

ESSAYS
ON
LIBERTY

VOLUME IV



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EDITOR'S NOTE

The study of freedom and presentation of the findings in a manner helpful to anyone who is interested is the objective of the staff and the friends of the Foundation for Economic Education. The studies are distributed, as completed, in the form of separate releases and as articles in *The Freeman*, a monthly study journal.

This is the fourth volume of essays on liberty, all of the selections in it having previously appeared as articles in *The Freeman* between January 1956 and March 1957. Volumes I, II, and III of *Essays on Liberty*, published in 1952, 1954, and 1958 respectively, are still available. Volume V also is being published in 1958.

Permission is hereby granted to reprint these essays in whole or in part, except the following:

The Camel's Nose under the School Tent

by Roger A. Freeman

Facts about the "Industrial Revolution"

by Ludwig von Mises

The Literature of Freedom by Henry Hazlitt

Ponzi Was a Piker by Clarence E. Manion

World Invisible by Diogenes

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THE LITERATURE OF FREEDOM

by *Henry Hazlitt*



THE *Free Man's Library* is a descriptive and critical bibliography of works on the philosophy of individualism—"individualism" in a broad sense. The bibliography includes works which explain the workings and advantages of free trade, free enterprise, and free markets; which recognize the evils of excessive state power; and which champion the cause of individual freedom of worship, speech, and thought.

Such a compilation seemed to me to be increasingly urgent because so few writers and speakers on public questions today reveal any idea of the wealth, depth, and breadth of the literature of freedom. What threatens us today is not merely the outright totalitarian philosophies of fascism and communism, but the increasing drift of

Mr. Hazlitt, author of *Economics in One Lesson* and other libertarian works, is a contributing editor of *Newsweek*. This article is from the introduction to his book, *The Free Man's Library* (New York: D. Van Nostrand Company, Inc. \$3.50. Also available through the Foundation for Economic Education, Irvington-on-Hudson, N. Y.) This descriptive listing of more than 540 outstanding contributions to the literature of freedom begins with the early seventeenth century and carries through to our own time.

thought in the totalitarian direction. Many people today who complacently think of themselves as “middle-of-the-roaders” have no conception of the extent to which they have already taken over statist, socialist, and collectivist assumptions—assumptions which, if logically followed out, must inevitably carry us further and further down the totalitarian road.

One of the crowning ironies of the present era is that it is precisely the people who flatteringly refer to themselves as “liberals” who have forgotten or repudiated the essence of the true liberal tradition. The typical butts of their ridicule are such writers as Adam Smith, Bastiat, Cobden (“the Manchester School”), and Herbert Spencer. Whatever errors any of these writers may have been guilty of individually, they were among the chief architects of true liberalism. Yet our modern “progressives” now refer to this whole philosophy contemptuously as *laissez faire*.

Lack of Consistency

Many of today’s writers who are most eloquent in their arguments for liberty in fact preach philosophies that would destroy it. It seems to be typical of the books of our intelligentsia to praise one kind of liberty incessantly while disparaging or ridiculing another kind. The liberty that they so rightly praise is the liberty of thought and expression. But the liberty that they so foolishly denounce is economic liberty.

Unfortunately the authors who have fallen into this

practice include some of the finest minds of our generation. (I think particularly of Bertrand Russell and the late Morris Cohen.) Such writers seem to me to be at least in part reflecting an occupational bias. Being writers and thinkers, they are acutely aware of the importance of liberty of writing and thinking. But they seem to attach scant value to economic liberty because they think of it not as applying to themselves but to businessmen.

Such a judgment may be uncharitable; but it is certainly fair to say that they misprize economic liberty because, in spite of their brilliance in some directions, they lack the knowledge or understanding to recognize that when economic liberties are abridged or destroyed, all other liberties are abridged or destroyed with them. "Power over a man's subsistence," as Alexander Hamilton reminded us, "is power over his will." And if we wish a more modern authority, we can quote no less a one than Leon Trotsky, the colleague of Lenin, who in 1937, in a moment of candor, pointed out clearly that: "In a country where the sole employer is the State, opposition means death by slow starvation: The old principle: who does not work shall not eat, has been replaced by a new one: who does not obey shall not eat."

Changing Historical Patterns

Liberty is a whole, and to deny economic liberty is finally to destroy all liberty. Socialism is irreconcilable with freedom. This is the lesson that most of our modern philosophers and littérateurs have yet to learn.

Historically, the liberals fought against governmental tyranny; against governmental abridgment of freedom of speech and action; against governmental restrictions on agriculture, manufacture, and trade; against constant detailed governmental regulation, interference, and the harassment at a hundred points; against (to use the phrases of the Declaration of Independence) "a multitude of new offices" and "swarms of officers"; against concentration of governmental power, particularly in the person of one man; against government by whim and favoritism. Historic liberalism called, on the other hand, for the Rule of Law and for equality before the law.

The older conservatives opposed many or most of these liberal demands because they believed in existing governmental interferences and sweeping governmental powers; or because they wished to retain their own special privileges and prerogatives; or simply because they were temperamentally fearful of altering the status quo, whatever it happened to be.

Old Words with New Meanings

Those who flatteringly call themselves "liberals" today, and to whom confused opponents allow or even assign the name, are for nearly everything that the old liberals opposed. Most self-styled present-day "liberals," particularly in America, are urging the constant extension of governmental power, of governmental intervention, of governmental "planning." They constantly press for a greater concentration of governmental power, whether in

the central government at the expense of the states and localities or in the hands of a one-man executive at the expense of any check, limitation, or even investigation by a legislature. And they look with favor on an ever-growing bureaucracy and on the spread of bureaucratic discretion at the expense of a Rule of Law.

Those who oppose this trend toward a new despotism, on the other hand, and plead for the preservation of the ancient freedoms of the individual, are today's conservatives. The intelligent conservative, in brief, is today the true defender of liberty.

This conclusion should not seem too paradoxical. It was always possible to reconcile intelligent conservatism with real liberalism. There is no conflict between wishing to conserve and hold the precious gains that have been achieved in the past, which is the aim of the true conservative, and wishing to carry those achievements even further, which is the aim of the true liberal.

WHY PAY FOR THINGS?

by F. A. Harper



“WHY do we have to pay for things?” asked a five-year-old boy at dinner one evening. Probably his question was prompted by the suffering of privation endured by all small boys, with their many wants to be served by few pennies. If unrestrained by either force or understanding, this condition can easily lead to theft.

This simple question caught father with his sheepskin up in the attic. So as a stall for time, the question was referred to an older sister who was a college student. Since she had never had a course in economics, it seemed safe to predict that she would fumble it for a few minutes.

She first asked how else it would be decided who should have things. And then she explained two choices—thrift or payment for things—briefly but clearly. This approach struck me as an excellent alternative to either the rod or parental mandates by which children might be taught to respect the property of others. The argument, in amplified form, follows.

How might it be decided who gets what? There are

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not enough things to go around, you know. There never will be enough. We always want more things than there are to be had. Who will go without? Who will get what there is?

The Rule of Might

One way to do it would be for everyone to grab what he can. That is the way things tended to be done once, long before we were born. Under that way of doing things in its pure form, people fight over what little there is to be had. The man who works hard to get some food must either eat it at once or fight all the time to keep it. Nobody heeds his plea that it is his because he worked to get it.

When things are done that way, you would not really own anything. You would just have it, and anyone could have it who could take it away from you. A boy's bicycle, for instance, would not really be his. Any bully could take it away from him; a bigger bully could take it away from the first thief, and so forth. People would lie and do all sorts of mean tricks to get things away from one another. The strongest and meanest and worst persons would get more and more things, so that most everyone would become meaner and meaner. Unless they did, they would have to go without things. They would have to be mean and physically strong, or die—under a system like that.

Who gets the bloody noses and broken heads under that system? Mostly it is the little folks, of course, if they

have anything anybody else wants and if they try to keep it. The old persons suffer, too, as do the crippled and the sick.

The other way to decide who gets what is for each person to own things. That is the system we have, generally. You own what you make. No bully has any right to it simply because he is big enough or mean enough to take it away from you. If he does take it, we say that it is still yours and he should return it to you.

Under this system, the person who makes anything may sell it or give it to other people. If as a small boy you had been given a bicycle, or had bought a toy ship, for instance, these are yours until you want to give them away or sell them. When they are sold, somebody must pay to get them.

The Private Property Idea

That is why we have to pay for things. It is because we consider things to be owned by each person instead of belonging to nobody. If you want something you have not produced, and which has not been given to you, you must pay for it. The only other way to get it would be to steal it, which is the other system. People don't have to pay for things under the other system, but many starve because there are so few things produced.

It is normal for little boys, who want many things and don't have much money, to wonder why they should have to pay for things they want. But if we operated our affairs the other way and fought over things rather than owning

them, little folks wouldn't have much of a chance of ever getting a bicycle at all.

The system whereby each person owns things—which means you have to pay for things you want—is really the cheapest and best police force in the world, in addition to being the only system that will defend the weak and the infirm. If we would all conduct ourselves by that rule, we would need no policemen at all because everybody would be serving as a policeman over himself. He then serves without pay. He can spend all his time producing things and enjoying life in whatever way seems best.

That answer to the question of why we have to pay for things, expressed in terms a five-year-old could understand, seemed to leave little more to be said.

THE PERFECT PRICE

by Benjamin F. Fairless



WHAT determines the price of a ton of steel? Who sets it? Just what is the policy of United States Steel as to prices?

Along with other successful American industries, we in the steel business learned a long time ago that the following economic principle is true and sound: Each manufacturer must learn how to produce and sell his products as efficiently and cheaply as his competitors. If he doesn't, he will soon find himself without customers because of the competitive struggle for markets in a free economy. Any successful business must necessarily conform to that fact of the market place if it is to prosper and fulfill its obligations to its employees, its owners, and its customers. A by-product of this competition among producers is the best possible product and service at the lowest possible price.

Actually, I could state—simply and truly—that in the long run it is the customers who primarily set the price

Mr. Fairless is Chairman of the Executive Advisory Committee, United States Steel Corporation. This essay is from an address of October 8, 1955, to members of the Pennsylvania Newspaper Publishers' Association.

of steel as they set the price of everything else, and that—again in the long run—the opinions of government officials, the general public, the owners, and even the management have astonishingly little to do with it. But that wouldn't be the full story of the immediate market price of steel because a great many decisions must necessarily be made by a number of people before the price is presented to the customers for their final decision—against which there is no appeal.

Cost Theory Rejected

But before explaining a few of the most important factors that play a part in determining the final market price of steel, I must mention one theory of pricing which, most definitely, we do not use. I refer to the cost-plus theory. I mention it because many people seem to be under the impression that manufacturers set the prices on their products by the process of adding an arbitrarily fixed mark-up to all costs. No business can be run successfully in that way as long as it has competitors in a free market.

It is true enough that a company must recover all its costs—plus a profit—if it is to stay in business. And, admittedly, our company does aim to recover all its costs, plus a profit, from the sale of its products. But we run into all sorts of problems and complications along the rugged path to that desired goal.

For example: It seems that almost every time U.S. Steel raises its prices, we are expected to justify the price in-

crease to everybody except the people who are asked to pay it—our customers. Fortunately, they neither need nor want a long story; our customers know at first glance whether the price is right or not. And they render their combined verdict without any political speeches or vote-getting clichés. We are acutely aware of the fact that they can turn to any one of our numerous and eager competitors, or look for a substitute, or cut down on inventory, or even cut back on production. Whether the customer's verdict on our prices is for us or against us, we still believe that it is the right verdict since it is delivered by a free person using his own money in a free market.

But the matter of price does not rest there. Government officials, union leaders, the public—as represented by certain newspaper columnists and radio commentators—always show a keen interest in the price of steel, and we are always willing to explain to any interested person how we arrive at the prices we hope to get for our products.

Why Costs Are Considered

Naturally, any explanation about prices must dwell at length on costs, since they are the first factors we must consider in arriving at a price that we hope will stand up in a competitive market. The largest cost of all is, of course, wages and salaries—including pensions, social security, insurance, and other benefits—paid to or for the employees of the company. The second largest cost is the products and services bought by the company. Next

comes the cost of government, in the form of taxes. There are other costs which I shall mention in a moment.

Time and again in the past, we have explained these three largest costs in great detail to anyone who would listen. Doubtless we will explain them time and again in the future. When we point out the obvious fact that these costs must be covered in the price of our products, everyone usually understands and approves. But there are two generally unrecognized dangers in this approach. First, as I have already mentioned, it frequently misleads the unwary into the fallacious belief that industry can and does operate exclusively on a cost-plus basis. This, of course, isn't even remotely correct. Second, when we begin listing our costs of doing business, we run into the awkward fact that some people claim that many of the things we must pay for aren't costs at all!

For example, you might think that everyone would agree that depreciation—that is, the using up of machinery during the process of production—is a cost of doing business. But the taxing policy long followed by Congress does not realistically recognize that fact. Under present circumstances, its rules on regular depreciation permit us to list as a cost only a fraction of the purchase price of an equivalent new machine which is to replace a worn-out or obsolete machine. Apparently the government still refuses to acknowledge the fact that its inflationary policies have caused prices for new equipment to double and treble since the old equipment was bought some twenty years or more ago. It permits us to recover approximately the same number of dollars originally in-

vested, but it forbids us to recover the same amount of purchasing power.

The price of steel is also heavily influenced by another vital factor which is not generally given the consideration it deserves. I refer to growth and expansion and modernization. Everyone will agree that it costs money to modernize an old steel plant or to build a new one. But you can start an argument with almost anyone as to where that money is to come from. There are only three possible sources. It must come from a realistic treatment of depreciation recovery which recognizes the reality of inflation; or it must come from the sale of stocks and bonds; or it must come from profits.

Stocks as a Source of Capital

We have already examined the depreciation possibility—and found it wanting. Now let's take a brief look at the possibility of raising the needed capital by the sale of stocks.

Here we must face this unhappy and persistent fact: Over the years, the profits and dividends of U.S. Steel have just not been sufficiently large to permit it to attract needed capital funds from stock purchasers! Investors just won't buy ownership in our company in the form of stock at the price it now costs us to build the new plant and equipment. For example, take the Fairless Works—a fully integrated steel plant we recently built. Its cost to us was about \$300 per ton of ingot capacity—or about \$400 per ton of finished product.

Ownership in our plant and equipment and other assets can be purchased in the form of stock certificates on the open market. But the verdict of a free people in a free market who are using their own savings to buy stock is that (at the time of writing) they will pay only \$79 for ownership of the facilities it would now cost us \$300 and more to build! This is most discouraging—especially when so many people assume that steel companies are making enormous profits and paying tremendous dividends.

Ploughing Back Earnings

While there is no doubt that our company can raise capital funds through the sale of common stock, we have found it more advantageous either to borrow the money and pay it back out of future earnings or to use a portion of current earnings. And we have followed both courses. Last year, for example, we borrowed 300 million dollars. But mostly we get this new capital for expansion and modernization by ploughing back into the business about half of our earnings. Some of our owners aren't convinced that this is the best policy, and often we have been advised to meet rising costs (and to pay more equitable dividends) by simply adding a few more dollars to the price the customer must pay for steel.

Those who make that suggestion evidently imagine that we can and do operate exclusively on a cost-plus basis. They seem totally unaware of the fact that, in a free economy, competition for customers insures not only the best possible product but also the lowest possible

price. And even after that, the final fact remains that the customer can't be forced to pay anything at all! In a free economy, the customer is still king.

The Customer Is Important

So it is understandable why the one to whom we devote most of our thought and effort is the customer. Under normal conditions in a competitive market, the customer would laugh in our faces if we went to him with our problems and suggested that we do business on a straight cost-plus basis. If we did, he would probably tell us the old story of the three friends who met in wartime Washington and decided to have dinner together. When the check came, one man reached for it with this explanation: "Since I can deduct this for tax purposes as a business expense, it will actually cost me only about 20 per cent of the total." But the second man grabbed it from him and said: "Let me pay it since I'm a salesman on an expense account and it won't cost me anything at all." Then the third man grabbed the check from the second man and carried the day with this announcement: "I'm a manufacturer with a cost-plus contract from the government. If I pay this bill, I'll get my money back—plus 10 per cent!"

