American business is being harassed, bled and even blackjacked under a preposterous crazyquilt system of laws, many of which are unintelligible, unenforceable and unfair. There is such a welter of laws governing interstate commerce that the government literally can find some charge to bring against any concern it chooses to prosecute. I say that this system is an outrage, and that it's time the government did something sensible about bringing its own operations up to the same standard of ethics that it expects of business."

*

Now those are strong words, coming from a member of the Federal Trade Commission and from a man appointed to that office by President Truman.

THE unhappy fact is that once a man goes into business, anything he does is wrong. Take the question of competition.

*

To a practical businessman—and stripped of a lot of legalistic gobbledygook—competition is a very simple thing. It exists when two or more companies are trying to sell similar products to the same customer. But when the businessman of today tries to compete in the open market, what happens?

*

If his product is of approximately the same quality as that of his competitor, if each competitor provides the same service, and if both enjoy equally good reputations for dependability and integrity, it is perfectly obvious that both are going to have to offer their wares at the same price in order to keep in the running.

*

But if both quote the same price, that fact alone is construed to be evidence of collusion and a violation of the Sherman Antitrust Law.

*

So our businessman cuts his price, tries to undersell his competitor, and thinks he's staying safely on the right side of the Sherman Act. Don't ever try that, my friends, because then you're in *real* trouble under the Robinson-Patman Act. Look what happened to Minneapolis-Honeywell, and to Standard Oil of Indiana when they tried to cut *their* prices to meet their competition. The A & P has been accused—among other things—of consistently *underselling* its competitors. And one of the charges in the suit that the Department of Justice has brought against Du Pont is that the company *lowered* the price of cellophane twenty-one times.

*

So if our businessman obeys the Sherman Law he is probably violating the Robinson-Patman Act,

and if he obeys the Robinson-Patman Act he is almost sure to be violating the Sherman Antitrust Law. He can't lower his price safely, and he can't leave it where it is; so the only thing left for him to do is to *raise* it. There's no law against that, of course, except the law of supply and demand.

*

If he raises his price, and his competitors don't, he goes out of business. If his competitors do follow his lead and raise their prices too, he can stay in business, but he's right back where he started so far as the antitrust laws are concerned, and in addition to that he is almost certain to get an "invitation"—or a subpoena—from Senator O'Mahoney and Congressman Celler. Whatever he does, he's sunk.

*

It's no wonder people are reluctant to rush in and start new businesses today. The only mystery to me is that any new businesses are started at all.

*

But that is only a part of the story. The laws governing competition and prices have been changed frequently. Lowell Mason puts it this way:

"In 1932, we put a pants presser in jail if he conspired to fix prices. In 1933 we put him in jail if he didn't. Next year, vice versa again.

"Later on, if he went into the coal business we assessed a heavy penalty against him if he didn't charge a fixed price. That is, of course, if the coal was soft. If it was hard—vice versa.

"Then take the meat packers. We made them get out of the retail chain store business in 1920. But now there are half a dozen big retail chains in the meat packing business. I guess the meat packers just went into the wrong business first."

*

But that's not the end of our troubles either. In 1941, in the Rigid Conduit Case, the Federal Trade Commission's staff came up with a wonderful new theory. It decided that it didn't even have to go to the trouble of finding a businessman guilty of any transgression of the law. His personal guilt—or lack of it—didn't matter. If the Commission felt that there was a social danger involved, it could issue an order against him anyway.

*

Lowell Mason, in a recent speech before the American Steel Warehouse Association in Texas, pointed out that this interesting theory of justice—whereby a man could be penalized without being found guilty of anything—was introduced in Russia by Commissar Krylenko. He says:

"It is not clear whether the Federal Trade Commission got the idea from Krylenko, or whether Krylenko got it from the Commission."

In any event, he observes, Krylenko has since

been liquidated; but the American authors of the same philosophy within the Commission have not.

*

These, then, are a few of the hurdles that confront the intrepid soul who would venture into the business world today—but they are only a few. A compilation of the orders already issued by the Federal Trade Commission shows that there are more than 2,200 different business practices that have been held to be illegal. So our newcomer in the field would, of course, do well to memorize this list with painstaking care before he even unlocks the door of his own office.

*

I shall not belabor the point further. I merely submit that when every businessman in America can be found guilty of violating the law, then there is something wrong with the law—and not with the businessman. From our theorists in Washington today, we hear a great deal about “tightening the loopholes” in our antimonopoly legislation.

*

To quote one final thought-provoking sentence from Lowell Mason: “The Comintern loves it when the men of America who govern, pit themselves against the men of America who produce, and it’s time that the government and business stopped playing cops and robbers with each other.”

*

We are all riding in the same machine, and we are all going to end up in the same place whether we like it or not. So I think it might be wise indeed to examine the signposts closely. Now it seems to me that the most dangerous deception which has been practiced upon us is the fallacy that our whole economy can be divided into two parts labeled “big” and “little” business. This deception has been used so long and has become so familiar to us that we have begun to accept it, unthinkingly, and without question. And so we fall into the trap that Washington has set for us, by creating class distinction in the industrial world.

*

How silly that concept is, if we stop to analyze it. There are 4,000,000 individual business units in this country and they are all part and parcel of one great industrial machine. But of what use would that machine be to anybody if our Washington theorists once went to work on it?

*

Of course, no one *ought* to understand all of this better than our government because never, probably, has the complete interdependence of so-called “big” and “little” business been as clearly demonstrated as it was during the recent war when this great industrial machine of ours shattered all

records, and when every part and gear and piston in it was running at breakneck speed.

*

That was the first time our jugglers had ever had any real opportunity to put their theories to the test and to try to drive the wedge of class distinction into the machinery. They did their best.

*

They persuaded Congress to set up a special agency whose job it was to funnel war contracts into the hands of “small business.” On many items, the Army and Navy agreed to pay small business men as much as 15 per cent more than they paid “big business” for the same work. So what happened?

*

When the shooting was over, we found that in spite of all the futile efforts of all the theorists in Washington 75% of the prime contracts had gone—of necessity—to the 100 largest manufacturing companies in the land.

*

The theorists were terribly unhappy about it, of course, and great were their lamentations. They could only see it one way, and, without bothering even to consult the facts, they jumped despondently to the conclusion that the big had gotten richer and the small had gotten poorer. They were wrong.

*

Over in the Department of Commerce and in the Federal Reserve Board, research experts went quietly to work with their calculating machines and came up with some amazing facts.

*

It was true, they found, that “big business” had been handed the lion’s share of the war contracts; but it was *small business* that scored the greatest increase in sales, profits and assets.

*

The explanation, of course, was all very simple. Big business had merely succeeded in doing what the government had failed to do. It had loaded up small business with contracts—just as it always does, in peace or in war.

*

It did the biggest jobs on its big machines in its own big plants; but it subcontracted the other jobs that could be done on smaller machines in smaller plants. It took a big company to deliver a finished B-29, but it took hundreds of companies of every conceivable size to make it—to make all the parts and materials that went into it. Which of these companies did the most important part of the job?

*

. . . The big ones? . . . The little ones? Gentlemen, you might as well ask which soldier won the war.

The Fantasy of Nationalized Credit

**By F. Raymond Peterson*

President of the American Bankers Association

WE are confronted with an ever-increasing trend toward nationalization of credit. This trend is expressed in the growth of direct government lending and the expansion of government guaranty of loans made by private lenders.

If you think me an alarmist, I point out to you that the loans, loan guaranties, and credit commitments of more than twenty government lending agencies now exceed \$26 billion. This amount is equal to well over half of the total of \$42 billion of loans outstanding on the books of the nation's 14,000 commercial banks. The government of the United States is today the world's largest banker and guarantor of credit. Government lending agencies reach out into every field of credit—business loans and loans to farmers, to homeowners, and to others who normally should look to the banks, rather than the government, as the source of credit.

I think no one will dispute the point that loans made directly to borrowers by agencies of the Federal Government are in effect socialized credit. To what extent do these loans have social and economic justification? Many of them are uneconomic loans. There is little chance of their ever being repaid. Some of them have been outstanding on the books of some government lending agencies for more than fifteen years and are still unpaid. Loans by government agencies to sustain insolvent, dying businesses are a dissipation of public funds. They have no "social" value beyond the point that they may provide temporary employment, which must ultimately collapse, in a very limited number of local areas.

Far more subtle than this direct socialization of credit, however, is the influence of government guaranty of loans made by private lending institutions. Let me emphasize that the fundamental purpose of banking is to take credit risks. It is not to evade the risk, or to attempt to share it with the

government. Government-guaranteed loans are loans in which the lender seeks to divest himself of the risk. Banking alone must either accept or reject that risk. It ought not to be shared with the taxpayers.

Direct government lending and loan guaranties are growing year by year. Last year, Congress authorized increases exceeding \$5 billion in the loan and loan guaranty limits of all government credit agencies. The RFC was authorized to use another \$1 billion to buy mortgage paper through the FNMA. The Public Housing Authority was given an additional \$2 billion in its loan guaranty authority. The Rural Electrification Administration was authorized to increase its loans by \$225 million. The Federal Housing Authority was given authority to increase its loan insurance by more than \$1 billion. These are increases that were granted by the first session of the 81st Congress.

It is not possible to estimate the total amount of government-sponsored loan expansion that could come from the bills that have appeared in the second session. It would probably exceed \$15 billion. One bill would permit the RFC to participate up to 90% in small business loans by the banks, and to allow it to make loans with longer maturities than the present ten-year legal limitation.

Another would authorize the creation of 36 investment corporations within the Federal Reserve System to provide credit for business and industry. It provides insurance up to 95% of any business loan not exceeding \$10,000, with a maximum maturity of five years. It would also permit direct loans by the 36 corporations.

Still another bill may be introduced to create a new business loan guaranty agency within the government. For an insurance premium of 1½% per year, it would insure up to \$5 billion of business loans. Other possible legislation includes a bill creating a Veterans Economic Development Corporation, with a total lending capacity of \$5 billion; a new agency for middle-income cooperative housing with a loan guaranty authority of more than \$2 billion; and an increase of \$2 billion in the lending power of the Commodity Credit Corporation.

I utter the charge of socialism at no one who favors any of this legislation. I do say, however, that we are treading, perhaps unwittingly, on dangerous social and economic ground if the administration of credit is centralized in the hands of the Federal Government. I need hardly point out that the fifth of the ten points in the Communist Manifesto of Karl Marx and Friedrich Engels demands the centralization of credit in the hands of the state.

* Addressing the Hudson County (N. J.) Chapter of the American Institute of Banking.

The Silent Banker and the Rotting Dollar

**By Senator Harry P. Cain of Washington*

IF the government has operated in the red for seventeen of the past nineteen years, if it has disregarded the solemn duty to preserve the integrity of our money, the blame for this must be shared by the public.

In particular, it must be shared by those institutions which solicit confidence of the citizen and assume obligations toward that citizen payable in the future. I refer particularly to our banks and great insurance companies.

There are more than fourteen thousand banks in this country. They have more than 104 million individual deposit accounts. These banks are the debtors and the depositors are the creditors. The depositors give the banks money today which must be paid back at some time in the future.

In legal terms, the banks discharge their legal responsibility if they return to their depositors the same number of dollars which they originally accepted.

However, if, in the interval, the buying power, or the real value of the dollar is cut in half, the depositor in the end of the period finds himself the loser.

This is obviously not fraud in any premeditated sense but the effect is unfortunately though precisely the same.

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Too many of our nation's banks, in their preoccupation with the narrow terms of the agreement between themselves and their depositors, have had an eye almost solely for the legal discharge of their obligations. They have been, too many of them, completely indifferent to the real substance of their obligations.

I say "completely indifferent" advisedly and only after carefully weighing my words. Ten years of my life were spent in the private American banking system. I am, therefore, not an enemy but a friend of our banking fraternity. I simply want it to live up to its potential rather than to continue to drag its feet and remain quiet when the prevailing national

need for its leadership and counsel is so imperatively pressing.

I have now been a member of the United States Senate for several months more than three years. In that time—and bear in mind what has happened in that period to the real value of our currency—I state as a simple fact that not a single banker has ever come to me and urged the need for protecting the integrity of the dollar because he, the banker, feels any deep sense of responsibility for the depositor.

I know of no state banking association which has appealed to Congress to protect the dollar in order that its members might, in real terms, discharge fairly and fully the obligations to their depositors.

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Probably the primary responsibility for urging honest money rests upon the American Bankers Association. This body has consistently, so far as I know, remained silent on the great issue of currency. I have never seen the association become indignant or express any articulate opposition to what is happening to our American dollar. In my view, their silence implies a by-passing of their moral responsibility to the millions of Americans who are their average depositors.

Here is a body whose members presumably understand money. They know full well what the ultimate, inevitable effect of paper currency with no bond to gold must be.

The American Bankers Association has besieged Congress with appeals to reduce their FDIC assessments. It has urged us in the House and in the Senate to restrain and curtail the competition of government credit agencies.

These requests are legitimate and possessed of merit. But the point I make is that a great association is callously indifferent over the discharge of its obligations to depositors.

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Actually, the American Bankers Association at its last annual meeting at San Francisco extended the courtesy of its platform and the great prestige of the occasion to a noted guest who lectured them on the virtues of a managed currency. This is the kind of currency that England has today. It is the kind that France and China and Russia have.

Instead of coming to the Congress and urging us to restore gold on some practical basis, the American Bankers Association entertains and flatters a planner who would leave the currency to the loose limitations of the printing press and the discretion of so-called "competent and responsible men."

As an American, as a Senator, and as one who learned about thrift and honesty and consumer

* An address to the National Association of Home Builders in Chicago.

purchasing power from his years in the banking system, I can only say that I have been looking for greater perception and more courageous leadership among bankers of this day. I am sorely grieved to say that I have been sadly disappointed.

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What I have said sincerely and consideredly about the bankers goes with equal force and conviction for the great life insurance companies of America. They carry 191 million insurance policies aggregating more than \$213 billion. They collect money today in the form of premiums at the annual rate of \$6.8 billion. This they will return to their policyholders at some time in the future.

Again, as in the case of the bankers, there is a narrow concern over the details of dollar obligations and a disquieting complacency regarding the substance of the ultimate payments to their policyholders. The managers of these great aggregates of capital are concerned too much with the literal letter of their obligations and consistently, flagrantly ignore the meat.

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It is small wonder that capitalism is under furious assault by the forces of chaos and disorder. The men who should be fighting to preserve all that is good and useful in capitalism are silent in the face of mortal danger.

Every well-trained communist, getting his instructions from the Kremlin, knows that the easiest way to destroy and wreck and undermine capitalism is to debauch the currency. In the face of this truism, I want you to point out to me the prominent or leading bankers or insurance company presidents who have publicly urged your Congress to return our currency to gold.

Rightly or wrongly, the public presumption is that the leadership of our banking and insurance fields understand the subject. Their failure to speak implies approval of a currency unhinged from gold.

I can understand their reluctance to stand up and be counted but I can't condone it.

They are doing only what their counterparts did in Italy and Germany in the decade of the Thirties. In a big way all of them grew to be frightened of their government. They didn't and don't want to rock the boat. They lulled themselves into a sense of false security by assuming that everything will somehow come out all right in the end. They are afraid that if they speak their minds, reprisals or higher tax rates will be imposed or taken against them. They want to avoid being made a "whipping boy" of the Administration.

As their reluctance to be themselves, within the confines of their vast accumulation of knowledge,

brought gigantic ruin to Germany and Italy, the present-day disposition of the banking and insurance fraternities of our nation to let the Administration have its own way in money matters will bring the same sort of tragedy and ruin to all of us in due time.

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I am among those who believe that the return to a gold standard is a reasonable, early, and practicable possibility.

There is much evidence, persuasive to me, that any return to gold on the basis of an ounce of gold for \$35 would result in a run on our gold stocks and invite their early dissipation. This might prove a fatal blow to gold as a standard.

A price for gold must be established which, in the light of prevailing conditions, constitutes a fair, a tenable equation between gold and goods. That price must be set at a level which will not expose our gold reserve to the danger of dissipation.

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What is such a price for gold? How can it be determined?

The technicians within our official monetary and financial agencies—I mean the Treasury, the Federal Reserve Board, and the International Monetary Fund—hold that any change in the price of gold must be made by Executive decision. In other words, they want the right to change the base for our currency. They mean well. They have the faith in their own infallibility which is the hallmark of all planners and all dictators. I do not trust them.

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There is a better way. We have passed through the ordeal of a great war. Our economy has suffered unprecedented distortions. Not the least of these is the great increase in the public debt and the prodigious growth in our money supply. These cannot be restored to prewar levels without deflationary pressures so rigorous as to undermine our economy. The operation could be successful but the patient in the process might also die. It is not necessary to run this risk.

Let gold for a period of time be traded freely in an open market. Let buyers and sellers from all parts of the world match values. Over a period of time a price for gold will emerge which has stood the test of market action. Let Congress take such a price for gold and use it to re-establish the dollar on a firm base of gold.

If you want money which is hard, reliable, and honest, I would urge you to give your very lives if necessary to attain it. If you are satisfied to let

things and dollars drift and slide aimlessly as they have done for years, there is nothing you can do.

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DR. WALTER E. SPAHR, Chairman of the Economists' National Committee on Monetary Policy, himself a militant enemy of unsound money, makes the following comment on Senator Cain's proposed solution:

"Senator Cain's proposal would throw this nation back into the crudest type of irredeemable currency known to man. It is what we had in high degree in 1861-1878, and what is found in those countries abroad with the most unsettled currencies.

"His proposal would bring about the very thing that he professes not to want—a course down the evil path of currency depreciation. His proposal is that of the gold bloc which has been fighting for a higher price for

gold via a 'free' gold market, without redeemability at a fixed rate (with the Treasury sitting on the side lines with its huge holdings), in the well-grounded expectation that with a possible huge speculative demand turned loose against a restricted supply of 'free' gold, the price of gold would rise sharply and the value of our dollar in terms of gold would depreciate reciprocally. Foreign exchange rates could be expected to be chaotic, and we could expect prices to rise sharply as the people saw their irredeemable currency depreciate radically in terms of gold.