Our customer has problems of his own, and he's just not interested in hearing ours. All he is interested in hearing from us is our asking price for the steel he wants—delivered when and where he wants it. If he doesn't like our price or service, we lose a customer to our com-

petitors. And the fact of the matter is that we do not enjoy losing customers.

So when we think about prices for our products, we must consider all of these problems I have listed. We naturally give much thought to the reaction of the general public since, understandably, they have considerable interest in the activities of such a basic industry as steel. And, admittedly, we have no choice but to take a look toward Washington and see what Congress is going to do about taxes, controls, investigations, inflation, and other real political problems which all businessmen must consider today. Obviously, we try to guess what the union leaders have up their sleeves for our next meeting. We also keep a close watch on the price, quality, and service our competitors are offering. And since the stockholders own the business and can fire us if they wish, we do the best for them we can. Then we reach for our crystal ball and take a thoughtful look at both the domestic and foreign markets and the state of the world in general. After all those facts and figures and guesses have been digested, we finally ask ourselves this all-important question: Will the customer buy our products at the prices we have in mind?

Satisfying Both Buyer and Seller

For various reasons in the past, the answer to that question has sometimes been "no." And we have had no choice but to reduce the price to what the customer would pay under competitive conditions—even if it

meant a loss to us, which it sometimes did. If at all possible, we would prefer to keep our prices below the maximum the customer might be willing to pay. That is only good business, because as long as he knows he's getting a bargain, he'll be back for more.

In the free and competitive market which characterizes our economy—except, of course, when the government interferes—a price is perfect when the producer would rather have the money than the product, and when the consumer would rather have the product than the money. A perfect price is established when the seller and the buyer each improves his welfare by the trade. I am of the opinion that given a free and competitive market—with government confined to its proper role of protecting equally the life, liberty, and property of its citizens—all prices for all products would be about as perfect as fallible human beings are capable of making them.

THE HUMANITY OF TRADE

by Frank Chodorov



WHEREVER two boys swap tops for marbles, that is the market place. The simple barter is in terms of human happiness no different from a trade transaction involving banking operations, insurance, ships, railroads, wholesale and retail establishments; for in any case the effect and purpose of trade is to make up a lack of satisfactions. The boy with a pocketful of marbles is handicapped in the enjoyment of life by his lack of tops, while the other is similarly discomfited by his need for marbles; both have a better time of it after the swap, while their respective surpluses before the swap are nuisances. In like manner, the Detroit worker who has helped to pile up a heap of automobiles in the warehouse is none the better off for his efforts until the product has been shipped to Brazil for his morning cup of coffee. Trade is nothing but the release of what one has in abundance in order to obtain some other thing he wants. It is as pertinent for the buyer to say "thank you" as for the seller.

The market place is not necessarily a specific site, although every trade must take place somewhere. It is

Mr. Chodorov is a well-known author, editor, journalist, and individualist.

more exactly a system of channeling goods or services from one worker to another, from fabricator to consumer, from where a superfluity exists to where there is a need. It is a method devised by man in his pursuit of happiness to diffuse satisfactions, and operating only by the human instinct of value. Its function is not only to transfer ownership from one person to another, but also to direct the current of human exertion; for the price-indicator on the chart of the market place registers the desires of people, and the intensity of these desires, so that other people (looking to their own profit) may know how best to employ themselves.

Trade Makes for Better Living

Living without trade may be possible, but it would hardly be living; at best it would be mere existence. Until the market place appears, men are reduced to getting by with what they can find in nature in the way of food and raiment; nothing more. But the will to live is not merely a craving for existence; it is rather an urge to reach out in all directions for a fuller enjoyment of life, and it is by trade that this inner drive achieves some measure of fulfillment. The greater the volume and fluidity of market place transactions the higher the wage-level of Society; and, insofar as things and services make for happiness, the higher the wage-level the greater the fund of happiness.

The importance of the market place to the enjoyment of life is illustrated by a custom recorded by Franz Op-

penheimer in *The State*. In ancient times, on days designated as holy, the market place and its approaches were held inviolable even by professional robbers; in fact, stepping out of character, these robbers acted as policemen for the trade routes, seeing to it that merchants and caravans were not molested. Why? Because they had accumulated a superfluity of loot of one kind, more than they could consume, and the easiest way of transmuting it into other satisfactions was through trade. Too much of anything is too much.

The Distribution of Things

The market place serves not only to diffuse the abundances that human specialization makes possible, but it is also a distributor of the munificences of nature. For, in her inscrutable way, nature has spread the raw materials by which humans live over the face of the globe; and unless some way were devised for distributing these raw materials, they would serve no human purpose. Thus, through the conduit of trade the fish of the sea reach the miner's table and fuel from the inland mine or well reaches the boiler of the fishing boat; tropical fruits are made available to northerners, whose iron mines, in the shape of tools, make production easier in the tropics. It is by trade that the far-flung warehouses of nature are made accessible to all the peoples of the world and life on this planet becomes that much more enjoyable.

We think of trade as the barter of tangible things simply because that is obvious. But a correlative of the

exchange of things is the exchange of ideas, of the knowledge and cultural accumulations of the parties to the transaction. In fact, embodied in the goods is the intelligence of the producers; the excellent woollens imported from England carry evidence of thought that has been given to the art of weaving, and Japanese silks arouse curiosity as to the ideas that went into their fabrication. We acquire knowledge of people through the goods we get from them. Aside from that correlative of trade, there is the fact that trading involves human contacts; and when humans meet, either physically or by means of communication, ideas are exchanged. "Visiting" is the oil that lubricates every market place operation.

The Exchange of Ideas

It was only after Cuba and the Philippines were drawn into our trading orbit that interest in the Spanish language and customs was enlivened, and the interest increased in proportion to the volume of our trade with South America. As a consequence, Americans of the present generation are as familiar with Spanish dancing and music as their forefathers, under the influence of commercial contacts with Europe, were at home with the French minuet and the Viennese waltz. When ships started coming from Japan, they brought with them stories of an interesting people, stories that enriched our literature, broadened our art concepts, and added to our operatic repertoire.

It is not only that trading in itself necessitates some

understanding of the customs of the people one trades with, but that the cargoes have a way of arousing curiosity as to their source, and ships laden with goods are followed with others carrying explorers of ideas; the open port is a magnet for the curious. So, the tendency of trade is to break down the narrowness of provincialism, to liquidate the mistrust of ignorance. Society, then, in its most comprehensive sense, includes all who for the improvement of their several circumstances engage in trade with one another; its ideational character tends toward a blend of the heterogeneous cultures of the traders. The market place unifies Society.

The Size of a Trade Area

The concentration of population determines the character of Society only because contiguity facilitates exchange. But contiguity is a relative matter, depending on the means for making contacts; the neutralization of time and space by mechanical means makes the whole world contiguous. The isolationism that breeds an ingrown culture, and a mistrust of outside cultures, melts away as faster ships, faster trains, and faster planes bring goods and ideas from the great beyond. The perimeter of Society is not fixed by political frontiers but by the radius of its commercial contacts. All people who trade with one another are by that very act brought into community.

The point is emphasized by the strategy of war. The first objective of a general staff is to destroy the market

place mechanisms of the enemy; the destruction of his army is only incidental to that purpose. The army could well enough be left intact if his internal means of communication were destroyed, his ports of entry immobilized, so that specialized production, which depends on trade, could no longer be carried on; the people, reduced to primitive existence, thus lose the will to war and sue for peace. That is the general pattern of all wars. The more highly integrated the economy the stronger will be the nation in war, simply because of its ability to produce an abundance of both military implements and economic goods; on the other hand, if its ability to produce is destroyed, if the flow of goods is interrupted, the more susceptible to defeat it is, because its people, unaccustomed as they are to primitive conditions, are the more easily discouraged. There is no point to the argument as to whether "guns" or "butter" are more important in the prosecution of war.

Warlike Barriers to Trade

It follows that any interference with the operation of the market place, however done, is analogous to an act of war. A tariff is such an act. When we are "protected" against Argentine beef, the effect (as intended) is to make beef harder to get, and that is exactly what an invading army would do. Since the duty does not diminish our desire for beef, we are compelled by the diminished supply to put out more labor to satisfy that desire; our range of possibilities is foreshortened, for we

are faced with the choice of getting along with less beef or abstaining from the enjoyment of some other good. The absence of a plentitude of meat from the market place lowers the purchasing power of our labor. We are poorer, even as is a nation whose ports have been blockaded.

Moreover, since every buyer is a seller, and vice versa, the prohibition against their beef makes it difficult for the Argentineans to buy our automobiles and this expression of our skills is constricted. The effect of a tariff is to drive a potential buyer out of the market place. The argument that "protection" provides jobs is patently fallacious. It is the consumer who gives the worker a job, and the consumer who is prevented from consuming might as well be dead, as far as providing productive employment.

Employment Is Not the Aim

Incidentally, is it jobs we want, or is it beef? Our instinct is to get the most out of life with the least expenditure of labor. We labor only because we want; the opportunity to produce is not a boon, it is a necessity. Neither the domestic nor the foreign producer "dumps" anything into our laps. There is a price on everything we want and the price is always the weariness of toil. Whatever causes us to put out more toil to acquire a given amount or kind of satisfactions is undesirable, for it conflicts with our natural urge for a more abundant life. Such is a tariff, an embargo, an import quota, or the

modern device of raising the price of foreign goods by arbitrarily lowering the value of our money. Any restriction of trade, internal or external, does violence to a man's primordial drive to improve his circumstances.

How Enmity Grows

Just as trade brings people together, tending to minimize cultural differences, and makes for mutual understanding, so do impediments to trade have the opposite effect. If the customer is always "right," it is easy to assume that there is something wrong with the non-buyer. The faults of those who refuse to do business with us are accentuated not only by our loss but also by the sting of personal affront. Should the boy with the tops refuse to trade with the boy who has marbles, they can no longer play together; and this desocialization can easily stir up an argument over the relative demerits of their dogs or parents. Just so, for all our protestations of good neighborliness, the Argentinean has his doubts about our intentions when we bolt our commercial doors against him; compelled to look elsewhere for more substantial friendship, he is inclined to think less of our national character and culture.

The by-product of trade isolationism is the feeling that the "outsider" is a "different kind" of person, and therefore inferior, with whom social contact is at least undesirable if not dangerous. To what extent this segregation of people by trade restrictions is the cause of war is a moot question, but there can be no doubt that such

restrictions are irritants that can give other causes for war more plausibility; it makes no sense to attack a good customer, one who buys as much of our products as he can use and pays his bills regularly. Perhaps the removal of trade restrictions throughout the world would do more for the cause of universal peace than can any political union of peoples separated by trade barriers; indeed, can there be a viable political union while these barriers exist? And, if freedom of trade were the universal practice, would a political union be necessary?

Protectionism Examined

Let us test the claims of "protectionists" with an experiment in logic. If a people prosper by the amount of foreign goods they are not permitted to have, then a complete embargo, rather than a restriction, would do them the most good. Continuing that line of reasoning, would it not be better all around if each community were hermetically sealed off from its neighbor, like Philadelphia from New York? Better still, would not every household have more on its table if it were compelled to live on its own production? Silly as this *reductio ad absurdum* is, it is no sillier than the "protectionist" argument that a nation is enriched by the amount of foreign goods it keeps out of its market, or the "balance of trade" argument that a nation prospers by the excess of its exports over imports.

Yet, if we detach ourselves mentally from entrenched myths, we see that acts of internal isolationism such as

described in our syllogism are not infrequent. A notorious instance of this is the French *octroi*, a tax levied on products entering one district from another. Under cover of "quarantine" regulations, Florida and California have mutually excluded citrus fruits grown in the other state. Labor unions are violent advocates of opulence-through-scarcity, as when they restrict, by direct violence or by laws they have had enacted, the importation of materials made outside their jurisdiction. A tax on trucks entering one state from another is of a piece with this line of reasoning. Thus, the "protectionist" theory of fence-building is internalized, and in the light of these facts our *reductio ad absurdum* is not so farfetched. The market place, of course, scoffs at such scarcity-making measures, for it yields no more than it receives; if its offerings are made scarce by trade restrictions, that which remains becomes harder to get, calls for an expenditure of more labor to acquire. The wage-level of Society is lowered.

The Labor Theory of Value

The myth of "protectionism" rests on the notion that the be-all and end-all of human life is laboring, not consumption—and certainly not leisure. If that were so, then the slaves who built pyramids were most ideally situated; they worked much and received little. Likewise, the Russians chained to "five year plans" have achieved heaven on earth, and so did the workers who, during the depression, were put to moving dirt from one side of the road to the other. Extending this notion that exertion for

the sake of exertion is the way to prosperity, then a people would be most prosperous if they all labored on projects with no reference to their individual sense of value.

“Battleship Economics”

What is euphemistically called “war production” is a case in point; there is in fact no such thing since the purpose of production is consumption; and it is not on record that any worker built a battleship because he wanted it and proved his craving by willingly giving up anything in exchange for it. Keeping in mind the exaltation of laboring, would not a people be most uplifted if all of them were set to building battleships, nothing else, in return for the necessaries that would enable them to keep building battleships? They certainly would not be unemployed.

Yet, if we base our thinking on the natural urge of the individual to better his circumstances and widen his horizon, operating always under the natural law of parsimony (the most for the least effort), we are compelled to the conclusion that effort which does not add to the abundance of the market place is useless effort. Society thrives on trade simply because trade makes specialization possible, specialization increases output, and increased output reduces the cost in toil for the satisfactions men live by. That being so, the market place is a most humane institution.

THE FIRST LAW OF ECONOMICS

by Anthony M. Reinach



THE ECONOMIC facts of life are many. But the grandfather of them all is the law of demand and supply. If this one law alone were thoroughly understood, it is highly improbable that government interference in the market place would ever again be tolerated. Let's see how this law works in your everyday life:

You own at least one pair of shoes—probably several. Your least expensive pair of shoes may have cost you as little as \$5.00. This least expensive pair—the one you can most easily afford—will serve to help clarify the law of demand and supply.

Had this pair been priced at \$1.00 or an even more ridiculously low figure, it is quite probable that you would have bought several pairs in anticipation of future needs, or just as a luxury. But had this pair been priced at some exorbitant price like \$2,000, you would either be going shoeless, be reduced to making your own shoes, or be keeping your feet protected and comfortable in some

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other way. At \$2,000 per pair, even the wealthy man's wardrobe wouldn't contain many shoes.

Now between \$1.00 and \$2,000, there is a price at which you will own several pairs, a price at which you will own only one pair, and a price at which you will own no shoes at all. Working down from the top figure of \$2,000, let's say that the retailer starts reducing his price a penny at a time—and let's also assume that at each new price you are unable to predict any further reductions. Your active interest in shoes may not be aroused until he gets his price down to somewhere under \$100. But at some price under \$100, you will say to yourself: "Well, I guess I'd better buy one pair, anyway."

That hypothetical price at which you say, "O.K., I'll take them," may be \$87.72. This means that you turned down those shoes when they were offered to you at \$87.73. There is a very narrow margin between a sale and no sale. This same thing holds for everybody else who may want shoes, and it is just as true for every other thing that is traded in the market place—yachts, houses, bread, and medical services. Turning the example around, it can be clearly seen that every penny reduction in the price of goods and services permits additional people to enjoy those goods and services, and each cent rise discourages somebody from that enjoyment. Prices, of course, also guide production, a higher price being a stimulant and a lower price a sedative to the producer.