"The correct answer in respect to our monetary standard lies in making *all* our dollars redeemable in gold at the rate of \$35 per fine ounce which has prevailed since January 31, 1934, between this country and foreign central banks and governments. It does not lie in throwing away what we have had of a fixed gold unit—that is, in demonetizing gold—and of plunging into the mire of thoroughgoing irredeemable currency with gold bought and sold like any other ordinary non-monetary commodity."

Playing with Ruin

By Dr. Walter E. Spahr

THE late Lord Keynes, who gave so much attention to these matters and who contributed so much to the institution of governmentally managed economy in this country and England, stated a fundamental truth in 1919 when he said in his book, "The Economic Consequences of the Peace," that "There is no subtler, no surer, means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

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An irredeemable currency is a debauched currency. And Keynes' assertion that not one man in a million is able to diagnose the manner in which a debauched currency operates on the side of destruction of a private-enterprise economy seems to be borne out in this country in high degree. The executive department of the United States Government, the Treasury, most Federal Reserve authorities, the majority of Congress, and, of course, the general public, including a large number of economists and newspapers of the social, pro-government-management variety, are all doing their best to perpetuate an irredeemable currency in this country.

Some of those people know what they are doing—they want a governmentally managed economy. Others do not understand; they fall in that large group, mentioned by Keynes, who are unable to diagnose the evils in an irredeemable currency.

Perhaps there is another group—those who understand the evils of statism and do not want it, yet who, for reasons of personal gain, wish to keep the good will of, or obtain favors from, our Federal Government and therefore fawn upon it. They do nothing to fight off statism; and they either embrace, or fail to oppose, an irredeemable currency.

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Keynes made another observation that is pertinent to such people—and he was not referring to the great mass of people who do not understand the principles of monetary standards and system; he was referring to what he called the great capitalist class. Said Keynes (*ibid.*, p. 238): "They allow themselves to be ruined and altogether undone by their own instruments, governments of their own making, and a press of which they are the proprietors. Perhaps it is historically true that no order of society ever perishes save by its own hand."

Labor

The Closed Shop

Murray T. Quigg

FIVE thousand years of the recorded history of wars, burnings and tortures in the struggles against the pretensions of priesthoods to compel everyone to worship at the altars of their choosing, testify to the folly of the closed shop in the organization of worship.

Five thousand years of the recorded history of wars, pillagings and imprisonments in the struggle against the rule of a few men or a class of men over all men by the circumstance of birth or the might of arms, testify to the folly of the closed shop in the organization of the state.

Now, four hundred thousand United Mine Workers under the domination of a single man have given us another of their exhibitions of the folly of the closed shop in the organization of industry.

That the men working in a mine, or in a particular mine field, are wise to organize to bargain collectively with their employers, few will doubt; but those few, even the miners among them, are entitled to be free to act upon that doubt. Certainly there is nothing so peculiar to mining coal or buying or selling the services of coal miners, which justifies placing all those who have invested money in coal mining, all who are engaged in distributing coal, all who rely on coal for heat or power, and all the miners, at the mercy of the will and judgment of one man or a little clique of men.

Yet that is the inevitable result of making membership in one union throughout the industry a duty rather than a right, a burden for all miners rather than a privilege for those who choose to exercise it.

VIOLENCE in a strike is not primarily against the employer, though it may destroy his property. It is against the opportunity to work. It results either in injury to the would-be worker or in destruction of the tools which must be available to him in order to work. It is evidence of the fact that there are workers available for the work who, professional strike-breakers aside, do not believe in the merits of the particular union or of the demands which it is making. Yet there is no coal field which,

prior to 1933, the United Mine Workers ever organized without resort to violence and tyranny.

In 1922 and prior thereto the *United Mine Workers' Journal* published in its fortnightly issues records of the number of its members who were disciplined and the sentences imposed upon them. Thus for the fortnight ending February 15, various locals sentenced each of sixty men to be expelled from the union for 99 years and fined \$100. Sixty-nine men were expelled for 99 years without fine. Six men were expelled for 75 years, one for ten, five for five years, and fined \$1,000. Eight were expelled for five years and fined \$250.

In total during 1922, 4,031 members were disciplined and the total amount of their fines amounted to \$387,205 and the total of all periods of expulsion amounted to 150,117 years. What the offenses were was not reported, but in that year of 1922 the slogan of the United Mine Workers was "No Arbitration." Thus, where the closed shop prevailed they could obey the union or go without work, or escape to the then nonunion fields of West Virginia and obey the employers or go without work. Today there are no nonunion fields, so they do not have that choice.

Prior to 1923, in spite of repeated efforts, the union was unable to organize in West Virginia and eastern Kentucky and Tennessee. The miners there were mountain men who valued their independence and knew how to protect it with their rifles; and throughout the Twenties the fields operated by the United Mine Workers lost business to the nonunion fields of West Virginia, due to strikes and the migration of miners to escape union domination.

Not until the policies of the New Deal made organization a matter of compulsion rather than a privilege, did the United Mine Workers increase in power under the administration of John L. Lewis. Today it exercises a monopoly over the mining of coal and the entire industry submits to the power of the closed shop.

Of course, the United Mine Workers is not the only union which has demonstrated the evils of this power. The records of our courts prove that in industry after industry the key to work is not ability and fidelity to the requirements of the job, but submission to the union.

The people of any community must live by what they produce. They cannot consume more than they produce without going into debt to other communities and then they must produce to pay their debt or be cut off from the labor of other men. It is to the best interest of the community as well as the moral character of all the individuals in it that each shall produce what he can and live upon the fruits of his own production. To interfere with any man, therefore, in the sale of his labor or the

fruits of his labor is an apparent injustice both to him and to the community. It can only be justified by some extraordinary claim of right or by showing that his practices in the sale of his labor or the fruits of his labor are injurious or dangerous to the community.

The closed shop assumes to prevent the sale of any labor in any industry or trade over which a labor union claims jurisdiction except by those individuals who are acceptable to the union, support it, and obey it. This is clearly an interference with the freedom of the individual and therefore wrong unless the reasons advanced for it make clear a justification for such an exceptional right in the union, or a public benefit which follows from the obedience to the union's command.

THE oft-repeated justifications for the closed shop are three, namely:

1. *To develop the strength necessary for successful bargaining with the employer, wage earners require unity of purpose and effort and in order to secure this unity they need power to exclude the nonconformist who will not join and support the union.*

This point assumes that any purpose once decided upon by whoever does the deciding should not be open to further challenge by wage earners. It assumes that those who pick the goals and decide the course of union activities are entitled to explicit obedience. It assumes that the union is entitled to relief from all competitive forces. It means, in short, that all difference of opinion among wage earners as to what is desirable for them and what is the next step to take in their effort to secure what is desirable for them will be decided by those who determine the policies of one union in each industry or in each trade, that the opinion of the individual as to what is best for him should, and will be, ignored, and that is an end to the matter so far as wage earners are concerned. In their capacity as wage earners, and because they are wage earners, they must surrender all freedom of choice and conform their opinions and professions to the determinations of the union.

At a time when wage earners were struggling to establish recognition of their right to bargain collectively this extreme view of the demand for unity was undoubtedly appealing. Since the corporate employer is an association of investors to buy labor, there can be no reason why its employees may not have an association through which to sell labor. The right of the wage earners to bargain collectively is at least as self-evident as the right of the investors to bargain collectively. Yet the equality of their right in this matter appears to have been obscured to several generations by the mere fact that the in-

vestors operated through a legally licensed association, having legal aspects of singleness, whereas the wage earners sought to bargain collectively without the use of a legally licensed association.

But collective action, except in times of public peril, is a right, not a duty. The closed shop, however, amounts to a draft. It makes service in the ranks of one particular union a duty, and expulsion for any disobedience amounts, in the words of Samuel Gompers, to economic "capital punishment."

Assuming a statute which protects the right of a majority of the employees in any plant or the majority of employees employed by any one employer to bargain with him through an agent of their own choice, with provisions for the adequate protection of this right, what more do the wage earners need for the attainment of which they can justly demand the exclusion from trade or industry of those wage earners who do not voluntarily support their association? This brings us to the next two points.

2. *All who benefit by trade union activities should be required to support them and it is unfair that any man should take the benefits of collective bargains and reforms brought about by unions without accepting his share of the burden.*

Surely the union, like any other laborer, is worthy of its hire. Certainly any man who accepts employment under the terms of a collective bargain should pay his share of the cost of achieving the bargain, whether he approves of the bargain or not, or was in fact opposed to the agency through which the bargain was achieved. So if the cost of a union's collective bargaining activities requires monthly dues of \$2.00 per wage earner, every wage earner rendering service under the terms of the bargain should contribute that amount. But if dues and assessments are levied to support benefit plans, publish a magazine or make political campaign contributions, there can be no justification for compelling any man to pay them as a condition of his right or opportunity to get or keep a job.