All of us are consumers of literally thousands of goods and services. The items now in your home probably number well into the hundreds. And yet each of us

produces only three or four goods or services—or maybe just one. We trade the one that we produce for those thousands of things that make our lives more gratifying. Here's what happens to the consumer in particular, and to trade in general, when the government interferes in the market place:

There was once a time when the Czechoslovakians were the most efficient makers of shoes. They traded their shoes to Americans for automobiles, farm equipment, and other things which we produced more efficiently than they or our competitors. Our own shoe manufacturers were therefore faced with converting their production to something wherein they, too, would be competitively productive. But they feared change. So, cloaking their fear in a worthy cause, they sought government "protection." Aid was forthcoming in the form of a tariff on Czech shoes.

Prices of shoes went up. A few wealthy citizens felt that they could no longer afford as many shoes as they once had, and the less wealthy were obliged to own fewer shoes or deprive themselves of something else they may have wanted. Some, who could afford to wear shoes at Czech prices, now chose to go shoeless rather than pay the new "protected" prices.

Although we are mainly concerned with the consumer, it can also be seen that government interference affects others. For example, some marginal retail shoe stores were now forced out of business, and more prosperous stores found themselves less prosperous through loss of trade. The same holds true for the shoe importers, whole-

salers, jobbers, and others. The Czechs, of course, have had their shoe market curtailed. And the manufacturers of those items which had been used in trade for the Czech shoes were injured in proportion. This is only part of the picture, but it does serve to illustrate the endless harm generated when government enters the market place.

Take silver as another example. How much more silverware would you own today if there were a free market price for silver?

The examples are endless. The government today is in thousands of market places—directly and indirectly. Indirectly, the government can price an article beyond the reach of millions simply through taxation. The tax on luxury items, such as jewelry and furs, is an excellent example. How many husbands have saved to buy their wives a piece of jewelry only to find that, although they could afford the desired item, they couldn't afford the tax thereon?

The extent of such hindrance to trade is truly enormous when one weighs the total cost of government against the fact that the margin for exchange may be no wider than a penny.

The government can never repeal this basic law of demand and supply—nor its consequences. Its interference in the market place can only increase total costs and prices—and thus prevent your owning and enjoying additional goods and services you want and could afford at free market prices.

THE CASE FOR THE PRIVATE SCHOOL

by George S. Schuyler



A CENTURY ago education was almost entirely privately supported and controlled throughout the United States. Indeed, it was not until the early years of the nineteenth century that the first free school (for Negroes, incidentally) was established in New York City. Schools were operated by religious organizations or individual educators. The parents directly paid tuition with occasional benefactions from grateful alumni. The private schools turned out fewer graduates proportionately than now emerge from the government (public) school system, but there was no criticism that these could not properly read, write, spell, and figure, nor that they were ignorant of geography, civics, and the great Christian principles that motivate men. Under this diverse system based on various educational philosophies and with widely varying curricula, the percentage of literate persons was not only large and increasing but regimentation of instruction was impossible, and there was wide experimentation. This diversity by its very nature enriched our culture.

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While the government school system has never entirely displaced the private schools, it has largely superseded them. With the growing desire and demand for mass instruction following the Civil War, municipalities, cities, and states turned increasingly to tax-supported government schools until the latter became swamped by enrollment. There is now a widespread agitation for some form of federal subsidy. Thirty or forty years ago, such a suggestion would have been overwhelmingly rejected as leading inevitably to repugnant regimentation. This fear has been considerably justified by events, and accordingly dissatisfaction with government schools has grown, with widespread criticism of what and how our children are taught.

Some Parents Pay Twice

It is significant that despite the heavy school taxes which all must pay, an increasing number of parents are willing to assume the added burden of private tuition to assure their children the kind of educational discipline they *want* them to have. Many families are prepared to forego expensive gewgaws in order to do this, believing that the scholastic and ethical standards are higher in private than in government schools. They are scarcely in the mood for expensive frills and experiments of dubious value, preferring to have a more direct and final say about what, how, and by whom their children are taught. If they are not intrigued by efforts to instill in their offsprings' minds enthusiasm for the United Nations, world

government, TVA experiments, and "progressive" education, but prefer that they be instructed in the background and meaning of our Constitution, the clear and precise use of our language, and the mastery of mathematics or another language or two, they would like to choose their school.

Many American parents feel rightly that they, and not the State, should be responsible for what their children become; that education should be divorced from political control; and that those who prefer private instruction for their children should not be taxed for the upkeep of facilities which they did not choose nor curricula to which they do not want them exposed. There is a growing feeling that top administration and control of government school systems are too remote and too difficult to influence, that parents are mere robots in a machine that leaves little individual choice. There is some resentment that families should be taxed to "educate" the ineducable until adulthood when there is neither the capacity nor desire among these "children" nor their parents for further instruction.

Tax Relief Needed

The increase in real wages and the general lift in the standard of living in the United States now makes it possible for a much greater expansion of the private school system than was possible a century or half-century ago. There is certainly a much larger proportion of parents who would prefer to remove their children from

government schools if some means could be devised to free them from paying for *both* systems as they now must do. It is difficult to see the justice of compelling those who are paying already for private instruction to be taxed additionally for government schools to which their offspring do not go or to which they would prefer not to send them. Indeed, such a legal provision, which would automatically expand the private school system, would relieve the State of just so much responsibility and expense, and thus reduce taxes.

There are dozens of religious organizations, whose members now find a double educational burden onerous, which would be able to establish their own schools where instruction could be given in their faith without any political controversy. There are wealthy labor unions, now maintaining many facilities for their members, which could as easily afford schools with curricula of their choosing. Private colleges and universities could expect a sustaining revenue from inevitably enlarged student bodies, thus relieving tax-supported institutions of higher learning from the *increasing* need for larger budgets. With continued prosperity one can envision the time when "free" education would be reduced to a minimum. The "right" to an education would thus become a parental obligation and more in accord with a free society.

There is a real and present danger in regimented government education which an expanded private school system would allay by its wide variety of curricula and decentralization of control. Courses of study laid down

by, or increasingly influenced by, a central administration can be disastrous if not in step with changing requirements in an evolving society. Such a ponderous hierarchy does not readily respond to developing individual tastes nor social necessity. This is already reflected in the distressingly small proportion of secondary-school and college graduates who are equipped for leadership in our highly technical age where rapid communications have shrunk the earth.

With the greater flexibility and capacity of a decentralized private school system to be more responsive to the needs and desires of an alert and responsible citizenry, it is doubtful if the present educational impasse would have occurred or be so difficult to resolve. Some private schools might lag or become bogged down in performing their duty of educating students to cope with contemporary problems of citizenship, culture, and industry; but by virtue of their diversity and greater parental influence, it is probable that the percentage would be small.

THE CASE FOR CHURCH SCHOOLS

by August W. Brustat



THE EARLY settlers came to these shores impelled by the strong desire to worship God in their own way. Our institutions were forged by a people who put their religion at the center of life's concerns. Our history was shaped by the religious convictions which prevailed in these states. If a contrary system of beliefs and values had guided our forebears, American history would be quite different; and this would be a different country today. Thus, if we would preserve our institutions and further their development, we cannot neglect the role of religion. We must make room for religion in our system of education.

H. G. Wells would not see eye to eye with me on religion; but he said, "Education is the preparation of the individual for society, but his religious training is the core of that preparation." And Charles W. Eliot, when he was president of Harvard, declared, "Exclude religion from education and you have no foundation upon

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which to build character.” As a matter of fact, when you come right down to it, there is no way to exclude religious instruction from education; there is only the choice of one kind of religion or another. One can plan a curriculum which includes instruction on the God concept, the moral law, the Bible, prayer, the spiritual life. Instruction along these lines would accord with the common understanding of what is meant by religion. But if each of these things is rigidly excluded from the curriculum, the result is to inculcate habits of thought and attitudes which constitute a denial of religion harder to cope with than an outright atheism.

Government Can't Teach Religion

For one reason or another, an outspoken religious program can hardly be carried out in the government school system. With a mixture of children from different backgrounds and from homes adhering to various and varied religious tenets, serious complications might easily develop if religion in any form were brought into the classroom. Nor will such programs as Released Time or any other part-time agency of religious instruction solve the problem. An unbalanced educational program which emphasizes the purely secular five hours a day and five days a week, and fits into this schedule one, or at the most, two hours of religious instruction, gives the child the erroneous impression that religion is a relatively unimportant thing which may be relegated to the background of life.

Unless the serious study of religion is integrated with other studies and given a status at least equal to other parts of the curriculum, youth will be inclined to look at the world as though God were not both in it and beyond it as its Creator and Sustainer. The gap in our educational system is a challenge to our churches. They can meet this challenge by establishing their own schools.

That this is not a new concept, I readily admit. The parochial or church school is not making its debut at this time. In fact, the church schools in America antedate the government school systems by over two hundred years. The first government school was organized in Dorchester, Massachusetts, as recently as 1839, although the Church and its schools had received tax support since early Colonial days. Prior to 1839 all education on the elementary, secondary, collegiate, and postgraduate levels was in the hands of the Church. Through all the previous decades of our history education was the distinctive prerogative of the Church. Our original great American universities were all founded by the Church. Harvard, Yale, Princeton, Columbia, William and Mary, Syracuse, to mention just a few, were founded and administered by religious denominations. As late as 1860 there were 246 colleges and universities in America, of which all but 17 were under the auspices of the Church. In many respects these were the years of America's real greatness, the years when our forefathers laid the solid, godly foundations of our American Republic.

No doubt the fact that for three generations now, the government schools through taxation have been able to

erect palatial buildings and equip them with everything that educators believe essential, has given present-day Americans the false impression that the government school has always existed. But such is not at all the case.

The Beginning of Government Schools

Here the question may be posed: Since the Church once had a virtual monopoly on education, why was it relinquished? How did the government school system gradually gain such prestige and power as almost to eliminate the church schools and other private educational institutions?

We would offer several suggestions. There was, first, the gradual development of secularism in our society. Secularism may be defined as the resolute exclusion of God and religion from daily life. It is the deliberate effort to live life apart from God. Men's minds were increasingly enamored of and devoted to "things." Materialism was fashionable.

Modern inventions and discoveries brought the industrial-mechanical age to America. As a consequence, wealth increased. This was a danger signal; for when wealth increases while God is relegated to the background of life, a moral and spiritual flabbiness ensues. In his "The Deserted Village," Oliver Goldsmith expresses it succinctly in these words:

Ill fares the land, to hastening ills a prey,
Where wealth accumulates, and men decay.

The humble "little red schoolhouses" which the Church could afford to maintain for a circumscribed segment of the population, the children of the parish, seemed hopelessly inadequate when compared to the palaces of learning which taxation could erect. But education is by no means the automatic result of elaborate buildings and equipment.

A Return to Religion

By the turn of the twentieth century, when government schools had all but completely routed private church schools, there was a confident faith that, at long last, man had reached the Golden Age; that all wars, all national problems, and all international tensions were definitely terminated. Had not the Carnegie Foundation for Peace succeeded in outlawing war forever? So man proposes; but he fails to reckon on the fact that God finally disposes. Man forgot that "the mills of God grind slowly, yet they grind exceeding small." World War I served to shatter some illusions, the great world-depression which followed humbled us still more, and World War II convinced many that a world which had outlawed God was in danger of destroying itself.

And so the last two decades have seen a recrudescence of church schools—Protestant, Catholic, and Jewish—in which America's youth is again being taught that God is, and that he holds man morally responsible for his life and actions. However, only a start has been made. Estimates indicate that between 17,000,000 and 20,000,000

American children still receive no formal religious education whatsoever.

This plea for church schools is not intended to suggest that any pressure be brought on parents to seek religious instruction for their children. Parents have the inherent right to choose whatever schools they desire for their offspring. This is a plea that they be allowed to choose freely, according to their own judgment and sense of values, and that those who choose religious instruction be not penalized for their choice.

From a practical viewpoint it is poor stewardship to keep churches closed all week except Sunday for Sunday services and to keep its educational facilities unused all week except for a few random meetings. A weekday church school makes a fuller use of these facilities and has the added value that children daily beat a path to the doors of an institution that counts on God.

Source of Leadership

Private or church schools have produced outstanding leaders in every field of endeavor. Arthur E. Traxler, Executive Director of the Educational Records Bureau, wrote: "Although in recent years not more than one boy in one hundred has been educated in the private schools of the United States, those schools have . . . educated approximately as many leaders as all the public schools combined."

It may be in order to call attention to the fact that when the Constitution was adopted in 1789, it made no

provision for a national system of education. Our Founding Fathers recognized that parents are primarily responsible for the education of their children and alone have the God-given authority to delegate that responsibility to others, whether in the Church or the State. To delegate a right is not to abandon it. The school, whether secular or religious, is only a branch of the home and should be guided by it. Our present-day educational demagogues might well bear this fact in mind.

Parental Responsibility

Today's socialistic, One World-minded philosophers—among them those who are at present agitating for federal aid to education, which would eventually lead to federal control of education—would turn it over to Society or the State. Herbert Spencer noted this trend already in his day and spoke out against it in these words: “Agitators and legislators have united in spreading a theory which . . . ends in the monstrous conclusion that it is for parents to beget children and for the State to take care of them.” Recently a communist source bluntly voiced this pseudo-liberal concept in these words: “Society possesses an original and fundamental right in the education of children. We must accordingly reject without compromise . . . the claim of parents to impart through family education their narrow views to the minds of their offspring.” With this we must violently and vehemently disagree.

Marxists and Fabian Socialists exile God from his

heaven and would rob religious parents of their inalienable right to educate their children as they want them educated. They would consequently make of man a puppet of the ruling regime, a cog in the economic machinery of the commonwealth, a soulless automaton bowing to the dictatorial will.

By all means, our system of instruction should meet the exacting task of scholarship in science, history, literature, and in every other field. But without neglecting these areas it should do more. It is important to know how the universe works, but it is of infinitely greater importance to have an awareness of the God who makes it work. It is important to know the physical sciences, but much more important to know the Deity that put them into operation. It is important to know astronomy, but it is much more important to know him who places the stars in all their glittering glory in the infinite meadowlands of heaven. It is important to wrest the secrets of God from the earth, but much more important to know him who reveals to us the secret of man's pathway to God.

These objectives can best be accomplished through the agency of the church or parochial school where, in addition to the so-called three R's, is also taught the vital fourth R—Religion.

TWO DIRECTIONS AT ONCE

by Leonard E. Read



“WE ARE going in two directions at once,” observed Henry Hazlitt. His subsequent explanation of this statement squared precisely with my own observations. So far as the millions are concerned, socialism is more agreeably accepted today than yesterday, a year ago, a decade ago, or at any other time since the signing of the Declaration of Independence. On the other hand, there is a small but growing minority composed of thousands, not millions, who are becoming more skilled, articulate, and convinced devotees of socialism’s opposite—the free market, private property, limited government philosophy.

Detailed confirmation of this phenomenon is not the object of this essay. Suffice it to say that Hazlitt is, in my view, as keen as any observer of ideological trends. And, too, there are the private studies of the Opinion Research Corporation which expertly measure the way socialistic versus free market thinking is going with the public—and it’s toward, not away from, socialism. Further, those of us on the staff of the Foundation for Economic Education may draw upon our own ten years

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of specializing in this area, our considerable correspondence, and our discussions with groups from varied walks of life. It is clear to us that many millions are going in one direction while tens of thousands are going in the opposite direction.

The only object of this essay is to suggest to persons who perceive the meaning of liberty that the mass socialistic movement does not warrant despair but rather is the occasion for hope. In short, the movement toward socialism is the condition which is motivating our search for understanding.

A Freeing of Human Energy

But, first, a few broad strokes for background: The Constitution of the United States confirmed and aimed to perpetuate our revolutionary theory of government—a government in the role of servant, a government of strictly limited power. No citizen turned to it for succor because it had nothing to dispense; nor did it have the power to take from some and give to others. In the absence of any political nursemaid there developed a remarkable self-reliance among the people. Further, the government was limited to defending life and the honest fruits of men's labors; it was not empowered to inhibit the creative actions of citizens. As a consequence, there was a freeing of human energy. In short, here, at least from a sociological or political standpoint, was liberty, the like of which never existed elsewhere. Self-reliant men and women, freed from predators and freed from

restraints of their creative actions, brought into existence what is loosely referred to as "the American heritage."

But Americans began to take the blessings of liberty for granted. Its great bounty came to be regarded as an act of nature and progress as inevitable as the sun's rising on the morrow. That difficult human virtues and political wisdom lay at the root of this new-world miracle was forgotten or, more likely, never learned by new generations. Americans lost the understanding, the rationale, on which their magnificent edifice was erected. With the limitations on government relaxed, with the foundations of their own revolutionary system weakened, disaster in the form of a return to the old-world pattern—sovereign state and servant people—was only a matter of time.

Societal arrangements, be they good or bad, have a tempo, a rapidity of change, far slower than that of a human being. Thus, most citizens, enjoying the forward thrust their limited governmental structures *did not inhibit*, came to believe that the ever-increasing governmental intervention they subsequently voted was responsible for their prosperity and well-being. Today, they fail to see that the genuineness in their situation is but the result of an earlier momentum precisely as they fail to recognize the bogus aspects of present "prosperity." Self-reliance and freed energies have made for such a health that they can, for a time at least, take government pap without apparent immediate injury. It is unfortunate that they believe the pap the cause of their vitality.

The above broad conclusions are cited only as a preface to this brief thesis. The crack in American constitutional

theory certainly was not observed when it first occurred. For my own part, I had no realization as to what had happened, what was happening, until 1932. Only a few persons appeared to have an awareness of what was taking place by the late twenties. I recall my amazement, less than ten years ago, in reading a little book published in 1923 in which the author, John W. Burgess, saw clearly what had already happened—at such an early date! Yet, it is unlikely that even Dr. Burgess saw very much prior to 1923, or he would have written his book earlier. In his *Recent Changes in American Constitutional Theory*, he traced the beginning of the breakdown to 1898. Events that began at that time led first to one thing and then another, culminating in the adoption of the Sixteenth Amendment in 1913.¹ With its adoption we officially disclaimed the theoretical correctness of limited government, private property, and the free market.

Arousing the Opposition

But find the people who saw the meaning of these cracks in our structure at the time they happened! They were rare indeed. The adage that “things have to get worse before they can get better” contains an element of truth. Figuratively, only a lonely soul or two can be found who cried out against the progressive income tax

¹ Dr. John W. Burgess was the founder and for many years the head of the Department of Political Science and Constitutional Law, Columbia University. A copy of the book may be obtained from the Foundation for Economic Education, Inc. Irvington-on-Hudson, N. Y. 115 pp. \$1.00 paper, \$2.00 cloth.

in 1913 when the sin was only against good theory. This wholly un-American thing had to grow up, have a pocket-book sting in its bite, gain millions of adherents, before any significant opposition could form. Today, with this theoretical devil the monster it was born to be, there are perhaps a million citizens who would vote for repeal if given a chance. But it has taken the monster stage to generate the significant opposition! The mere infraction of good theory did nothing more than to evoke the fears of good theoreticians. Popularly speaking, the mere infraction of good theory had no wake-up quality to it.

Having officially accepted a thoroughly communistic doctrine in the adoption of the Sixteenth Amendment—"from each according to his ability, to each according to his need"—it was perfectly natural that socialism in all its forms would follow in its wake. One could hardly expect a people to embrace this fundamental precept in the *Communist Manifesto* and at the same time have any strong misgivings about other socialistic theory and practice.

The Role of Error

The record speaks for itself; we are going down the socialistic route! Our national policy can be said to be consistent with the Sixteenth Amendment. But, and this is the important point, this very direction is generating an opposite ideological movement. Further, the socialistic direction appears to be a necessary state of affairs to hatch its opposition. Let me attempt an explanation of what at first glance appears to be an anomaly.

Now, since error (socialism or whatever) opposes truth, one might say error has no function. Yet, in a sense, hasn't error a role to play? Isn't it error we use as the stepping stone to truth? Man emerges, evolves, goes in the direction of truth, by the *overcoming* process. Overcoming presupposes something to be overcome. Even the taking of a simple step presupposes something stepped on. Ascendancy presupposes a lower position. A movement Godward presupposes a direction away from ungodliness.

Conflict Between Opposites

Consider these opposites: evil and virtue, error and truth. Do we not witness mighty opposites similarly at work on every hand? For instance, would we have any notion of "up" if there were not a gravitational force pulling us down? Would "light" be in our vocabulary if there were no darkness? Would we have the concept of justice if there were no injustice? Isn't hate the evil thing that permits us to see love as a virtue? Where does the passion for security derive except from the prevalence of insecurity? And isn't all intelligence a degree of understanding and wisdom relative to ignorance?

Inquiring further into nature's mysteries, and going as far as science has probed into the ultimate constitution of things, we learn that "every substance is a system of molecules in motion and every molecule is a system of oscillating atoms and every atom is a system of *positive*

and *negative* electricity.”² Or, to quote the late physicist, Robert A. Millikan, “All elastic forces are due to the *attractions* and *repulsions* of electrons.”³ Opposites at the very root of things!

It would appear that the mainspring of all creation, of all variation, of all progress, comes by reason of this tension of the opposites, sometimes called the law of polarity. If there were no tension—something to overcome—there would be no “becoming,” no movement toward higher orders. Obstacles, I contend, have their role. They—error and evil—are things to step on, to rise above. Without them we are incapable of perceiving any *above*.

There is abundant evidence that this law of polarity or tension of the opposites has been long and well understood. A few selections:

Then welcome each rebuff
That turns earth's smoothness rough,
Each sting that bids nor sit nor stand but go!
Be our joy three-parts pain!
Strive, and hold cheap the strain;
Learn, nor account the pang; dare, never grudge the throel
ROBERT BROWNING, *Rabbi Ben Ezra*

Adversity is the first path to truth.

BYRON, *Don Juan*

Bad times have a scientific value. These are occasions a good learner would not miss.

EMERSON, *Conduct of Life: Considerations by the Way*

² Dixon, W. MacNeile. *The Human Situation*. New York: St. Martin's Press, Inc., n.d. p. 195.

³ Eulenburg-Wiener, Renee. *Fearfully and Wonderfully Made*. New York: The Macmillan Company, 1938. p. 47.

Are Afflictions aught But blessings in disguise?

DAVID MALLET, *Amyntor and Theodora*

Let us be patient! These severe afflictions
Not from the ground arise
But oftentimes celestial benedictions
Assume this dark disguise.

LONGFELLOW, *Resignation*

O benefit of ill! now I find true
That better is by evil still made better.

SHAKESPEARE, *Sonnets*. No. CXIX.

Truth, crushed to earth, shall rise again;
Th' eternal years of God are hers;
But Error, wounded, writhes in pain
And dies among his worshippers.

BRYANT, *The Battle-Field*

The road to valor is builded by adversity.

OVID, *Tristia*

Error is the discipline through which we advance.

WILLIAM ELLERY CHANNING, *The Present Age*

Dark Error's other hidden side is truth.

VICTOR HUGO, *La Legende des Siecles*

Shall Error in the round of time
Still father Truth?

TENNYSON, *Love and Duty*

The foregoing are ideas for arguing that growing socialism performs a negative function.

A few additional thoughts as to what the socialistic

system is: It is the opposite of the free market or willing exchange economy. It is forced, unwilling, coerced exchange. It rests on the suppression of creative human energy. It is the substitution of authoritarianism for market phenomena.

The Command System

To commandeer, that's it! Webster defines "commandeer" clearly: "to take arbitrary possession of; to commandeer men or goods." Illustrations: The honest fruits of one's labor are commandeered to make up the deficits of government intervention into the light and power field, as in TVA; in the construction industry, as in government housing; in foreign trade, as in the Marshall Plan or Point Four. One's earnings or capital would probably be employed otherwise if free choice rather than commandeering prevailed. Or, look at another twist of socialism as applied to farming through acreage allotment plans. Either a part of the farmer's acreage is commandeered into nonproduction, which is by way of denying the ownership of said acreage, or some of his capital is commandeered in the form of a fine, which is by way of denying ownership of said capital. The very essence of ownership is control. We could, properly, call socialism "the command system." In any event it belongs to the same kaboodle of nostrums as communism, Fabianism, nazism, fascism, the Welfare State, and so on.

Considering the nature of our faults—our taking-for-granted attitudes, our lethargy, our unawareness—it is

logical that we should lose our freedom. But freedom is a prerequisite to man's creative expression. Eventually man must be free; it is human destiny. And man will be free. However, his freedom is conditioned on his understanding of it and its purpose.

The growing socialism is creating its own anti-agents. Abhorrence of it is stimulating tens of thousands of Americans, of all ages, to study, reflection, contemplation —about freedom. They are discerning freedom's deeper values. They are regaining their faith in free men. They are coming to understand and, in understanding, are learning to explain. They are seeing that wealth, a by-product of freedom, is not for a recess in life's activities but, instead, is for a release that they may work harder than ever at those creative ventures peculiar to their own persons. They are seeing that freedom is the gate to new levels of the intellect and of the spirit.

Socialism is freedom's opposite, the error, the thing to be stepped on and overcome; it is the tension that can spring man into a more wholesome concept of freedom. And this is the role of socialistic error in man's "becoming."

He that wrestles with us strengthens our nerves
and sharpens our skill. Our antagonist is our helper.

EDMUND BURKE,
Reflections on the Revolution in France

PONZI WAS A PIKER

by Clarence E. Manion



LATE-COMERS to this troubled world will not remember Charles Ponzi, who stole (among other things) a great portion of the nation's headlines back in 1920.

Ponzi claimed he could double anybody's money in 90 days. Furthermore, he apparently did so. Thousands of his customers received this rich pay-off and told a hundred thousand others about their good fortune. Millions upon millions of dollars poured in upon Ponzi from eager investors during the first six months of 1920. The fabulous returns came back as promised, often ahead of schedule.

Then in August of 1920, the federal authorities moved in on this financial wizard. They closed his Boston bank and thus cut off his cash. The next day Ponzi was arrested for using the mails to defraud. He stoutly maintained that he had paid everybody; that if left alone he would continue to do so.

But the federal government wouldn't leave Ponzi alone. It cut off his intake and outgo. Ponzi was through.

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Three months later he pleaded guilty. After serving eleven years of his long sentence, he was deported to his native Italy.

Ironically, Ponzi was hardly out of the country before the same federal government that had imprisoned him for fraud proceeded to adopt the Ponzi "get rich easy" scheme as its very own. Ponzi had represented his financial jackpot as a "securities exchange." The federal government proceeded to call it "Social Security."

The federal government was able to add some important features to this bizarre shell-game that were unavailable to Ponzi. First of all, the federal government cannot be prosecuted for fraud. But more important than that is the exclusive governmental feature of compulsory participation.

Ponzi had to induce his customers to come in voluntarily; whereas, the government now *forces* 65 million workers to "invest" six billion dollars a year in its glorified version of the Ponzi scheme.

Ponzi paid back at the annual rate of sixteen to one. The federal government does even better. Some of its very lucky participants are now drawing back at the rate of \$100 for every dollar invested.

First Come, First Served

How is this miracle worked? Here is what the Court said in the Ponzi bankruptcy cases: "Ponzi's scheme was the old fraud of paying the early comers out of the contributions of later comers." (In re Ponzi 280 Fed. Rep.

193.) "That Mr. Ponzi took advantage of a weakness and willingness of the community to be victimized is apparent. . . . So long as the current of money continued to flow in, he could pay the first investors with receipts from the latter. It was another instance of robbing Peter to pay Paul, of which the past affords examples." (In re Ponzi 268 Fed. 997.)

The Court did not know that the future government Social Security scheme was to provide the most striking example of all. The Chief Actuary of the Social Security system now says of it: "The system is not fully funded in the sense that all benefit rights earned to date could be met by the existing assets if the program were to be liquidated, but the system is more or less self-supporting *on the assumption that it continues indefinitely into the future with the compulsory coverage that exists by legislation.*"

In other words, the official assumption is that there will always be more Peters to be robbed than there are Pauls presently to be paid. In fact, the susceptible Peters will be so numerous and will be robbed at such high rates of return that the Pauls can all be paid, with billions left over each year for the Israelis, the Egyptians, the British, and the French. This is now the official theory of the same government that put Charles Ponzi in jail for fraud.

THE LONGER WE LIVE

by Allen W. Rucker



THE DIFFICULTY of satisfying immediate needs during our working lives leaves many of us with little time to think of the economic challenge of retirement. But the challenge stands.

Just now the senior citizens of the United States number more than 12.5 million; population experts tell us that by 1975 our number will be 21 million. If that number of us oldsters then expect an average yearly income equivalent to the present per capita figure—about \$2,200—our total claim would exceed \$46 billion, an amount greater than current annual expenditures for national defense.

But our senior citizens are not, and will never be, the sole claimants to our production of food, clothing, housing, and other economic goods. Today, there are about 44 million dependent children in the United States. Should present high birth rates continue to 1975, we then would have approximately 75 million youngsters under 15 years of age.

So, there stands the challenge. Simultaneously rising

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longevity and birth rates mean that for some time to come the proportion of dependents in our population will be rising. Our working population, especially those between the most productive ages of 20 and 50, will not begin to grow in proportion to total population for at least another decade, if then.

We must remember that all the people who will go to work in the next 20 years have already been born. Also, there is constant pressure to reduce working hours per person. In other words, we face at least 10 and perhaps 20 or more years in which productive man-hours, relative to total population, will be definitely below past experience.

That forces our attention toward increasing the other great factor of production—the quality and quantity of tools or capital—at a faster rate than the 3 per cent annual average of the past 40 years. The more far-sighted industrial leaders see the problem. But far too few industrialists and far too few other citizens are yet aware of the tremendous need for accelerated capital investment to meet the economic challenge of a population loaded with youngsters and oldsters.

An Educational Problem

Here is a field of interest and personal endeavor in which our citizens, especially our senior citizens, may well enter—even if only to show, demonstrate, and educate young and old alike to the imperative need for ever-greater capital accumulation in industry. The amount of,

and the ease with which we can obtain the food, the housing, the clothing, and the amenities of life for our later years will depend upon a sharp acceleration of the growth of tools of production.

I have high confidence that we shall attain the production increases needed, especially if we seniors will use some of our time in cultivating a local and national political climate that will encourage individual saving and stimulate new investment and risk-taking.

But, granting that we can accelerate the increase in annual output, how shall it be distributed among our senior citizens? In an economy in which the necessities of living come to us in exchange for money, how can we assure adequate incomes to all senior citizens?

Now this is a problem which historically most of us have tackled individually. During our working years we are accustomed to earning income from personal effort, thus assuring ourselves of a continuing supply of goods and services that make up our scale of living. Many of us, if not most, have also foreseen the day when our personal earnings would diminish; we have therefore set aside or saved for our retirement. Our savings consist of life insurance, stocks and bonds, income-producing real estate, contributions to pension funds, and so on. Those voluntary accumulations of individual savings have largely found their way into capital for productive tools and facilities. In brief, the thrifty people of our nation have voluntarily provided the means of expanding our national output—thereby providing themselves an income for their old age.

Savings Must Come First

As I see it, the problem of distributing tomorrow's production so as to provide for us senior citizens is chiefly a problem of how much how many of us save today. We need vastly to enlarge the number of voluntary savers among those who are working now, thus affording them a means of future self-support. Thereby, we tend to assure the capital growth that will provide the new and better tools of production we need tomorrow, and also to assure a widely diffused flow of income to those who will retire and semi-retire in the coming years. This is the time-honored voluntary system of the American republic.

I think that it cannot be replaced by a compulsory distribution of income without loss of individual dignity and independence, and perhaps the ultimate destruction of personal liberty. Whatever the merits of the federal social security program, its basic moral defect is that it is compulsory and not voluntary. Its basic economic defect is that the payroll tax which finances it in part does not represent savings and capital accumulation. It contributes nothing to expanding the tools and equipment of industry and agriculture so imperatively needed to expand output for the future. Its basic political defect is yet to be exposed; it consists in taxing the working population to support those who no longer can work—and when that burden reaches the \$50 billion a year total, or more, we shall see a tragic political cleavage, youth arrayed against age, son against father, and daughter

against mother. Those three defects—moral, economic, and political—may well undermine this republic which we here now think we have bequeathed to our children and our grandchildren.