Whatever a man's reasons may be for supporting or not supporting a particular union, he should be free to make his own choice. If he believes a different union would be an abler bargaining representative, he should not be embarrassed in campaigning for it by the fact that he is actually a member of some other union and may be subject to discipline by the powers that run the union if he exhibits any disloyalty. If the American wage earner is to be a free American citizen he must be just as free to choose his bargaining agent and to support his agent as far as he will and to refuse his support when the agent goes beyond the authority which he wishes to surrender, as a citizen is in any other economic category. The union, like any other agent, cannot

justly charge for services where they are not wanted or are not voluntarily accepted.

3. *Unions are democratic in structure and purpose and if we believe in democracy it is proper that minorities be compelled to accept the judgments of the majority.*

This is a clear though popular abuse of the concept of democracy as it applies to our concept of individual worth and dignity. The words "democracy" and "democratic" have been so loosely used, and the nature of our political concepts as set forth in our constitutions, state and federal, have been so frequently misrepresented, that the meaning of democracy has actually been lost to sight by many people.

Fortunately we do not submit ourselves unreservedly to the passing judgments of the demos or crowd any more than we do to the passing whims of kings or dictators. We select our administrators by popular pluralities and we submit many issues to determination by popular pluralities. But at the same time we provide that there are certain rights which may not be abridged. The welfare of society as well as the individual has an interest in certain rights which no private society should be permitted to curtail or ignore. Whether the structure of a particular union is in fact democratic or not, whether its members have an adequate opportunity to determine its policies or not, cannot justify any claim on the part of unions to dominate the lives of men and women as wage earners. It cannot justify denial to wage earners of the same degree of freedom of choice in what they will work at and where they will work which other citizens who are not wage earners enjoy. In short, the function of a trade union in representing wage earners in respect of their interests cannot justify them in asserting mastership over all wage earners, regardless of the aims which the unions actually espouse and the conduct which they actually pursue. If free institutions are to be

maintained, all forms of social organization, including the trade unions, must remain what they were intended to be, namely, agents and not masters.

THE large-scale organization of work, which characterizes the Industrial Revolution, does not justify interference with any man in the choice of his markets or of his agents any more than the organization of worship justified the many attempts to deny to the individual the choice of his altar, or the organization of the state justified the right to deny to any individual the expression of his own opinions and the advocacy of his own ideas.

The closed union shop, the closed nonunion shop, both of them must go, just as the feudal order and the universal church went, and for the same reason.

The employers' power of arbitrary discharge must also go. So, too, must go the bankers' arbitrary use of credit by which demand for labor is extended by the use of other people's money and as arbitrarily contracted when credit expansion is stopped, whether the bankers sit in Wall Street or in the Treasury Department. All forms of price fixing, statutory or collusive, over competitive services must go if men are to be free in the purchase and sale of one another's services. And also a host of statutes, state and federal, taxing or constraining the citizen in one type of endeavor for the benefit of citizens in some other type of endeavor must be repealed. Freedom of enterprise must exist for everyone at every economic level.

"For," as the Supreme Court said not so long ago that it should yet be forgotten, "the very idea that one man may be compelled to hold his life or the means of living, or any material right essential to the enjoyment of life at the mere will of another, seems to be intolerable to any country where freedom prevails, as being the essence of slavery itself."

THE revolutionaries of the eighteenth century believed in the perfectability of men naturally good and wise, and corrupted only by misgovernment from above. It was a crude but simple faith and inspiring while it lasted. There has been nothing optimistic and nothing sublime about the revolts of the present century—revolts which, spreading literally from China to Peru, have torn up the very foundations of the world of the nineteenth century and buried liberal idealism beneath a mountain of corpses, in order to proclaim, not the dawn of a golden age or the immortality of the spirit of man, but man as a function of the machine, man the animal without a soul, descended from the beasts and incapable of winning even security except as an inmate in an institution or a cog in a machine.—*Douglas Jerrold in The New English Review.*

Review

The Minotaur

WHY now do people who think they are free oppress themselves? Why is the yoke they shape for themselves heavier than any they were willing to bear for the kings whose heads they cut off, when they were only rebellious and not free? The answer is what Bertrand de Jouvenal undertakes to find in his book, "On Power."* What he means by Power, spelled with a capital P, is the power to command obedience. It acts through the apparatus of government, and the mystery of its nature is that it seems to have a life of its own, with instincts of defense and aggression, resources of self-preservation, and unto itself a law of being. He names this invisible thing the Minotaur, which was a fabulous monster that lived on human flesh. He traces its origins back to tribal necessity and magic, follows its career through the historical ages of tyranny, monarchy and kingship, through revolutions, which have never failed to magnify it, down to the modern state, and finds that it was never so devouring and terrifying as when it began to clothe itself with the fiction of general will. How strange, he says, that—

"When their masters were kings, the peoples never stopped complaining at having to pay war taxes. Then, when they have overthrown these masters and taken to taxing themselves, the currency in which they pay is not merely a part of their incomes but their very lives!

"How do we explain this amazing somersault? Has the rivalry of nations taken the place of that of dynasties? Is the popular will so warlike and expansionist that the ordinary citizen likes paying for wars and joining armed forces? So that we now bear with enthusiasm self-imposed sacrifices which are far heavier than those at which in other times we kicked? Nonsense!

"When he gets a warning from the tax collector or a summons to barracks from the policeman, the recipient is far from seeing in the warning or in the travel voucher an exercise of his own will, however much extolled and transfigured for him that will may be. Rather they are to him the dictates of a foreign power, of an impersonal master, now popularly called 'they' but in other days known as 'the evil spirits.' 'They' increase our taxes, 'they' mobilize us—that is the language of the man in the street. So far as the ordinary man is concerned it is as if a successor to the vanished

monarchy had brought to fruition the interrupted tasks of absolutism."

Here M. Jouvenal quotes the famous saying, "The modern state is just the king of other days bringing to a triumphal end his unremitting work."

From the twelfth to the eighteenth century the growth of governmental authority was visible. People could see it taking place and were moved to incessant protests and violent reactions. But—

"in later times its growth has continued at an accelerated pace, and its extension has brought a corresponding extension of war. And now we no longer understand the process, we no longer protest, we no longer react. This quiescence of ours is a new thing, for which Power has to thank the smoke screen in which it has wrapped itself. Formerly it could be seen, manifest in the person of the king, who did not disclaim being the master he was, and in whom human passions were discernible. Now, masked in anonymity, it claims to have no existence of its own, and to be but the impersonal and passionless instrument of the general will. But that is clearly a fiction."

Was there then no self-saving principle in democracy? And what of the American example of a constitutional, representative, limited government, designed to confine the authority of government? Of the American example M. Jouvenal says:

"America was a country which was a stranger to compulsory military service, in which the tradition was to elect officials to office, and in which Power was subject to judicial control. Is it not astounding that Power was able in a few years to reduce this control nearly to the vanishing point, to build up a vast bureaucracy, and to invest this bureaucracy with such wide powers that a number of federal agencies have been established simultaneously to formulate rules, to apply them, and to punish breaches of them—to act, in other words, as legislator, executive, and judge?"

And as for democracy, M. Jouvenal finds that it turns out to be the incubator of Power. He devotes a great deal of space to this thesis. First he quotes Proudhon as saying that popular instinct grasps the simple notion of power more successfully than the complex notion of social contract. Then M. Jouvenal says:

"The explanation of the democratic principle's degeneration is psychological: conceived at first as sovereignty of the law, it triumphed only when it had come to be regarded as sovereignty of the people.

"Its only effect was to transfer into other hands, those of the representatives of the people, the whole complex of rights, duties, and resources which had been built up during the monarchy for the behoof of the king. . . . We have posited that the transformation of Power took place in such a way as to disarm all suspicion of it. The credit then opened in its name has

* "On Power," by Bertrand de Jouvenal, The Viking Press, New York.

prepared the way for an age of tyrannies. This we are now going to see."

The Minotaur has many persuasive ways of disarming resistance. There is never a time in any society, says M. Jouvenal, when some do not feel insufficiently protected and insufficiently free. To these the Minotaur promises security and new freedoms, such as freedom from want and freedom from economic anxiety. Again, in every society there are institutions that impose disciplines and command obedience, and these limit the power of government. In the Middle Ages such an institution was feudalism, wherefore the Minotaur was antifeudalist. In the modern state the traditions and institutions of free capitalism tend to obstruct the extensions of governmental power, and for that reason government is bound to regard free capitalism with hostility; and to all who feel that they are oppressed by the ways and laws of capitalism the Minotaur offers liberation. It was as certain, says M. Jouvenal, that anticapitalists would come to occupy positions of power in the modern state as that antifeudalists would come to occupy those positions in the monarchic state. To this he adds:

"Not that they were the real artisans of the capitalist downfall. They were not responsible for the growing diversion at the source of the rivulets of savings which fed capitalist authority. The growth of savings banks, the accumulation of their earnings in an enormous bank which was larger than any capitalist bank, their enlargement by funds of a social character, the employment of the deposits of commercial banks in government issues, everything, in short, which has put the bulk of the national wealth at Power's disposal, was done without thought of socialist purpose.

"It was because of the state's needs, and from no anticapitalist design, that there was developed that efficient weapon, the income tax.

"In the end, calling it socialization or nationalization, the state strives to make its own all the great castles of the economic feudal system, the railway companies, the electricity distributing companies, and so on. Only those who know nothing of any time but their own, who are completely in the dark as to the manner of Power's behaving through thousands of years, would regard these proceedings as the fruit of a particular set of doctrines. They are in fact the normal manifestations of Power, and differ not at all in their nature from Henry VIII's confiscation of the wealth of the monasteries. The same principle is at work; the hunger for authority, the thirst for resources; and in all these operations the same characteristics are present, including the rapid elevation of the dividers of the spoils. Whether it is socialist or whether it is not, Power must always be at war with the capitalist authorities and despoil the capitalists of their accumulated wealth: in doing so it obeys the law of its nature."

Thus, holding out an evangel of security, liberation and Utopia, the Minotaur strikes hands with

the people to crush any rival or competitive power within a society, and will not be content until at last it has reduced society to a state of complete dependence. This is easier to understand than how at the same time it can make itself attractive to the intellectuals. Americans especially are bewildered by the spectacle of intellectuals embracing Stalin; nor do they cease to wonder that so many liberals, who were the first great champions of individual liberty, now work zealously to bring about the kind of social protectorate in which the individuality of man would be surely lost. But this enigma is a very old story. Social philosophers are attracted by power because in it they see the means whereby their ideas may be imposed upon man for his own good. Plato said: "Let the citizens never know and let them never desire to learn what it is to act independently and not in concert, and let them never form the habit of so acting; rather, let them all advance in step towards the same objects and let them have always and in everything but one common way of life."

To M. Jouvenal it is not strange at all. In one of his penetrating moments he says:

"Thought delights in order, because thought is intelligence; and it conceives of order as simple, because thought is human. Whenever it strives to realize order, it displays the sombre savagery of a Savonarola or a Calvin; more often, however, it seeks and summons to its aid the man of action, its temporal arm: we see Plato, for instance, expecting his laws to be enforced by the tyrant of Syracuse.

"Is that a paradox, the association of the philosopher with the tyrant? By no means. Authority can never be too despotic for the speculative man, so long as he deludes himself that its arbitrary force will further his plans. Proof of this is the attraction, seen time after time, which Russian despotism has had for the intellectuals. The approach of Auguste Comte to Czar Nicholas is but a repetition of Diderot's waiting for Catherine the Great to promulgate by ukase the Encyclopaedist dogmas. Disillusioned with the weapon proper to itself, persuasion, the intelligence admires those instruments of Power which are swifter in action, and Voltaire found it in him to admire Catherine's ability 'to make fifty thousand men march into Poland to establish there toleration and liberty of conscience.' And so the credulous tribe of philosophers works in Power's behalf, vaunting its merits right up to the point at which Power disillusiones it; whereupon, it is true, it breaks into cursings, but still it serves the cause of Power in general, by placing its hopes in a radical and systematic application of its principles, being a thing which only a capacious Power can achieve. . . .

"Thought, dreaming of an order which is at once too simple and too rigid, seeking to realize it too quickly by measures which are too drastic and too radical, is in a perpetual conspiracy on Power's behalf; even in giving battle to the actual incumbents of authority, it is still working for authority's enlargement. For it puts into society's head visions which cannot take concrete

shape but by an immense effort in the opposite direction to that of the natural course of things—an effort of which only Power, and a big one at that, is capable. So that in sum thought furnishes Power with quite the most effective justification for its growth.”

The richness of this book is of width, not depth. The history of the Minotaur is very important of course, yet from that alone you will not get his meaning. One of the great debates of the nineteenth century concerned the destiny of modern man. Whither was he going? Was it his fate to become again a regulated animal, after one interlude of freedom, or having found the true path of freedom, would he keep it? In the middle of that century the Minotaur was in retreat. The authority of government was in the sign of declension. The founder of French socialism had written that the regulating functions, so far from diminishing with the advance of man's evolution, was bound on the contrary to become more and more indispensable. To this Herbert Spencer answered with the voice of his time, saying:

“The form of Society towards which we are progressing, I hold to be one in which government will be reduced to the smallest amount possible, and freedom increased to the greatest amount possible—one in which human nature will have become so moulded by social discipline into fitness for the social state, that it will need little external restraint, but will be self-restrained—one in which the citizen will tolerate no interference with his freedom, save that which maintains the equal freedom of others.”

Why was Spencer so wrong? M. Jouvenal says:

“The stuff of men's dreams was that law should be sovereign, and not just any law but one which was compulsive in its own right. The guarantee of liberty lay in the sovereignty of the rule of right of law.”

What happened to that dream? To say that the complexities of modern life overwhelmed it answers nothing, for if man valued freedom more highly than any other good, why were the complexities of life permitted to multiply? The kind of Power M. Jouvenal is talking about cannot impose itself upon a strong people who have once been free. They have to be acquiescent. Why were they acquiescent here, in this country, founded as they were on the philosophy of a government not of men but of laws, and, even so, a government of very limited power? What has happened to the old American fear of government? If you ask these questions you are obliged to consider the nature of liberty. Why do men want to be free? What are they willing to pay for it? Is liberty for the strong or for the weak? Or is it, as Lord Acton finally said, that liberty after all has nothing much to offer to the proletariat?

Here M. Jouvenal is not helpful. “Liberty,” he says, is only a secondary need; the primary need is

security. And he holds that the spirit of liberty will fail if and when people are seized with a sense of insecurity. Possibly so. But to make that hold for his thesis he would be obliged to show that along with the prodigious growth of the Minotaur in the past fifty years there has been an equally prodigious rise in the hazards or insecurities of life. This is not proved, unless perhaps you bring total war into the reckoning; and as for that, M. Jouvenal's argument is not that the growth of the Minotaur is owing to total war but that total war is owing to the fact that modern government now commands the life and labor of people and all the resources of society as no Minotaur of old was ever able to do.

In the end he leaves the essential mystery as it was. He wonders whether human societies are not governed by laws of which we are ignorant, whether they are not led into their errors by some kind of dynamism they do not understand, and whether their seasons of blossom and fruitfulness are not achieved at the cost of a destruction of the forms in which their strength was stored.—G. G.

Labor Versus a Free Economy

THE simple genius of capitalism lies in its ability to bring order out of a complexity of apparently hostile elements by imposing the similar restraints of competition on its participants, all of which have *anticompetitive* aspirations. It makes sense, because all economic rewards are similarly determined in markets, according to each factor's contribution to the fulfillment of a single purpose, which is the maximum satisfaction of the wants of consumers. There you have a free competitive society.

But now imagine a society, otherwise free, whose principal resource is exempt from the restraints of competition. That is what is happening now. The goal of consumer satisfaction is taking second place because labor, the principal resource, has removed itself from competition.

Charles E. Lindblom in a brilliant book,* “*Unions and Capitalism*,” examines this fact and its consequence. He says:

“Where there is conflict between the needs of the worker and the accepted pattern of economic life, the union's power to satisfy the worker is also the power to destroy the pattern.

“This is the great labor problem of our time.

* “*Unions and Capitalism*,” by Charles E. Lindblom. Yale University Press.

Unionism is destroying the competitive price system." (Italics supplied.)

What he is saying is that labor has become a dangerous monopoly.

It is not a simple thing to prove the existence of labor monopoly or of any monopoly for that matter. The evidence must necessarily be largely circumstantial. Motive is involved. The free price system requires that a worker shall be satisfied with a wage that justly represents his productivity. This restriction he finds intolerable, and so unions seek to take wages out of competition. This aspiration is variously disguised. Lindblom says:

"Such factors as the cost of living, productivity, and ability to pay do, of course, enter into the timing of demands and the strategy of bargaining, but they are not principles. They do not correctly express income goals. They are merely more acceptable ways of saying, 'All we can get!'"

But of this everyone is guilty. It remains to prove opportunity, and this is more difficult. Here union monopoly is unique. Enterprises can only escape competition by control of supply, but union monopoly, says Lindblom—

"does not require and cannot establish such control over the supply of labor through a comparable restriction of entry into the occupation. . . . But it can coerce the employer into submitting to the union. Union monopoly regulates the wage rate, therefore, not by sustained control of supply but by control of the buyer who is the employer. The technique used to establish the control is, of course, the strike."

Having established intent and opportunity, Lindblom goes on to consider the power of existing restraints. For example, can unemployed workers press their labor for sale in a competitive manner? Lindblom says:

"Unions have developed powerful techniques to control the operation of competition. The threat of unemployment is never entirely banished by these techniques; but the competition of low-wage firms or of nonunion workers or of labor-displacing machinery does not, in the face of them cause a problem of unemployment serious enough to prevent union monopoly."