If we are to pass on to our descendants that heritage which we received from our forefathers, we senior citizens must take a firm stand in behalf of our traditional liberal ideas. These ideas of saving and thrift, independence and personal dignity are not exactly new, but they are nonetheless genuinely liberal. Their antithesis, the concept of state compulsion, is neither new nor liberal. Liberality does not consist of making free with other people's money and freedom. Our senior citizens had best not retire from the eternal task of preserving the American heritage.

“Fixed Income” of Declining Value

I want to pinpoint this opportunity and challenge. Many of us already know at firsthand what it means to live on a “fixed income.” So long as the inflationary expansion of our currency continues, it means that those living on fixed incomes are inevitably condemned to a steadily declining scale of living. Let me repeat that—we are condemned to live on less and less each succeeding year. And also let me give you the reason in nontechnical language.

The reason why we have inflation is that the supply of money is subject to political rather than economic regulations. Both major political parties are openly com-

mitted to the theory of a "steadily expanding money supply." This policy, otherwise known as deficit spending, enables the federal government to claim goods produced and saved by individuals. In short, inflation is a method of taxing away the value of private savings.

The practice of this monetary "miracle" in the United States means that the increasing productivity of the American system is not for those on fixed incomes, not for the elderly who earn little or no income from wages and salaries. It means an end to the natural tendency of higher productivity to lower costs and prices *relative to incomes* and thereby increase the purchasing power of money. In this way and only in this way can people on fixed incomes buy more each year; only in this way can our huge market among the senior citizens become an expanding market for industrial output. Only in this way could our senior citizens enjoy, along with other Americans, a rising scale of living. The monetary policy of the federal government, of both major political parties, denies them that opportunity.

The aged and the elderly are not only denied an opportunity open to Americans of working age; they are condemned by this "free-wheeling" monetary policy to suffer a continuous reduction in the purchasing power of their dollars.

To any thoughtful student of monetary history, ancient and modern alike, the deadliest enemy of the man and woman over 65 years of age is paper money under political control. Presently, over 12 million of our citizens are over 65; by 1975, some 21 million will be in that age

group. Most of today's senior citizens and those of tomorrow must live off a "fixed income." The deficit-backed dollar condemns them to accept a scale of living that shrinks yearly, compounded, as long as inflation continues.

A Case History

Let me show you from personal experience: My father, on retirement in 1933, had lifetime savings which he thought ample for a comfortable living throughout his remaining life. But he was wrong. In that year, our government abandoned the gold standard and outlawed private possession of monetary gold. In ten years, each \$1000 of Dad's retirement income had shrunk to a purchasing power of \$747. When he died in 1951, each \$1000 of his fixed income was worth less than \$500 in terms of living costs. This was his reward for a lifetime of hard work, thrift, and prudence. Today, over 12 million others like him are receiving the same sort of "reward."

Mark this: Our senior citizens will number 21 million in 1975. Sometime between now and then, they will represent the largest block of votes in the nation which can be mustered behind a single, crucial issue—how to avoid or to halt pauperization brought on by a flood of tax receipts disguised as paper money.

In the attempt to avoid or to halt that process, the votes of this politically superpowerful group of elderly citizens will be mustered by some future leader. They will force either a return to a dollar which cannot be

“counterfeited” by the government, or, alternatively, they will force such an outpouring of more *fiat* money as a means of raising old age benefits, that well may topple the fiscal pillars of this republic. I do not pretend to know which way we shall vote; I do know that 21 million of us will not submit in perpetuity to a sentence of pauperization from the depreciation in the purchasing power of our fixed incomes.

But either we shall have to stop further inflation of the price level, or we shall have to force an inflation in our fixed incomes, equal to price inflation.

Mark this well: it will be one or the other. And do not let any rationalization make you think otherwise. If you are now 45 or 50 years old, you are likely to be among the 21 million of us voting to make one of these two forecasts come true.

Here, I think, may be the greatest challenge of them all to our senior citizens. The problem of expanding output to provide for a rising population of both youth and age is a great one; the problem of so encouraging saving as to diffuse income among the retired citizens of the future is an even greater one. But to me, the task of halting the inflation that well may beggar them in the last years of life is the greatest challenge of them all.

Surely our mature judgment, our experience, and our courage offer the hope that we can meet this triple challenge. By thus defending our savings and ourselves we build, at the same time, an impregnable foundation for the lives of those whom we proudly hail—our children and our grandchildren.

TWO POINTS OF VIEW

by *Edmund A. Opitz*



The author, for nine years a parish minister, formerly directed the conference program for Spiritual Mobilization, and in that capacity held a number of two-day seminars for clergymen and laymen designed to promote a better understanding of the libertarian philosophy. Similar questions recurred at many of these conferences, and experience suggested ways of clearing up certain persistent misunderstandings. The following dialogue is a reconstruction of many conversations. Mr. Opitz is now a member of the staff of the Foundation for Economic Education.

A: I am in favor of private enterprise—wherever it can do the job—and I am as much opposed as you are to big government. But I am more opposed to poor housing, poor medical care, unemployment, and other social evils. These evils are so pressing that I am willing to risk the dangers of big government to overcome them.

B: I am in full sympathy with your desire to rid society of the evils you mention, so let's talk then about your suggested method: relying on the instrumentality of government as a means of getting better housing, better medical care, and full employment.

A: Please remember that I do not favor strengthening the power of government for its own sake. I would much prefer that private enterprise provide the necessary housing, medical care, and so on. But let's face the fact

that private enterprise is not adequately providing these services for large numbers of people.

For example, I'm thinking of what was once a bad slum in Chicago. Private enterprise had every opportunity to clear that slum and erect decent dwellings on the site. But it did not do so. That would have been my first choice as a remedy for that evil condition. My second choice would have been for the local government to take care of that situation, and my third choice would have been the state government. But none of these agencies did anything, so the federal government stepped in, and now we have large apartment houses where once there were slums.

Private Enterprise Defined

B: You said that private enterprise failed to do the job. What do you mean by private enterprise?

A: I mean private investors who would supply the funds and private builders who would do the building, both groups having an eye for profits. The prospect of profits looked slim, so both groups selfishly failed to act.

B: In other words, when you speak of private enterprise, you have in mind a contractor in business for himself who would be hired by other private individuals for this slum clearance job. And the spark that sets in motion this chain of events is the decision of individuals that the best way to employ their time, skills, and money is to clear a slum and build an apartment house.

A: That is what might have happened, but it didn't happen, so the government stepped in.

B: Take these investors who would prefer to use their money in some other way than you might prescribe. Who are they?

A: Banks or insurance companies, most likely.

B: Do you have a bank account and carry insurance?

A: Yes, I have both.

B: Do you expect interest on your money, or dividends from your insurance policies?

A: Yes, of course.

B: How is it possible for a bank to pay you interest, or an insurance company to pay you dividends?

A: That's easy. My money is pooled with the money of others and is then loaned to people who will pay for the use of it.

B: Suppose your bank loaned your money to people who used it unwisely and could not repay it.

A: I'd raise a big howl, naturally.

B: Of course you would. But the only way your banker can show a legitimate return on your money is to loan it to people who can make productive use of it. This means to use it profitably in satisfying the most urgent needs of the consuming public.

So when you say that private enterprise did not replace

slum dwellings with an apartment house, you are saying that the people hired by you to manage your money did not think it profitable to invest it in a housing project.

A: That sounds plausible.

B: Let me put the matter another way. There is no such entity as “private enterprise”; it is not a small, clearly identifiable group of people. What we call “private enterprise” is simply the result of uncoerced decisions on the part of millions of people as to how they might best use their energies, skills, time, and money. So when you say that private enterprise had an opportunity to clear a slum and did not do it, you are merely saying that individuals of their own volition had decided to use their energies in other directions. Now if you feel that people are mistaken and foolish in their decisions, you have a right to try to persuade them to do differently.

A: That process is too slow. We’d never get the slum cleared if we waited until people had been educated to recognize their responsibilities.

B: When you act on the idea that you know what is best for other people, that you know what are wise decisions for them to make, you are building up a dangerous frame of mind in yourself.

A: I don’t see that it is dangerous. What do you mean?

B: It is dangerous in three respects. In the first place, the lust for power over the lives of others is spiritually disastrous. Trying to run other people’s lives is harmful

to you. Secondly, resentment piles up in the people you are trying to control; they don't like being pushed around and would rather make mistakes, provided they are their own mistakes, than achieve successes, if they are your successes. They feel that a precious part of them is being violated. Thirdly, when the energy of people is at your disposal, they have been made into your creatures. According to the religion you profess, men are creatures of God. If this is so, then your effort to make them your creatures means that you are trying to play God to them.

A: You have me wrong! *I* don't want to run anybody's life for him, and I think I agree with everything you say about the evils of trying to do so. All I have in mind is that the needs of the community shall be paramount over the selfish desires of individuals.

Community vs. Personal Needs

B: Does the community have needs which are separate and different from the needs and desires of the people who compose it?

A: No, what I meant to say was that people should not be allowed to build such things as movie theaters, ball parks, saloons, or beauty parlors until the demand for good housing is met.

B: We are now back on the point you raised earlier: People should not be allowed to spend their money or invest their energy as they might choose, but rather, as you want them to do.

A: Not as *I* want, but as society wants. Don't you understand?

B: I understand this much, that some people are going to make other people do something against their wills, and that you approve and advocate such a system.

A: It is not that I approve of this necessity, or advocate it. I merely face the harsh fact that this is the way people are; they won't take care of themselves, they waste their resources on cheap entertainment, and some of them drink and gamble.

Now I personally do not want to run the lives of other people; goodness knows I have enough trouble with my own. All I am saying is that the majority wants good housing and has the instrument of government through which it can get good housing. You say that some people will make other people do things against their wills. But if a majority wants to achieve a social end by means of political action, isn't that all right? This is still a democracy where a majority has some rights, isn't it?

B: Permit me to retrace one or two of our steps. I am only interested in providing an accurate translation of the words you use, so that we may better understand what it is we are deciding. Thus, when you said that private enterprise refused to do what you thought it ought to do, we agreed that this meant that people would not voluntarily consent to do what you wanted them to do. Then, when you suggest as a remedy for this situation that the government step in, the translation reads, "You people had your opportunity to do this thing voluntarily,

and you didn't take it—so we're going to *make* you do it whether you want to or not!" You seek to take the curse off this by making it appear to be the will of the majority and by using government to implement your will. I should like to put a few questions to you on this. First, let me ask how you feel about preventing a man from following the dictates of his own will and conscience and forcing him to do your bidding—assuming that the man is not injuring anyone.

A: It would be wrong for me to do that. I would be violating the moral law.

B: I am glad to hear you put it in terms of moral law. If you declare that it is wrong for you to attempt to dictate another's life for him, do you believe that the moral law abdicates when you are joined by a majority to run someone's life?

A: I don't believe that the moral law abdicates, but neither do I think it right that a majority should be thwarted in its will.

B: It is not likely that a majority will be prevented from having its way, because it has the power to achieve it by force. But, can a majority repeal the moral law?

A: Why no, of course not.

B: Then you contradict your earlier statement that the majority should not be thwarted in its will. A majority has no right to do wrong.

Right and wrong, if they have any real meaning at all,

have a meaning independent of numbers. If it is wrong for you to control another's life, it is equally wrong for a majority to do it. Under our form of government, and also in our culture patterns, it is unconstitutional as well as immoral for majorities to tamper with your religion or deprive you of your right of assembly, petition, and so on.

A: I agree with you about majorities. But how about government? Isn't government the instrument of all the people for the attainment of certain social goals?

The Moral Law Binds All

B: To be consistent, I must argue that anything which is wrong for us to do is equally wrong for governments to do. The same moral law binds both. Government is composed of men, and it is a social agency amenable to our wills; therefore its actions are judged by the same criteria that you recognize as binding upon yourself. This means that when government forces some people to clear a slum and build an apartment, though they would rather spend their energies building a ball park or a factory or a church, it is violating the same moral law that you would violate if you personally secured the same result with gun in hand.

A: I get your point, but let me ask you a question. Are there no social goals which people can attain through the instrumentality of their government without violating the moral law?

B: Whenever government grants a special privilege or grants a subsidy, there is a seeming benefit conferred upon some people—but this seeming benefit is always at the expense of someone else. Everybody pays into the tax pool, but only the political favorites take out of the pool more than they put in. As another example, some industries have obtained tariffs which spared them the competition of foreign manufacturers. These industries were thus able to force the citizens of this country to pay more for the things they buy, or do without them. To put the matter as a generalization: Government has the power to confer economic privilege; and because government has no economic goods of its own, the privilege conferred upon some must be at the expense of others.

But a government which does this cannot be a government of equal justice for all—a concept which is part of the American dream.

A: What you are saying, as I understand it, is that the moment government does more than protect individual rights, it invades them.

B: Correct. There is no neat set of answers to social questions, nor to any other questions. Human beings are not in possession of ultimate truth. The collectivists, however, seem to feel that they have captured truth for their side. That accounts for their willingness to back their convictions with force. True, they don't force others to recite their creed, but the only way that government can carry out the program they advocate is by using force on people.

We create troubles when we conceal reality from ourselves by the words we use. There are not many evil men who enjoy using violence on people, but there are millions who do not know that they are actually advocating violence when they recommend a certain course of action.

A: Perhaps I am among the guilty ones. I just hated to see people living under those dreadful slum conditions, and I wanted those conditions corrected.

B: Every man of good will is in agreement with your aim of clearing up bad housing conditions. But you ought to apply two tests to your remedy. We have been examining the first test: Does the application of the remedy violate the moral law? Any remedy that seeks to help some people by actually hurting other people, is a violation of the moral law. The second test is a practical one: Is the remedy the most efficient one that can be found? To seek a remedy by political action is to employ violence as a stimulant to action, rather than some other motivation, such as the desire to help one's fellows, or the desire to profit.

A CLERGYMAN'S SECURITY

by *Francis E. Mahaffy*



The Reverend Mr. Mahaffy, who has served since 1945 as a missionary of the Orthodox Presbyterian Church in Eritrea, East Africa, explains that his views about social security have grown out of a long correspondence with a group of ministers:

“Most of us have been trained in theology but have given very little thought to the relationship of God’s law to the Welfare State. It is my conviction that only as ministers realize that these problems are basically questions of Christian morals, will they give enthusiastic leadership to help guard our God-given freedoms. I have written this article in the form of an Open Letter to Fellow Clergymen in the hope that it will contribute to that end.”

BY NEXT April those of us who have not already entered the federal social security scheme will have to decide whether or not to enter it. The decision once made is irrevocable. Most of our parishioners have no choice. They are forced by law to enter the plan. Ministers who have not yet entered the plan have until April to decide whether or not they will participate. Clergymen near retirement age will probably gain financially by entering. Others with large families feel that social security provides good insurance for their wives and children—an insurance that they may not be able to afford otherwise on their small salaries.

It seems evident that from the standpoint of sound

economics, appearances of getting something for nothing to the contrary notwithstanding, social security is bound to be a poor investment. Other forms of investment bring far better returns from the simple fact that the money is being used creatively and realizes a profit. The taxes paid to the government as social security taxes, on the other hand, are currently spent and not invested profitably. Economists, however, can demonstrate the financial unsoundness of social security as an investment far better than I can.¹

A Consistency with the Laws of God

To clergymen whose field is theology and not economics, the question arises as to whether there are any other criteria by which we can decide whether or not to enter this plan. Is the matter in any way related to morals? Is it related in any way to the laws of God? If the issues involved are moral ones, then we, as clergymen, ought to be able not only to decide for ourselves but also to give leadership to others who look to us for guidance in the realm of morals.