And so in the midst of a system powered by competition we have an effectively anticompetitive institution, and an enormously important institution at that. When the author turns to the consideration of the consequence of this economic fact, the removal of our largest economic resource from competition, he begins by saying:

"No monopoly except that of the commodity labor could ever reach into every corner of the economy, every industry, every occupation, every product. And hence no other power can so effectively challenge the

rule of the competitive game as unionism—ever determined to 'take wages out of competition' and succeeding."

The particular consequences are inflation and unemployment, but these are not as important in themselves as in what they lead to, for Lindblom concludes that the system will not die of these sicknesses, but rather it will be killed by the attempts to revive it. He says:

"Unionism is not disruptive simply because it causes inflation and unemployment, for these are problems in a nonunion economy as well. Rather it is disruptive because it will cause an amount of lasting unemployment or a degree of continuing inflation which will become so serious that the competitive price system will be abandoned in the search for remedies."

The balance of the book is devoted to a search for workable alternatives. But Lindblom's prediction of the future is grim.

"In our syndicalized economy of the future, short run goals and values will dominate over long run, for power in economic life will fall increasingly into the hands of private legislatures with no responsibilities for the distant future. Price will be dethroned as a guide to production, for prices will adjust to a controlled supply rather than the reverse; and we shall have to want what we eat rather than eat what we want."

This is a startling formulation of the labor problem. Have we tried to fit into capitalism forces that it will not by nature contain? Have we been using the language of capitalism to describe the operation of anticapitalistic phenomena?—R.C.C.

Enigma of Treason

READING "Seeds of Treason—the true story of the Hiss-Chambers tragedy,"* is like looking backward at the news through a stereoscopic lens. The two principal figures seem to stand out in a three-dimensional way whereas before they were flat. But when you have put the book down and reflect upon it, it may occur to you that this effect has been produced partly by the skill of a journalistic feat and partly by illusion. The enigma of organized treason remains as it was. The more it is explained the more it is still the same incoherent thing. Least convincing of all are the explanations offered by those intellectuals who repent, come back, and try to account for themselves. Under the public stare of disapproval and compound suspicion it is hardly to be expected that they would behave in a perfectly

* "Seeds of Treason," by Ralph de Toledano and Victor Lasky. Published for *Newsweek* by Funk & Wagnalls Company, New York.

natural manner. But what is wrong is something much more subtle than that. They cast double shadows and walk uneasily with them, as if they had to remember which one they are in step with; and when they bear witness it is as if their experiences in the amoral world of Communist dialectics had seared them so deeply that they are forever unable to tell the truth simply, or to tell it all. There is now a considerable list of these penitents, and people who know them well invariably comment on the fact that they seem always to be holding something back. Anyone who followed intelligently the Hiss-Chambers trials, the last one especially, was almost certain to get two impressions—first, that nobody was telling all of the truth, and, second, that someone who had not been accused was being protected, not by one of the principals only but by both.

This book was written before Senator McCarthy loaded his blunderbuss with a murderous fragmentation of things well-informed people had been talking about for five years and began to fire in all directions. He had really nothing new. It was the way he did it, and perhaps it took a man who did not know any better to do it at all. Parallel to Senator McCarthy, at the height of the uproar, Senator Knowland made a speech in the Senate on Lattimore, on the State Department and on American foreign policy in the East that was more devastating than anything McCarthy had said or could say, thoughtfully regarded, and yet the Knowland speech was hardly noticed in the press, whereas McCarthy's reckless attack threw the State Department into a panic and caused its defenders to involve themselves in absurdities and equivocations.

What the American people now think is a question they probably could not answer if they were asked. In a state of dizzy confusion they take sides emotionally. Undoubtedly, the thought is widely entertained among them that they have not had the truth, at least not all of it. They are at a strange disadvantage. They are too naive to be able to comprehend intrigue at all, as European people know it; and when it comes to treasonable intrigue with a hostile foreign power, engaged in by native Americans who have been advanced to positions of prestige in government, and whose character, in one case at least, has been vouched for by two members of the Supreme Court and by the Secretary of State, the spontaneous word is incredible. But when nevertheless the evidence has been strong enough, in that one case, to convince a jury, then they go to the other extreme. Where once they had refused to be moved by a reasonable suspicion of such a conspiracy they begin looking under their own beds.

The first difficulty of all is to appraise the power and intelligence of Russia's conspiratorial appara-

tus. If you take seriously what now is the standard story of the confessionary—a story of how casually the spies are recruited, how they accept one another as Mary and John because they have been told to do it by a stranger nobody knew, how they struggle to and fro under a weight of secret documents which, if they ever get to Moscow, will create there an acute storage problem—if you believe all this as they tell it, then you are likely to say: "This is something like juvenile delinquency on the plane of treason. The most powerful conspiratorial machine in the world certainly would not work that way. It must be very stupid, really."

But then suppose you rate it very high, so high that you may suspect all this to be in fact the red herring. No very intelligent conspiratorial apparatus would be working with agents like these; it would be working with double agents, meaning by a double agent one who holds himself out to be violently anticommunist; and a time might come when such an apparatus would deliberately cause a lesser ring of spies to be discovered merely to create a diversion for the protection of its double agents. That makes sense. And when you begin to think of it that way you will recall that Freda Utley, herself a confessionary, said to the Senate Committee: "If a man as important as Lattimore were working for the Russians do you suppose they would waste him on espionage?" Here the shudders begin. What was the greatest enigma in all of Europe? It was that wherever Hitler went to trample down a country he found native Quislings there, and the number of Quislings was so large that you could not dispose of them by calling them all traitors. It must have been something more than that. A traitor's behavior is individual. Revolution is organized.

There is no answer in "Seeds of Treason." The meaning of treasonable disaffection everywhere in the world of ideological warfare is not explored. That was not the subject of the book. It is, as the authors say, the story of Hiss and Chambers. As such it is fascinating and important, and one must read it, but, perhaps, with certain reserve. Whitaker Chambers is their hero. That was bound to be the case, since they believed him. Piece by piece they put his motives together as if he were a jigsaw puzzle and say at last, "There he is." But he is not there. He is still a flat, two-dimensional figure obscured by shadows. One of the shadows is that although he had been, by his own testimony, a high figure in the Russian underground and knew only too well how relentlessly the Soviet machine was wont to pursue its man around the world and liquidate him when caught, still when he went to hide from its vengeance he settled himself and his family on a lonely Maryland dairy farm, protected only by a shotgun.—G. G.

We

Stagger from Crisis to Crisis

By Bernard M. Baruch

In another speech Mr. Baruch said: "Our defenses are like a house built upon the sand." Why? Because there is no over-all strategy for either peace or war and no ready-to-go mobilization plan. This address, on the same theme, was delivered before the Naval War College at Newport.—Editor.

ADAMIRAL BEARY has asked me to talk to you on the subject of strategy. I certainly am not equipped to discuss strategy as it relates to specific weapons or to the role of the different services or even to the military importance of the atomic bomb. Since World War I, however, I have studied the interrelationships of war and peace and some of my thoughts in this regard may interest you.

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A little more than a year ago, one member of the Senate Armed Services Committee came to me in great agitation. He had heard that a defense budget of \$30 billion was being prepared and he was frightened at what it would do to our economy. He asked my advice as to what policy should be followed in the matter of defense expenditures for the cold war.

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My reply was that we had to avoid panicky overspending. Instead we had to learn to pace ourselves in relation to the Russians and the threat of war. We dared not overspend on armaments to where our social, political and economic system might be wrecked—that would suit the enemy as much as to defeat us militarily. Yet we dared not maintain so feeble a defense establishment as to invite aggression, as it did in Hitler's time.

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With each year of added cold war attrition, this concept of "pacing ourselves" becomes more vital—and also more difficult to carry out. The longer the cold war drags, the more essential it becomes to husband our resources, yet the greater grows the danger that the cold war may erupt into a hot, shooting war. In the past few years, while the whole world has been digging itself out from under the destruction and exhaustion of the last war, no po-

tential aggressor has had the material means for waging another war. But what will happen when the potential aggressor has recovered his strength and there still is no peace?

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Now by "pacing ourselves" I do not mean that we should undertake to match Soviet armament, plane by plane, tank by tank, man for man. On that I am completely in accord with General Omar Bradley. However, I do feel that we must vigilantly watch the over-all degree of Soviet mobilization for war and that we dare not permit too great a variance with our own mobilization—or we risk war.

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By "pacing ourselves" I also mean that we must preserve a flexible attitude toward our problems of defense and not freeze rigidly on too narrow a strategy. For example, I would not think it wise to base our defense exclusively on our ability to retaliate against the enemy's cities and industries. To prevent aggression, it is true that we must be able to retaliate instantly and that the enemy should know we can do it. Still, I am not sure that any "next war"—may it never come!—would begin with flagrant open attack upon this country. It seems to me quite likely that the test may come in the more subtle form of civil war—probably in Germany. In event of such a civil war, the situation might be such that it would be unwise to retaliate against the enemy and yet we would not dare stand by impotent. In short, I believe our defensive strategy must not only anticipate the danger of another all-out war, but that of civil war as well.