In the brief compass of this letter I can touch upon only a few of the ways in which the social security scheme violates the moral law of God. The moral law of God is succinctly summarized in the Ten Commandments. The Christian belief is that disobedience to these commands of God constitutes sin.

¹ See Paul L. Poirot's booklet, *Social Security*. Irvington-on-Hudson, N. Y.: Foundation for Economic Education.

"Thou Shalt Not Kill"

One of the Commandments in God's moral law states, "Thou shalt not kill." Are we not agreed that this command forbids not only overt acts of murder but all coercion and violence except for the restraint of evil? I once had the unhappy experience of being robbed by a group of armed bandits. When argument failed and the gun of one of the bandits was waved at my head amidst threats to myself and family, I met their demands and parted with the little money I had on hand. These particular bandits were probably men of less material possessions than myself and their act of violence made for a greater equality in our status. But even so, did that justify their act? All of us would agree that it did not. But is there any difference from the point of view of morality, in the government, under the cloak of legislation, forcing its citizens to pay social security taxes in order to help provide for the aged? Is this act of coercion on the part of the government any less a violation of the command of God than the above act of the bandits?

The government through its social security legislation uses force as a means to its ends. Can coercion on the part of the government except for the purpose of restraining evil ever be countenanced by the Christian citizen as in accord with God's law? Compulsory taxation by the government for any other reason than to obtain funds for the proper function of government cannot be sanctioned as in accord with the moral law.

The government also through this legislation uses com-

pulsion to retire people at the age of sixty-five. It would be hard for the most enthusiastic advocate of the Welfare State to justify such compulsion as in any way in accord with the moral law of God. The prohibitions of the moral law as it relates to man's relationship with man gives the individual freedom except to harm or do evil to others. Coercion to retire at a certain age and compulsion to support so-called "charity" schemes of government are quite opposed to the command that forbids the use of force except to restrain evil.

"Thou Shalt Not Steal"

Another one of God's commands in the moral law reads, "Thou shalt not steal." Stealing is in violation of the moral law whether done by a bandit with a gun or by the State under the cloak of legislation. Stealing is no less theft if the money is used for benevolent purposes than if it is used for evil purposes. The social security tax is a way of taking money from one taxpayer in order to give it to another person or group. It is the robbing of Peter to pay Paul.

Our Lord gives us a fuller application of this Commandment in his parable of the talents (Matthew 25:14-30). Here Jesus teaches thrift and a wise use of money. It is a sin for one to waste, destroy, or not to make good use of his material possessions. The law of God, however, is just as mandatory for the State as for the individual. The taxes collected for social security are being currently spent by the government rather than invested

to bring a profitable return. This is certainly poor stewardship. The State has no more right to be careless with public funds than the individual does with his own money.

The government under the social security legislation assumes financial obligations for those retired over sixty-five years of age. The funds collected for this purpose fall far short of the amount the government is obligated to pay. The government, however, can and does meet its obligations by its monetary policies that inflate the currency. So while actually paying the number of dollars promised, the real value of the dollars is so reduced that the recipient receives far less than he had reason to expect from the promise of the government. Can this in any way be justified on the basis of God's command, "Thou shalt not steal"?

"Honor Thy Parents"

Another one of God's commands in the moral law reads, "Honor thy father and thy mother that thy days may be long upon the land which the Lord thy God giveth thee." One can hardly properly fulfill this command by turning over the care of his aged parents to the State. There is none of the warmth of filial love and devotion in government "charity." Charity according to God's Word is always voluntary. Children are to care for their parents as an act of love and gratitude to them. The New Testament teaches that the Church through its deacons is to care for those otherwise neglected. No-

where in the Bible is charity looked upon as a work of the State. To turn this work over to the State is to deny to individuals and the Church their God-given responsibility and privilege to care for the needy.

A notion prevalent today even among clergymen is that since individuals are not as charitable as they should be, the State must by taxation and schemes of "charity" make up for this lack. History refutes the notion that "charity" of the State ever leads to anything but injustice and tyranny. Give the State the power to administer "charity" by force and you have taken the heart out of charity. Even worse than that, you are saying that the State is not subject to the law of God as individuals are. Charity is certainly a Christian obligation. However, the obligation that men have to their elders and others is one of love, respect, and voluntary assistance in times of material need. There is no such thing as charity by force.

The Morality of Social Security

The whole question of social security is in its very roots a moral one. The choice which faces us as clergymen ought not to be a difficult one to make. We are leaders in spiritual matters. Christian morality relates to every phase of man's life and also to the State. Do we not forfeit our right to speak on matters of morals if, when given the freedom of choice in a matter that involves obedience to the laws of God, we choose to disobey God for some hoped-for material reward or for some other reason? Let our voices be heard clearly against all

sin, be it the sin of individuals directly or of individuals through their elected representatives in government. As for me, I feel that I must set an example of respect for the law of God by choosing to stay out of this government scheme that is opposed to God's law.

PHILOSOPHY THROUGH THE BARS

by *F. A. Harper*



THREE years ago, I received a unique inquiry for some reading materials. It came from the librarian of the Iowa State Penitentiary, a man serving sentence for a serious crime.

"Perhaps these men are attracted by our claim to be working for the cause of liberty," someone punned. "Surely they have little interest in the philosophical subjects with which we deal."

That judgment proved to be wrong, as later evidence revealed.

After receiving the large supply of FEE materials, the librarian read them all, including the books, within a period of five weeks. Then he wrote, "As for me, the most interesting release is *The America We Lost*." That is one by Mario Pei, Professor of Romance Languages at Columbia University.

The librarian continued, "We could use all the releases you would care to send us, and I'm sure they will have a big circulation here."

Dr. Harper is a member of the staff of the Foundation for Economic Education.

Thereafter, he sent me his annual library reports regularly. They reflected pride of accomplishment that would challenge the devotion to responsibilities of most any librarian, anywhere. This man obviously served his fellow prisoners well, helping to further their education. They must miss him, now that he has been released on parole.

Together with another prisoner, this man—in addition to his regular library duties—helped to develop and had patented a new type of electric stylus for library work.

As a bit of background with which to compare prisoner reading, a recent survey revealed that five out of every six college graduates had done no outside reading at all of a serious nature during the preceding few months. Those who can read have a theoretical advantage over those who can't, but they will surely narrow that advantage with passing time if the ability is not used. Hardly an adequate substitute for good reading, someone has reminded us, are many of the programs on radio and TV.

Prisoners Who Read

As a sample of the educational work done by this library, note these figures for the year ending in May 1953:

Number of books circulated	50,776
Number of magazine issues circulated	86,630
Number of persons (approximate average)	1,200

CIRCULATION OF BOOKS, AVERAGE FOR THE YEAR

	<i>Books per person</i>
Fiction	31.0
Nonfiction:	
Sociology	1.6
Biography	1.4
History	1.4
Philosophy	1.4
Travel	1.2
Literature	1.0
Useful Arts	0.9
Religion	0.7
Fine Arts	0.6
Natural Science	0.5
General Works	0.3
Philology	0.3
	—
Total nonfiction	11.3
	—
Total	42.3

A book “circulated” is not necessarily read, of course. But even so, how many people do you know who can equal that record for apparent reading, other than perhaps a few college students with their assigned readings? Note especially the average per person of one book a month of serious reading—sociology, biography, history, and the like.

Prisoners Who Write

“But,” someone will suggest, “why shouldn’t these men do lots of reading? They have plenty of time. The rest

of us are too busy to read. For them it is important to have their minds as well as their muscles exercised, as an important form of therapy."

In a sense this is true. Their confinement surely offers a certain opportunity, if used to advantage. Many of these men are proving that much can be learned from books without going to college, and that they are learning far more, year for year, than a large proportion of college students do. And a year in college costs \$1,750, more or less.

Many of these men, I have discovered, are accomplished writers with highly talented minds. After all, we know that it takes no more than a moment's violation of the code of societal discipline, and a brilliant mind may be put behind bars for years or the rest of his life. There he will be found, along with the less talented "habitual criminal."

We know, for instance, that many great works of literature have been written by men who used wisely their time of confinement in prison. Among such works, in whole or in part, are:

Socrates, *Apology*

St. Paul, *Epistles*

John Huss, letters

Jeanne D'Arc, testimony at her trial

Tommaso Campanella, *The City of the Sun*

Walter Raleigh, *History of the World*

Richard Lovelace, *To Althea from Prison*

John Bunyan, *The Pilgrim's Progress*

William Penn, testimony at his trial

Daniel Defoe, *A Hymn to the Pillory*

Thomas Paine, *To James Monroe*
William Lloyd Garrison, *Freedom of the Mind*
Dostoevsky, letters
Oscar Wilde, *De Profundis*
O. Henry, short stories
Mohandas K. Gandhi, . . . *His Own Story*

Perhaps even more important than a list of works actually written while in prison would be those inspired by contemplation while so confined, but written after release.

A Journalistic Endeavor

The librarian of the Iowa State Penitentiary sent me a copy of *The Presidio*, the prison magazine prepared and published monthly by the men there.¹ They do an excellent journalistic job, editorially and otherwise.

Take the November 1956 issue, for instance. In it you will find a quote from Franklin about truth and sincerity, an article by the prison author, Tom Runyon, a reprint of an item by the Reverend Norman Vincent Peale, and the Warden's regular page that is always worth reading. There is an article on capital punishment, followed by a touching illustrated story, "The Presidio Presents the Last Mile" (to the gallows) which ends with this classic:

I expect to pass through this world but once; any good thing therefore that I can do, or any kindness that I can show to any fellow-creature, let me do it now; let me not defer or neglect it, for I shall not pass this way again.

STEPHEN GRELLET

¹ Fort Madison, Iowa. \$1.50 yearly, domestic.

Then there is a thoughtful article by Bob Russell, "Freedom's Not the Answer." His theme is to the effect that if you were to give him his freedom tomorrow without first orienting him to play his part in a free society better than when he went in, you are "doing me a wrong and society an injustice." And then he would be brought back one day. In pleading for occupational training and therapy in social conduct, Russell makes the telling point that "men who leave here after training in our small radio shop do not return. This is not just a coincidence. They do not return because they have found an acceptable way to earn a living, and a new self-respect in that ability. . . . Insecurity cannot survive in a being who knows he is equipped to do a job and do it well. . . . Freedom is not the answer if we are to leave here no better than the day we arrived."

Further on in the magazine is to be found an article which richly repays the limited price of admission to the penwork of these men—"Always" by Pete Tenner. This article seems worth quoting at length. It is a notable piece of thinking about a philosophical disease of our time which widely afflicts those of us outside prison bars:

A L W A Y S

I heard a man make a statement recently that left me so shaken that I had to force myself to stay away from this typewriter long enough to be sure I had brought my emotions under control. . . .

Who the man is, the one who made the statement, is of no real importance. But what is important is the fact that he is a

graduate of a fine Midwestern college, and holder of a degree in sociology. Even that might not have too great a significance except that during a lecture to a small group, he announced he had recently accepted the post of institutional sociologist in what is regarded as a progressively operated Midwestern prison, in order to make a study of, and to classify, each inmate, so as to be able to help both the inmate and society, in any way he and his profession could. Always keeping in mind, of course, three things:

No. 1. Society is always right!

As for the other two things he is always going to keep in mind, I'm afraid I'll never know, because when I heard what appeared to be an intelligent man, a college graduate with a degree in sociology . . . make the flat, unqualified statement that society is *always* right—and realized that this was the man to whom the job of assisting in the rehabilitation of fallen men was being entrusted—I'm afraid I blew sky high. . . .

I questioned him at length about his reasons for making such a remarkable statement. But, no matter how I tried, I was unable to elicit any departure from his original statement. *Society is always right.*

I even tried suggesting that perhaps he meant society always had the right to set up specific rules, and punishments for the violation thereof, which, although injuring the individual, might serve to benefit society as a whole. "No," said the sociological expert, "Society is right at all times."

Time ran out and I relinquished the floor, amazed and literally stunned with the realization that in spite of historical fact to the contrary, this man was sincere in his belief that society is always right and therefore, if he were to be consistent in his logic, entirely immune to error! . . .

In 29, or 33 A. D. (depending on which Bible you read) Roman society, through its representative Pontius Pilate, turned Jesus Christ over to his soldiers for them to do with him as they would, because the chief priests and elders of

Israel who were the spokesmen for the Jews (Jerusalem Society) demanded that he do so (Matthew 27: 17-28). Was society so right then?

Through the centuries, even up until comparatively recent times, all Chinese society agreed that the killing of the surplus of girl babies was right. Did that make it *so*?

In or about 1914, Prussian society, which at that time ruled all Germany, said, through their chief spokesman, Kaiser Wilhelm II, "Might is Right." Was that society right?

In 1923 there was conceived one of the most vicious systems of government in history and through complacency of society Nazism was spawned. In 1933 then, when German society welcomed Aryan Hitler not only as their spokesman but as their lawmaker as well, he decreed that it was a patriotic duty to slaughter the Jews right and left. Who was it then but society, good, fine, irreproachable society, not local outlaws, that went out and committed offenses against God and humanity that are still being talked of in whispers? Just how can any decent thinking human claim that society was right?

Shall we leave foreign lands for a bit and skim but lightly over our own local society? Fine. We'll start with the "backbone" of American society, Massachusetts in the seventeenth century.

Is there anyone reading this who would care to try to justify society and its being right in its witch-hunts at Salem? Or the burnings which followed? You won't without also justifying stupidity, superstition, and maliciousness. . . .

If you'll look back through history . . . you might agree with me that society is nothing more nor less than any large group of people, sometimes good, sometimes bad, sometimes right, sometimes wrong, who follow, and ordinarily live by, laws which are written into the books by those persons who were the most eloquent, those persons who were most per-

suasive, and who, by that eloquence and persuasiveness, succeeded in getting society to elect or appoint or otherwise install them into office whether it be King, President, Governor, Mayor, Congressman, Legislator, County Supervisor, Judge, or whatnot.

These are the men then, not society, who create the laws governing society, and society, being responsible for the actions of these persons, must at all times be willing to accept the blame for their evil as well as praise for their good. Society is therefore just as right, or wrong, no more, nor less than those persons who represent them!

No degree from any college has ever carried the guarantee that the holder thereof would not have a distorted view of the subject he was taught—so—I would like to know how any sociologist is going to hope to arrive at a decent, honest appraisal of a man's character and to make an honest prognosis of the man's case with the preconceived idea that society is always right. . . .

Don't forget, the only perfect Lawmaker, the one Man in the history of the world Who was never wrong, the one Man Who gave us ALL good laws and Who was always right in His interpretation and judgment of those laws, was crucified by that same society you now say is always right.

The Blessings of Solitude

There you have it. A man behind prison bars is making valuable use of his time while confined. I believe he is serving all of us outside in suggesting that we stop deriding the idea that there are any eternal principles. Otherwise we shall find ourselves pursuing, at a frantic pace, a futile attempt to form a world while denying the existence of any forms within which to fit it.

Perhaps those of us not behind prison bars, of all ages and walks of life, should try to rediscover the virtue of solitude put to good use in study and contemplation. Outstanding minds throughout all of history seem to have indulged. If they did not seek the solitude of a mountaintop or the silence of a desert, leastwise they learned how to synthesize those conditions in whatever their environs. Unless some of these fruits of solitude can be garnered and mixed with the rush of affairs of material living, persons and the societies they comprise will surely become lost in the illusion that "society is always right." Must we learn this from prisoners like Pete Tenner, who are availing themselves of the opportunity forced upon them? If so, let's learn it and be grateful.

Even though outside prison walls, one often feels barred in by a society he knows may *not* always be right, as judged by the perspective of Eternal Truth. At such times, he has something in common with a prisoner. He may find a welcome freedom from the strains of life in reading a good book, and in the use of a pen to supplement and assist his thinking. Whether or not the product is ever published is not, in one sense, too important. It is what the process seems to do for the writer that is important, adding to his peace of mind and development.