AS a matter of fact, it might be said this state of civil war already exists, that that is what the cold war really is, neither peace nor total war, but a

succession of civil conflicts, more or less violent, wherever the Soviets can foment such strife. In western Europe we have managed to achieve a sufficient degree of stability to prevent open civil war. In Greece, after a bloody and costly struggle, the civil war appears to have been decided in the favor of the democracies. In China we have suffered a truly serious defeat.

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That defeat has stirred a good deal of public discussion of whether we are losing the cold war. Certainly there is sufficient reason to feel that what has been done so far is inadequate.

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A few weeks ago, the Secretary of State called for "total diplomacy." Undoubtedly that is what is needed. Undoubtedly that is not what we have.

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Although the cold war is now dragging into its sixth year and despite the enormous resources we have expended, we still have not faced up to what the total peace-waging requires. We still stagger from crisis to crisis, with the initiative left to the enemy. We still treat each country separately instead of as part of a unified global strategy.

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For several years, now, I have been pressing, both publicly and privately, for this over-all global strategy, which would do for the peacemaking what our global strategy did during the recent war. To devise this global strategy a central "think body" should be created, to survey the whole of the cold war, re-examining our policy and advising the President.

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Recently my good friend Senator Vandenberg proposed a somewhat similar group. I am afraid, though, that the re-evaluation of American policy he proposes would not go far enough—his letter talks only of political and economic policy. Then, I do not believe that a special committee, which would study the problems of ECA, report and then disband, is enough. What is needed is a non-partisan group which will stay on the job until the cold war is won, a group which would sit in continuous deliberation on the whole of the peace-waging, serving as a central point of decision, weighing all the many commitments pressed upon us, guiding the best disposition of our strained resources, determining where in the world we are to fight a mere holding action and where we can achieve a decisive breakthrough—and at what effort. In short, what is needed is a General Staff for Peace.

TO cite only one instance, take Indo-China. For tranquility to be restored to that Asian outpost the civil war now raging there will have to be

brought to a victorious conclusion. Where are the French to obtain the necessary military supplies? It has been suggested that the French Government use the material now being allocated to it under the Military Aid Program. But the aim of that Military Aid Program was to strengthen western Europe against possible Soviet aggression. Are we then to weaken western Europe for some half-hearted and possibly ineffective action in the Orient?

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Sooner or later we must expect a showdown over Germany—since Germany cannot be expected to remain divided indefinitely. Are we pacing ourselves so that we will be ready for that showdown when it comes? Or will it find us as unprepared as we now seem to be to deal with conditions in the Far East?

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Are we to continue to spread ourselves too thin, unable to achieve decision anywhere? Hasn't the time come for the expenditure of sufficient resources to force a decision somewhere?

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If our diplomacy is to be truly "total," we must mobilize not only public opinion but the necessary economic, military and political resources, applying those resources on the basis of an over-all global strategy. That is not now being done. I doubt that it will be done unless some central peacemaking agency is created.

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I began urging the formation of such a GHQ for Peace even before the last war ended. In memoranda to President Roosevelt I pointed out that America's greatest power in the peacemaking would lie in the fact that we would emerge from the war with our enormous productive power untouched by devastation. No country in the world would be able to raise its living standards without American help. Our problem would be how to bring this great productive power to bear upon the peacemaking as decisively as we had done in the warring.

I PROPOSED to President Roosevelt that an Advisory Peace Council be created, consisting of the secretaries of State, War, Navy, Treasury, the Director of War Mobilization and Reconversion, the Foreign Economic Administrator and Harry Hopkins. This body was to consider all peace questions, formulating their recommendations for policy, which were to go to the President for his final decision. This Council was also to have a small staff of its own directed by a counselor who enjoyed the complete personal confidence of the President.

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Roosevelt liked the idea and said he would put it into effect. He told me he would name James F.

Byrnes as its chairman and Judge Samuel Rosenman as the counselor. Judge Rosenman was then in Europe and the President put off establishing the Council until Rosenman should return. Shortly after that, President Roosevelt sent me to London to discuss some matters with Winston Churchill and while there I told Judge Rosenman about the President's plan. A few days later we received the tragic news that the President had died.

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When I returned from London, I repeated the suggestion for this peace council to President Truman and he said he would create the body. But the idea got shunted off.

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Possibly the reason was the creation of the National Security Council, which, I was told, was modeled upon the earlier suggestion of an Advisory Peace Council to the President. Unfortunately, if that is what the Security Council was intended to be, it hasn't worked out that way. The members of the Security Council are overworked; its membership needs broadening; its functioning must be reorganized to come to grips with the problems of achieving a decision in the peacemaking, instead of avoiding decision as has happened too often in the past.

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A revitalized Security Council could do the job but it would have to be brought under the direction of a man of the stature of General Marshall, and enlarged with men who have no other business but this. To win the cold war, there must be one group which does nothing but think, work, plan—live and breathe—the cold war.

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The first task of this revitalized Security Council might well be to re-examine the whole situation to determine what would be required to win the cold war and to plan a step-by-step strategy for taking the initiative in gaining peace. Were that done, by the sort of body I envision, I believe its recommendations would command the support of the public and Congress. Without such a central peacemaking agency "total diplomacy" will remain a mere phrase.

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If the American people are told what must be done, honestly and frankly, they will see the peace through. On the other hand, if the tactics adopted are to lure them into ever-deeper involvement, bit by bit, without ever facing up to what the total peacemaking requires, then there will always be doubt of their willingness to drift down a road which has no end.

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While this General Staff for Peace is our first need, it is not our only need. For such a body to

function effectively, it must have the best possible intelligence. How are we to pace ourselves in relation to the Russians unless we know what they are up to?

IT is not easy to figure the Russians out. Still, I am not prepared to accept the viewpoint of Russia as an unfathomable enigma behind an impenetrable iron curtain. Certain factors about the Soviet Government should make it quite predictable.

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As dictators, the Soviet leaders can act without consulting their people and are therefore capable of unloosing surprises. But the Soviet Union is also a planned economy. Everything that happens in Russia is supposed to measure up to a Five Year Plan, which, in turn, is broken down into yearly plans. The Plan doesn't always work out in practice. Still it must reflect the judgments, decisions—and motives—of the Soviet leaders.

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The Kremlin's calculations as to when war is likely—twenty, ten, five, two years from now, or even sooner—must be embodied in Soviet planning, in how critically short materials are divided between immediate military needs and the expansion of Soviet industry, in the rate of purchases abroad of materials the Soviets lack at home and so on.

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Russia being a dictatorship, none of these things can happen accidentally. Each action must reflect some decision taken in the Kremlin. Each action reflects some calculated risk which the Soviet Government is taking. By putting together all of the bits and pieces, we should have an adequate basis for judging Russia's intentions as to war or peace.

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Studying the Soviet economy in this way should also give us some means of checking the extravagant reports current as to Russia's military strength. One day these reports picture the Soviet Union building a gigantic air force; then it is a terrific fleet of submarines; then it is tanks, and ground forces; then it is a navy. But Russia can hardly be a great land power, a great naval power, a great air power, a great atomic power, all at the same time. We know how difficult and expensive it is for this country to maintain our defense establishment and Russia has infinitely less resources at her command than we do.

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In the course of "pacing ourselves" we are always likely to lag somewhat behind the Soviets in terms of readied military strength. In itself this is not necessarily alarming, since our enormous potential for war also serves as a deterrent against aggression. If overt Soviet aggression has been prevented these

last few years, it has not been solely because of our possession of the atomic bomb. The Soviet leaders have also been mindful of the fact that at the peak of the last war the United States produced nearly as many airplanes, tanks, guns and other war matériel as the rest of the world combined.

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We can be sure that the Soviet leaders have not forgotten that fact. But we can also be sure that the Soviet leaders have not forgotten that it took us nearly two and a half years to convert our gigantic productive energies from peace to war.

THIS time gap in our mobilization is our gravest source of peril. It is the weakness around which any enemy must base its war plans. No nation in the world will attack a mobilized America. The only strategy any enemy can have is to attempt to overwhelm us during that "too little and too late" period while our military power is still "on order."

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That is the reason why I have never ceased urging the prompt enactment of a stand-by mobilization plan, which would insure the swiftest possible marshaling of all our resources in case of attack.

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A standby mobilization plan should be put into law now, to go into instant operation upon joint proclamation by Congress and the President. To wait until war has begun and bombs are actually falling before we begin to legislate is to invite disaster.

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Nor is anything to be gained by delay. What needs to be done is as well known today as it ever will be. The question is not what should be done, but whether we will do what we know must be done, or wait until disaster is upon us.

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Included in this standby mobilization law should be:

1. An impartial selective service law, with a work-or-fight clause;
2. A readied civilian defense;
3. The elimination of profiteering;
4. The power to shut down less essential production to give military needs priority;
5. Rationing of scarce essentials;
6. Much higher taxes;
7. A ceiling on all prices, rents, wages and other costs to prevent the inflation which could wreck any mobilization.

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Let me emphasize these actions would not go into effect now. They would simply be put into law and left on the statute books ready to go into instant

operation in case of attack upon a joint proclamation by Congress and the President.

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These laws would not specify the quantities of weapons to be produced—that must be kept secret and be constantly revised. Their objective would be to organize the nation so that if war came, no time would be lost in meeting any military demands. May I also emphasize that the whole program is needed, not merely parts of it. Under political temptation, some may seek to leave prices uncontrolled, or to soften other mobilization measures here and there. That was done in the last war, at what a terrible cost not alone in inflation but in lengthening the war and its slaughtering and maiming!

*

To sum up, there seem to me to be four major essentials of a successful cold war strategy:

1. A military establishment which includes not only an immediately available striking force of sufficient power to insure prompt retaliation and deter aggression, but one flexible enough to deal with possible civil war abroad.
2. A ready-to-go mobilization plan which will insure the swiftest mobilization of all our resources—men, money and materials—in case we or our allies are attacked.
3. An effective intelligence agency to provide the information needed to pace ourselves in relation to the Soviets and the threat of war.
4. A general staff for peace, to re-evaluate the whole of the peace-waging and to formulate a global strategy which will achieve a decision for peace.

*

One final thought, which I always like to leave with a group such as yours. In the past, the American people tended to deny the realities of power and to think that peace could be preserved by mere moral pronouncements, by "outlawing" war and so on. Today, there is general realization that peace is impossible unless supported by military strength. Still, although aware of this fact, many Americans are uneasy about it. They would like to forget their dependence on military power, and so there is much grumbling about the so-called "militarization of American life" and of the "military running the country."

Don't let this grumbling disturb you. Yours is the right to be proud of your profession. You have brought imperishable glory to America. More important, you have never failed this country in your role as the guardian and protector of our liberties.

What makes a police state is not the existence of the police but the absence of law behind the police. What makes a military state is not the existence of the military but that the military constitute themselves the state.

Don't Shoot the Poor Government

*Conclusion of Secretary Acheson's defense of the State Department
before the American Society of Newspaper Editors.*

THE wrong way is to smear everybody's reputation; to make charges on the basis that, if one is not right, you try to find another one you hope will stick; to try to destroy the confidence of people in their Foreign Office and in their government in a most critical hour of this nation's history.

But I think what is going on is much madder and much more vicious than that. It reminds me more of that horrible episode in Camden, N. J., which happened not so long ago, when a madman came out on the street in the morning with his revolver. With no purpose and with no plan, as he walked down the street, he just shot people; one was a woman coming out of a store; a man with his wife in an automobile. That automobile happened to stop because the light turned red. The car ahead of him went on. The car behind him was not where the madman was. So the madman just walked up and shot everybody in the car, without sense, without purpose, without direction.

You remember, I am sure, that poem of Browning's called Caliban Upon Setebas. Caliban is talking about this horrible amoral god of his. He says that his god operates in the way that Caliban himself does on the beach. Along comes, says Caliban, a procession of crabs going down to the sea across the sand. And he says something like this: "I stand there and I let 20 go by. The twenty-first I pick up and tear off a flipper. I let three more go by. The next one I crush in order to watch it wiggle in agony on the sand," and so on. It is that degree of vicious madness which has been going on here.

Now, I don't ask you for sympathy. I don't ask you for help. You are in a worse situation than I am. I and my associates are only the intended victims of this mad and vicious operation. But you, unhappily—you by reason of your calling—are participants. You are unwilling participants, disgusted participants, but, nevertheless, participants, and your position is far more serious than mine.

As I leave this filthy business, I should like to leave in your minds the words of John Donne in his *Meditations*, in which he says:

"Any man's death diminishes me, because I am involved in mankind.

And therefore do not send to know for whom the bell tolls;

It tolls for thee."

LETTERS

Why Dr. Clark Signed the United Nations Report on Full Employment Policy

(The following letter is from Dr. J. M. Clark, Columbia University, faculty of political science. He was one of a group of five experts who prepared for the United Nations a document entitled, "National and International Measures for Full Employment." It is a global plan, squarely based on the Keynesian philosophy, and many people were surprised to find Dr. Clark's name at the end of it.—Editor.)

To the Editor of AMERICAN AFFAIRS:

Your letter of March 14 raises the question whether my having signed the report of the United Nations committee on "National and International Measures for Full Employment," is in contradiction with my previous work. This calls for a considered reply, though the answer might depend on just what points about the report appear to you to constitute the contradiction.

One approach to an answer might be this. If you read Chapter IV of my recent book of lectures, "Guideposts in Time of Change," you will find in it what to me are the essentials of the domestic measures recommended in the United Nations report, expressed in more flexible and less rigorous terms. Start with that, and add a very appreciable allowance for subsequent education in the international angles, which has led me to the view that the strength and unity of the Western world in the cold war hinges very considerably on a high and stable level of economic activity in this country, so that we need, on that account, to set our sights higher than we might be inclined to do for domestic reasons only. The resultant will give an idea of how come I'm ready to go farther than some folks would expect.

But I had already published enough to show that, if confronted with the issue of accepting or rejecting the applied "Keynesian" philosophy of attempting to influence employment by influencing total volume of spending, I would accept it in substantial degree. The London *Economist* was probably right in observing that it was inevitable that a group of economists would have a Keynesian approach to this problem, though they objected to the committee being so cocksure about it.

To me, that approach is only one side of things, as indicated in my separate statement, but it was the side the majority of the committee wanted to emphasize.

That brings us to the point that this report is a joint product, of the sort in which, normally, no one gets just the report he would have written as an individual. In this case, I think everyone made concessions. That may be reflected in two kinds of ideas in the report. The broadest is found in paragraphs 148-150, and takes the view that most things government does have some

effect on employment, and they should be restudied and correlated from this angle. This leaves scope for almost any kind of policy.

The theory of the report is that policies chosen from this wide assortment constitute the first line of defense. The second or reserve line consists of advance provision for automatic measures which would almost of necessity have to be of a fiscal policy character. Some may think that, as presented in the report, the reserve line is drawn so close to the front line that the front-line policies would have little opportunity or importance. That is only one among many points on which the report needs the benefit of searching critical examination. If that particular criticism is found justified, the remedy rests with the governments, in setting their "targets" and the other specifications that govern their policies.

On the basis of our committee discussions, I am sure the members of the committee regard their specific proposals as a basis for discussion and expected modification, such as regularly takes place when proposals are being hammered into workable shape. The proposals are made specific in the hope that the resulting discussion may move toward action, rather than remaining at the level of inactive generalities. This was clearly what the United Nations wanted of the committee, and this desire finds reflection in the terms of reference which were given it, which may in turn explain something of the rigorous character of the committee's specific proposals.

The United Nations had been getting results that didn't serve to focus discussion looking toward action; and in trying to get something different out of our committee, one of the things they did was to call on us to report on "measures required to achieve full employment." It was understood that these very rigorous terms were to be construed in the light of Articles 55 and 56 of the United Nations Charter, and with more latitude than the words themselves suggest; nevertheless they constitute a more exacting mandate than the previous subcommittee had had. They threw the emphasis on what it would take to do an adequate job, and they could not be satisfied by halfway or quarter-way measures.

In the outcome, the report has actually served to focus discussion—including useful and welcome criticism—partly because the committee "stuck its neck out" with definite and simplified analysis and proposals, which did not attempt to deal with all the complexities and variations of the problem. They had

enough specific substance to precipitate argument about feasible ways and means, as more general and eclectic discussion might not have done.

The members of the Economic and Social Council seemed genuinely grateful for that service, at the same time that they were voicing criticisms, and receiving the report of the Economic and Employment Commission, which had made many more. If you have followed these discussions, you can hardly expect that the committee's more specific recommendations will be carried out as they stand. The governments will present more considered reactions at the next Council meeting, in July. Some of the criticisms seem well taken, others not. They are all welcome, if they look toward doing something, not to finding an excuse for doing nothing.

One of the comments in the discussion was to the effect that no five economists, in eight weeks, can solve all the problems involved in this question. I certainly agree with that. The question is whether we made the kind of contribution that kind of group could make.

I think the members of the committee have had a chance to observe the facility with which government officials can explain how the thing they are already doing is precisely what is being recommended, so nothing more is needed. An eclectic, cautious and heavily qualified report might lend itself to being brushed off in this way. Our committee's report is not of that kind, and may be a little harder to brush off. So, while I would not personally have written it in those terms if I had been writing it as a one-man report, I am not sure that it is not a more useful document than if it had been as cautious and qualified as I would probably have made it if I had been alone.

The thing I am most apprehensive of, I think, is the likelihood of our encountering a substantial recession with no more preparation for meeting it than we have at present, and forced to lean on the hope that a recession would be considerate enough to give us time to decide what to do about it, and to implement the decision. As against this, I believe in bolder use of "fiscal policy," and some kind of advance authorization for some part of the measures contemplated, so that they may be put in effect promptly enough. The ones that were stressed in our report, for an economy resting largely on private enterprise, were the ones that have the least potentialities of a socialistic sort, from among the measures that have enough positive effectiveness to do the job.

Westport, Conn.

J. M. CLARK



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