TO GAIN RESPECT

by Spruille Braden



WE MUST both merit and demand respect if we are to successfully conduct our diplomatic and other foreign relations.

A distinguished and experienced diplomat used to say: "It is all to the good if the American Ambassador is liked; but it is much more important that he be respected."

While respect, according to the circumstances, may sometimes have a connotation of fear, it far oftener evidences friendship. Also, as respect engenders friendship, so its absence will, in the end, destroy both confidence and friendship.

Before going any further, I should make my meaning clear by quoting Noah Webster's definition of respect: "to consider worthy of esteem, to regard or treat with honor, deference or the like; value . . .; to refrain from intruding upon or interfering with, as to respect a person's privacy."

Of one thing we may be sure: respect never can be bought. The mere attempt to do so can only breed dis-

The Honorable Spruille Braden, veteran diplomat, was formerly Ambassador to Argentina, Cuba, and Colombia, and also Assistant Secretary of State. This essay is from an address before the New England Export Club.

dain and irritation. Yet, that is precisely what we have been trying to do for many years.

Since 1946, after the end of World War II, we have given away upwards of \$41 billion in outright grants to foreign nations, and disbursed almost \$14 billion in credits. (Their eventual repayment is, to say the least, questionable.) The total of our handouts abroad is \$55.5 billion. By this lavish generosity, we have gained neither respect nor friends. On the contrary, I believe it is apparent to anyone that we have lost both.

In order to approach this matter intelligently, we must first be able to comprehend what are \$55 billion. When I add the assessed valuation of all of the property, real and otherwise, in the 13 biggest cities of this country—New York, Chicago, Philadelphia, Los Angeles, Detroit, Baltimore, Cleveland, St. Louis, Washington, San Francisco, Boston, Houston, and Pittsburgh—I arrive at a grand total of just over \$55 billion.

We would be appalled by the mere suggestion that these 13 cities, if it were possible, be shipped overseas as gifts to foreign nations. Yet, we have done precisely that. We have ourselves given away—in effect, destroyed, as if by nuclear bombing—the equivalent of our 13 biggest cities!

The dollar loss and the consequent drain on us as taxpayers, at that, may not be so serious as the harm done to the morals and morale of both the recipient countries and ourselves, as donors.

Almost anywhere we look, our foreign aid programs have been extravagant, wasteful, and inefficient. Permit

me to give an example: We induced Afghanistan to accept a 40-million-dollar loan from the Export-Import Bank, and to spend a very considerable sum themselves, to put in a hydroelectric power, flood control, and irrigation project for about 500,000 acres. In Afghanistan there were neither engineers to operate the project, nor agricultural experts to teach the nomads how to farm. The salt content of the lands was raised by the water from the dam to the point of ruination. The result is an economic and political crisis; and the Afghans, having lost respect for us, are turning their eyes towards their big neighbor to the north, the USSR.

Gifts That Backfire

The exponents of government aid say that, unless we finance dams and other public works like these, far-off peoples will continue to live in misery. At present, that is as sad as it is true. But let me tell you what may happen even as the result of a well-planned and executed project, purporting to improve living conditions. Incidentally, this was not one of our government's programs. In, I believe, the 1920's, the Sukkar barrage in Pakistan was erected to irrigate a vast area of fertile but desert land in the Province of Sind, Pakistan, with waters from the Indus River. This was to make possible the feeding of a people living on the verge of starvation. What happened? The project did everything claimed for it. But, after a few years, the population so increased that the only effect was to have a much larger number of people

on the verge of starvation, instead of a small number. Does this constitute progress? Does this elicit respect?

The answer is "NO!"

I suggest that the authorities in Washington have no right to continue these "give-away" programs, when there is no assurance that even the well-planned and executed ones will not increase rather than decrease human misery.

Another aspect of this problem is that we gain neither Tito's nor anyone else's respect by giving his regime hundreds of millions of dollars. We entrench communism in Yugoslavia, thus antagonizing many of its people, and give the Soviet a greatly strengthened ally, now that Tito is again back, hand in glove with the Kremlin.

Our grants and loans inevitably constitute an intervention by us on behalf of the government in power and against the "outs" in a foreign country. This is not the best way to make friends of the latter. But our prestige suffers much more when we distribute our largesse to dictators and corrupt governments. Then we lose the respect of, and antagonize all the decent elements in the recipient countries.

It has been alleged that in addition to the billions of dollars we have squandered so far, we must now enlarge and make permanent these so-called "foreign aid" programs; that we must "sustain our position by helping *everybody else* to realize their own aspirations and legitimate ambitions..." It is said we must do so as a defense against the Soviet and the spread of communism. It is proclaimed that poverty and illiteracy breed communism and open the way to Kremlin domination,

whereas industrialization and higher living standards defeat both of these evils.

These theories simply are not true. In southern Italy, where the greatest poverty and illiteracy exist, there is the least communism. In the industrialized north, with higher living standards, communism flourishes. This same condition prevails in many other countries and places.

Since the distribution of \$55 billion failed so utterly to produce really worth-while benefits, why must we continue, like a drug addict, to use more of the same hashish in ever greater quantities?

A Malignant Bureaucracy

The simplest answer is that an enormous bureaucracy has been set up in Washington to plan for and run foreign aid. Bureaucratic growth is an intangible but living thing. No one seems to be responsible for its malignant expansion. Yet it always acts the same, as it grows and grows like a cancer. Also, like a cancer, it is almost impossible to rid the body politic of it—and, in the end, it can kill constitutional representative government.

Through oversized and centralized government, the Washington bureaucrats are able to allot billions of dollars of contracts, which bring handsome profits to a myriad of industries, commercial and shipping firms, and to labor. Thus, possible critics are lured into compliance and state interventionism is spread.

Heaven knows there is no virtue in bankrupting ourselves as we pour huge revenues into supporting other

nations, even allowing them to reduce their own taxes at our expense. They will value this "charity of friends" at precisely nothing. Worse still, it will break their will to earn their own way and undermine their dignity. In the end, our government's dole to them will put them in the almshouse along with us.

By hard work and thrift, integrity, and intelligence under the free, private, competitive enterprise system, the United States grew from a small, poor republic to its present power and economic potential. As a result, our private capital, during the last century, and especially from 1900 on, has gone abroad, bringing with it managerial and technical resources and skills. It has brought to underdeveloped areas all over the earth enormous advantages and such a development as no bureaucrats or governmental agencies ever have or ever could approach.

By returning to this system which has proven successful, we will furnish mankind with such a school that they "will learn at no other." That is the only way to recapture the respect of the world.

FOREIGN AID FIASCO

by Charles Hull Wolfe



LAST March 19, President Eisenhower formally asked Congress for \$4,860,000,000 for the Mutual Security Program. This is a big figure, right on the face of it; but it looms even larger when you consider that this recommended foreign aid appropriation—virtually \$5 billion—is almost twice the \$2.7 billion for the current fiscal year.

If the President's request is approved, it will bring the total of American foreign aid since World War II to the fantastic sum of almost \$55 billion. But even this mountain of dollars is dwarfed by the total we have doled out to other nations since 1940—approximately \$115 billion, averaging more than \$2,000 per taxpaying family in the U. S.—money which these families otherwise might have used for better food, shelter, clothing, health, education, religion, savings, or anything else of their own free choice.

Nevertheless, this \$115 billion sacrifice—or even two, three, or four times that much—might have been totally justified, had it been made voluntarily in the form of private gifts and investments—and especially if the

Mr. Wolfe was a member of the staff of the Foundation for Economic Education when this article was published in May 1956.

money spent had been successful in guaranteeing American security in a conflict-torn world.

Pleas for More Aid

Since our foreign aid program has been going full blast for almost ten years now, it is quite possible to analyze not only its motives and methods but also its objectives, and—very important—to what extent they have been achieved.

Taking first things first, what has been the motive of Uncle Sam's giant give-away program? It is often portrayed as a Christian compassion for the "downtrodden" or "unfortunate" nations of the world—especially for our noble World War II allies. Such a portrayal appeals strongly to millions of kind-hearted Americans and has been voiced by many proponents of foreign aid, including Secretary Marshall. On May 13, 1947, he declared in an overseas broadcast: "There has been much of misunderstanding regarding our program of aid to Greece. There has been much of distortion and misrepresentation of our purpose. We are answering the call of a valiant ally who has suffered much . . . It is as simple as that."

Inconsistent Pretense

But only two months before, on March 12, President Truman, in urging the Greek loan, had rested his appeal frankly on the argument that "the very existence of the Greek state" was being "threatened by the terrorist

activities of several thousand armed men, led by communists.”

Thus, according to President Truman, the real objective was to “buy” allies in our struggle against Soviet communism. Explaining the purpose of our foreign aid in 1951, Assistant Secretary of State George C. McGhee frankly asserted his opinion that: “The United States cannot afford to follow the forces of neutralism and anti-Western sentiment to gain any further ground, nor to allow these forces to be captured and exploited by internal communism.” And the objective in 1951 is precisely the objective in 1956, as countless recent official acts and statements testify.

It should be plain by now that the primary motive is by no means a compassionate concern for other nations. It should likewise be clear that the ultimate objective is not the economic recovery of war-ravished Europe nor the industrialization of impoverished Asia—as is often alleged—but one thing only: the gaining of anticommunist allies.

A Test of U. S. Motives

Anyone who entertains a lingering doubt about this should ask himself: Why were U.S. officials so perturbed when Russia offered to pay for the monster dam at Aswan on the Upper Nile? Would not this have greatly helped the Egyptians, and saved millions of American dollars for other worthy foreign aid projects?

Or, why were State Department spokesmen so agitated this past winter when Khrushchev and Bulganin

toured Asia with big promises of Russian aid? Surely, if concern for vitalizing the stagnant Asian economy had been uppermost, then our government should have said: "Wonderful! Now the Soviets are joining us in the great task of lifting the Asians out of poverty!" But no, Washington was frightened, and considered this Russian overture as reason number one for hiking our 1956 foreign aid appropriation to the staggering total of \$5 billion dollars.

Having observed this technique for gaining allies, we must ask: Do we think it in keeping with the principles on which this country was founded to stoop to the crude stratagem of "buying" friends? Is there anything in all Judeo-Christian tradition which would even remotely sanction the attempt to gain friendship by crossing a palm with silver?

Bribery and Blackmail

The only principled way to win a friend—whether person or nation—is to take a sincere interest in his well-being, apart from any immediate gain for oneself. Attempting to "buy" national friends is, by definition, sheer bribery—a gift bestowed with the purpose of influencing action in favor of the donor. And it leads, almost inevitably, to blackmail. The bribed nation is tempted to say: "Give me more, or I'll switch to the other side." And whether or not a recipient country attempts blackmail, it is apt to feel a deep-seated suspicion and resentment.

Senator Mike Mansfield, back from an extensive trip in Southeast Asia, declared last February in the Senate:

The argument which is often made to the effect that we must outbid the Russians in offers of aid to Southeast Asia reflects very little credit on us or on the nations of that area . . . The decent, the self-respecting, the independent in Southeast Asia will resent the implication that they can be bought.

That this is no mere platitude is abundantly verified by current history—and it applies to Europe as well as Asia. Recent events point to the harsh and stunning fact that *foreign aid simply has not worked!* Again and again, the record indicates that American dollars have been singularly ineffective in winning friends for the competitive market system and for the people of the United States. Consider some instances:

France. Since the end of World War II, we have given approximately \$12 billion in aid, economic and military, to France—more than to any other nation except England. But French resentment of the U.S. is unmistakable. So is the growing French response to communism—displayed in the recent National Elections when over five million Frenchmen voted communist, seating 150 communists in the French assembly.

This winter, when an American reporter asked 25 French citizens what they thought of the give-away program, nearly all said it made no difference to them; they didn't get any of it. Some remarked, "It made billionaires out of French millionaires."

Greece. Henry Gemmill, reporting from Athens in the *Wall Street Journal* of January 26, 1956, wrote: "Today the sentiment of the populace toward the U.S. government ranges from mild exasperation to violent opposition . . . Politicians such as Progressive Party leader Spyridon Markenzinis are making speeches depicting the Greek government as a toy in the hands of 'our great friends.' University students have marched through the streets shouting, 'Out with the Americans. . . .'"

This anti-American attitude revealed its intensity last February, when one out of every two Greek voters cast his ballot for the communist-backed "popular front." That's how much friendship the U.S. got for the \$2.8 billion it had poured into Greece.

Italy. Even staunch advocates of foreign aid concede that communism remains a potent force in Italy. And this, despite American billions, teamed up with an utterly earnest, all-out fight for survival waged by the Catholic church in its home territory—a struggle in which priests delivered anticommunist talks from soap boxes, and even derobed and turned cloak-and-dagger men, joining Italian communist cells in order to undermine them.

Still the Red lure persists, and repeated reports—as for example, from southern Italy where huge sums have been spent for development—have shown more persons becoming communists than anticommunists.

Yugoslavia. Looking back a few years, we can remind ourselves that the Yugoslavian government exuded no noticeable gratitude in return for the millions of dollars

of supplies poured into that country by UNRRA. More recently, since 1950, Yugoslavia has received from us some \$500,000,000 in economic aid, and about the same in military aid. And yet Yugoslav officials openly declare they have no intention that our aid should help curtail their admittedly communistic regime.

Egypt. Since the start of our program in 1951, the United States has spent some \$60,000,000 in economic and technical aid to the land of the Pharaohs. Yet relatively few Egyptians are aware of the American dollars circulating in their land. Meanwhile, Egypt has turned to the Soviet bloc to make cotton-for-arms barter deals, and Premier Nasser has fiercely opposed any Arab state's joining a Western defense alliance.

England. Here is where we have doled out more billions than anywhere else. Yet from the start of our aid-to-Britain campaign, many there have viewed us as a scheming Shylock overeager for his pound of flesh. Typical was this observation from the dignified *London Economist*, after the special postwar British loan of \$3,750,000,000: "If the purpose of the American Congress which decides American policy is, as it often seems to be, deliberately to wound and afflict the British people, it has certainly succeeded. It is aggravating to find that our reward for losing a quarter of our national wealth in the common cause is to pay tribute for half a century to those who have been enriched by the war."

More examples could be cited. These should suffice. The record is abundant with proof: *Dollars simply do not buy friends.*

European Recovery

“But,” a proponent of foreign aid may argue, “our aid has brought European economic recovery, and now it will help build up the backward countries of Asia and the Middle East; and this is the surest way to stave off communism.”

While there is some question as to just how much Europe *has* recovered, and how much is due to dollar aid, this argument remains the big weapon in the arsenal of those favoring more foreign spending.

If the primary goal in Western Europe had been speeding her economic recovery, rather than wooing her with dollars, the first step might have been to analyze just why her postwar recuperation had been so slow. Henry Hazlitt makes such an analysis in *Will Dollars Save the World?* With clear reasoning and detailed documentation he shows that what Europe needed most was not capital but capitalism—more freedom from both internal and external interference with the market operation.

Why was it, at the start of the Marshall Plan, that European countries appeared to need U.S. dollars so urgently? Because, ordinarily, heavy sums were being spent on armaments, on subsidies to nationalized industries running a deficit, on food subsidies, and on increasing pensions, family allowances, and other forms of social security.

Rather than cut back on some of these government expenditures, which fiscal soundness would have re-

quired, they issued more currency; and the volume of money in circulation rose enormously. At the same time, these governments tended to hold down interest rates, so they could borrow cheaper and encourage business borrowing—a policy which further increased pressure for higher prices.

Yet, though these governments themselves had created the inflation, they refused to take the blame for the accompanying price rises, but instead charged it to “speculators” and “hoarders” and to the rapacity of producers and sellers.

Rather than check the inflation itself, they determined to hold prices under control by fixing ceiling prices on almost everything. This, in turn, threw their economies out of kilter. As is ordinarily the practice in price regulation, they put the severest controls on *necessities*—and cut the profit margin on such items down to the bone. Since manufacturers could make so little profit making necessities, more and more turned to production of luxuries, which were uncontrolled.

In turn, more and more workers were drawn from the necessity to the luxury industries. The result? An apparent labor shortage, and even worse, a scarcity of necessities—food, shelter, clothing. Without going any further, it is plain that such a situation spells *Trouble*.

Under such a circumstance, we could have done far more for these European countries by showing them the errors of their regulated economies, and instructing them in the merits of the free market, than by shoving American dollars into their pockets.

German Recovery

During the first few years after the war, West German recovery was comparatively protracted. In 1947 millions of Germans were starving. As the late Dr. Walter Eucken, professor of economics at Freiburg University and heir to the German liberal tradition, observed in 1947:

Germany today is suffering acutely from an overdose of planning. The Nazis laid the basis for German economic planning—for armaments and warfare. To our surprise the Allies left things largely as they were. . . .

But Germany had come to the end of the socialist trail, and increasing numbers began to feel that at least a slight return toward capitalist incentives might increase production. Then the Marxian-oriented Social Democratic party was routed by a new political combine under Konrad Adenauer, which opposed the Fair Deal controls enforced by the American, British, and French military governments. Germany started to edge a little toward a free economy, gradually taking controls off more and more commodities. The result was startling. German productivity lunged forward.

Even a small dose of *Markwirtschaft* (the market economy) had a pronounced effect. By 1953 West Germany's industrial production, on a per capita basis, was above the level of 1938, when the economy was operating under a full head of steam in preparation for war.

Meanwhile, East Germany, by comparison, remains in

pathetic poverty. What has caused the difference? It is true that West Germany did receive generous aid in U.S. dollars. But more than one competent observer has concluded that West Germany's heartening resurgence has been due not so much to an influx of free U.S. commodities as to the Germans' own hard work and a sounder policy—a noticeable movement toward *Markwirtschaft*. A more complete adoption of the free market would have produced even more abundance, and could have generated far more prosperity than the shot-in-the-arm dollar aid.

But, even though Germany still clings to a considerable measure of socialism, it enjoys more market freedom—and hence more productivity—than most other European nations.

What about Military Aid?

Still, foreign aid advocates may say, "You talk as if all our aid were *economic*, while much of it is military—arms shipped to our allies as a deterrent to Soviet aggression."

True, much of our help has been military. And it is probable that substantial amounts designated for economic use actually have served to buttress foreign military establishments. Even if we did not ship a single gun or plane, but only money or food—and even if we specified that these gifts be used only for nonmilitary purposes—every American dollar spent for economic recovery simply frees the equivalent in local currency for some

“marginal use,” such as building a military organization.

But inasmuch as our total economic-military aid program has been so ineffective in winning allies, what assurance have we that these guns won't someday be pointed at *us*? The weapons themselves are neutral. If we have failed ideologically, failed to win friendship—and there are indications we have—then these weapons may eventually explode right in our own faces.

Three Conclusions

So, in evaluating almost ten years of U.S. aid to Europe, we find:

(1) It has not produced any noticeable good will or loyalty for America.

(2) European recovery is highly uneven, and is most marked in West Germany where a move toward a freer economy caused an outstanding upsurge in production.

(3) There is no guarantee that U.S. military aid will not be used against, rather than for us.

Considering this record of dubious achievement, it is hard to understand the unrestrained enthusiasm some apparently well-informed Americans entertain for our foreign aid program—an enthusiasm which prompts them to say, in the spring of 1956: “U.S. dollars have done such a good job in Europe, now let's *really* pour them into Asia!”

Aid for India

But I say, the vast U.S. tax-away-and-give-away program has flopped in Europe, and what reason have we

to believe it will click in Asia and the Mid-East? After all, we are not newcomers in India, and what has our record been there? Since 1950 we have dumped some \$500 million in India's copious lap, only to see her sympathies turn more and more toward the Kremlin, while her newspapers either take American gifts for granted or ignore them altogether. Meanwhile, this past winter and spring Russia finally has come to India's aid, offering actual business deals—loans not gifts—and in the process is winning friends.

Some Indians are perceptive enough to urge their government not to accept any more U.S. dollars. This past winter, J. J. Singh, president of the India League of America, asked India to refuse further aid from the United States. He said: "This creates expectancies in the U.S. which India is rightly not willing to meet. That, in its turn, creates disappointment and bitterness in America, thus worsening relations."

Before we brashly promise the Asians that our dollars will bring a vital productivity to lands steeped in centuries-old traditions which fight individual initiative and free enterprise, we should consider carefully the reasons for Asian poverty.

India seems destined to receive many American billions in coming years. Presumably proponents of dollar aid to India believe it needs American capital, and that this capital must be bestowed through the instrument of the U.S. government. But, according to Dr. Ludwig von Mises:

India lacks capital because it never adopted the pro-capitalist philosophy of the West and therefore did not remove the traditional institutional obstacles to free enterprise and big-scale capital accumulation. Capitalism came to India as an alien imported ideology that never took root in the minds of the people. Foreign, mostly British, capital built railroads and factories. The natives looked askance not only upon the activities of their alien capitalists but no less upon those of their countrymen who cooperated in the capitalist ventures.

Today the situation is this: Thanks to new methods of therapeutics, developed by the capitalist nations and imported to India by the British, the average length of life has been prolonged and the population is rapidly increasing. As the foreign capitalists have either already been virtually expropriated or have to face expropriation in the near future, there can no longer be any question of new investment of foreign capital. On the other hand the accumulation of domestic capital is prevented by the manifest hostility of the government apparatus and the ruling party.

This was true in 1952 when Dr. Mises wrote it, and even more so in 1956. Throughout these four years India has turned increasingly socialist—nationalizing industries, controlling private companies with an intricate maze of regulations, allowing the State to confiscate private property, and enacting labor laws which make it extremely difficult to fire anyone, no matter how incompetent.

All these restrictions discourage both native and foreign industry and investment, and create the very poverty which India seeks to eradicate. As long as India continues her ill-advised march toward socialism, no amount of American billions can bring her prosperity. Our dollars will only serve temporarily to camouflage

her mistake, and delay the hour when India must awaken to the free market ideas which alone can eliminate her vast army of unemployed and greatly increase the productivity of individual Hindu and Moslem.

Why Not Try Voluntarism?

Why, then, extend further foreign aid? Additional billions will fail to accomplish their purpose. More than that, the whole concept—the idea that one nation must tax its citizenry and pour the booty into the coffers of less prosperous countries—is statist and socialist, utterly contrary to the ideals of a free society.

No government—the United States or any other—should be allowed to take the property of individuals by force, and hand out such savings to the governments or the peoples of other nations. Such an action is dictatorial and authoritarian.

The individual alone should decide whether he wants to give or lend his property to other individuals in other countries. This voluntary system of international exchange proved potent when tried—it helped to build America and other great nations as well. At this day and hour, a return to the practice of voluntary individual giving, lending, and trading would not be retrogression, but dynamic and urgently-needed progress.

THE RISK WITHIN

by Douglas MacArthur



WE APPROACH for the first time in history an era in which the industrial tools provided by science and technology give promise to mankind of satisfaction of his basic economic and material needs. Poverty cannot be entirely abolished, but the welfare of all mankind can be raised. Tomorrow's standards can make today look like a mere start.

It is not my purpose to attempt to conceal or minimize in the slightest degree the difficulties and dangers that beset the national way.

The national dangers are both external and internal. Externally, they are those incident to war. But this contingency I regard as logically only a remote possibility. The almost incredible destructiveness of modern weapons upon civil communities has brought to all mankind the realization that military force is no longer an exploitable method of settling international rivalries. The victor, if any such should emerge, would suffer almost as greatly as the vanquished.

General MacArthur is Chairman of the Board, Sperry Rand Corporation. This is an excerpt from remarks to stockholders at the annual meeting, July 31, 1956.

If this nation is ever destroyed, I unhesitatingly predict it will not be from external force. Our own internal hazards, the spontaneous combustions arising from the accelerating complexities of modern life in an ever-multiplying community, are the ones which give rise to anxiety. They are too numerous for me to attempt to enumerate, but surely one of the most dangerous of these is excessive taxation and its sinister by-product and offspring—inflation. In the lexicon of government there is no more grim and pertinent aphorism than Chief Justice John Marshall's warning as early as 1819 that the power to tax includes the power to destroy. Indeed, this is the weapon that Karl Marx declared was the vital one to displace the system of free enterprise—the system on which our nation was founded—the system which has made us the most prosperous people of all history.

Reasonable taxation is, of course, an essential of government; but when taxation is used as a social regulator, it becomes a menace to freedom. When its rate is so excessive that men work month after month with all that they earn going to government, it amounts almost to forced labor. It practically reduces them for protracted periods to something akin to involuntary servitude. It is an unwarranted assumption that a handful of men, centered in government, largely bureaucratic rather than elected, can spend the proceeds of toil and labor to greater advantage than he who creates the money. Excessive taxation can reduce free men to serfdom, can destroy initiative, absorb the capitalistic system, and level representative government to sovietism.

Taxation has been the cause of more bloody revolutions in the history of government than any other one provocation. It precipitated our own Revolution which resulted in the founding of the United States of America. The Boston Tea Party is still symbolic. The Biblical story of Christ's repudiation and expulsion of the tax tyrants from the temple is still a warning. Its excesses and idiosyncrasies hang like a dark cloud over the destinies of those connected with this company and every other company in this beloved land of ours.

WELFARE STATES AT WAR

by *Hans F. Sennholz*



THE NEW international crises sparked in the Middle East, and the constant danger of another world war, need not surprise the student of contemporary international relations and economic policies. The ideology of socialism and interventionism has swayed our foreign relations, and the policies of Welfare States have destroyed international peace and order.

While throwing the blame for the present crises on the doorsteps of "capitalist colonialism," the Welfare States are battling each other. All parties involved in the Mid-East are either socialist or interventionist nations. Israel is a large army camp crowded by people who are given to socialist ideas; Egypt is an interventionist country with a dictator bent upon leading his nation to socialism; France has a socialist government with controls that leave little room for competitive enterprise; and Britain is floundering between socialism and interventionism. In other words, there is little capitalism, in the sense of competitive private enterprise, in any one of these countries.

Dr. Sennholz, author of *How Can Europe Survive?*, is Professor of Economics at Grove City College, Pennsylvania.

Absence of individual freedom and free enterprise makes for economic nationalism and international conflict. By fundamental nature and objective, the Welfare State controls private property and limits individual freedom in order to distribute economic spoils and privileges to pressure groups. The Welfare State is a favor state.

Pressure groups of producers expect the government to increase the prices of their products or services, with utter disregard for the economic interests of the vast majority of their own countrymen and of many foreign producers. In most cases of welfare legislation the favored group's foreign competition is either eliminated entirely or severely curtailed. This is economic nationalism, the most important source of international conflict.

Economic Nationalism Creates Conflict

Let us demonstrate how interventionist policies lead to economic nationalism with a few American examples. In order to enhance the price of sugar cane and beets produced by a few thousand American farmers, the federal government not only levies a highly protective sugar tariff, but also imposes severe import quotas. To afford our domestic producers a temporary gain, we partially close our markets to Central American sugar. In other words, we cause domestic prices of sugar to rise and depress foreign prices, subsidizing our sugar farmers at the expense of American consumers and Cuban farmers. This is economic nationalism.

Meanwhile, Soviet Russia takes political and economic

advantage of our shortsighted "welfare policies." She buys Cuban sugar at depressed prices, thus appearing as benefactor to our southern neighbors.

In deference to our cattlemen, we prohibit the importation of cheap Argentine beef. That is to say, we favor domestic producers to the detriment of domestic consumers and South American producers. These and similar acts have earned us the hostility of our Central and South American neighbors. Russia, of course, ably utilizes our trade restrictions for her own purchase policies. Her efficient propaganda then interprets our behavior as capitalist imperialism, and her own as a token of communist friendship.

Similar acts of economic nationalism on the part of our federal government include the recent tariff increases on Swiss watches, the import restrictions on foreign dairy products, and many others. In each instance we severely hurt foreign producers in order to "assist" our pressure groups.

West Sets Bad Example

Of course, the other Western powers are guilty of similar policies of economic nationalism. The United States, Britain, and France embarked upon the welfare road to international conflict after Imperial Germany had shown the way. In the 1880's the German government imposed heavy social costs on the German economy. The logical outcome would have been a loss of sales to foreign competition, with German unemployment. To avoid these undesired effects, the government created cartels.

Behind high walls of protective tariffs these organizations then charged monopoly prices on the domestic market and dumped excess supplies on foreign markets at low prices. This was economic nationalism at its source.

Germany has become the classical example of government omnipotence in economic matters. There is scarcely any restriction on trade that was not practiced and fully developed in Germany. The people in underdeveloped areas, unaware of the meaning of individual liberty and capitalism, have admired this seemingly omnipotent power of the German state and often have endeavored to imitate it.

Britain's economic nationalism dates back to World War I and especially to the Import Duties Act and Ottawa Agreements of 1932. The preferential principle that became the guiding principle of British political action gave "home producers first protection, Commonwealth producers second protection, and foreign producers none at all." Britain imposed substantial duties on most foreign foodstuffs and raw materials in order to grant trade preferences to Commonwealth producers. Consequently, foreign sales in Great Britain declined considerably.

The Churchill government during World War II imposed a multiplicity of restrictions from the armory of socialism. The Labor government then went on to nationalize the "means of exchange," the coal mines, the gas and electricity industries, the iron and steel industries. It vested in a Central Land Board all development rights in land. It did its utmost to eliminate rent, profit, and

interest in order to employ the revenue for projects of "national development." In all these acts of seizure of private property, the Labor government showed no hesitancy because of foreign investments. It seized them along with those of its own nationals. All this meant economic harm to foreigners, who watched and learned the lesson in government omnipotence.

Underdeveloped Areas Follow Suit

Can it be surprising, therefore, that governments in underdeveloped areas of the world finally begin to imitate the West's own policies? Can we blame them for feeling free to do what they please provided they enjoy the backing of their own popular majorities? Indeed, they may have learned from us to seize and nationalize private property and arbitrarily to tear up contracts, including their own charters.

Colonel Nasser is a thorough student of Western welfare statism and economic nationalism. He desired revenue for a program of "national development." Why should he not seize the Suez Canal Company, this private corporation on Egyptian soil? What does it matter that his government was paid in full for the use of a desert strip before the Canal was built? What of Egyptian signatures to international agreements? What if there were government charters and promises? He enjoys the backing of a popular majority. Does this not make him omnipotent? Does this not lift him above the restraints of moral and ethical laws of human relations?

Can the sovereign state of Egypt be bothered that the private property it seizes happens to be the life line of British Commonwealth trade and controls the flow of Mideastern oil? What does it matter that the well-being of all Europe must deteriorate through his nationalization of the Canal? What other sovereign state considered foreign interests in the realization of its statist objectives? Influenced by such ideas, Colonel Nasser embarked upon his tragic policies of economic nationalism and international conflict.

The next move then was up to those whose property had been seized. Among the victims, the governments of France and Great Britain decided to seize the Canal by force, pending an international conference to discuss the Canal's internationalization. No party involved wants to return the Canal to its lawful owners. Internationalization and control by several governments, however, merely means collectivism and economic nationalism on a super-governmental basis.

What Course Freedom?

The defender of private property and competitive enterprise, observing such an insoluble conflict, is at a loss regarding the question of guilt. Is he to sympathize with the culprit who started the conflict in order to finance various "welfare policies"? Or is he to sympathize with the socialized victims who resort to force, which is evil, in order to alleviate the original evil?

In sharp contrast to the international conflict between

socialist governments in this Mid-Eastern affair is the peaceful coexistence of laissez-faire nations, which realize the ideals of personal freedom of choice, private ownership and control of property, and peaceful exchange in a competitive market. Under this concept, the sole function of government is the protection of its own people from domestic peacebreakers and from foreign aggressors. Such a government would wage war only to defend the lives and property of its own citizens. This means that it should not participate in foreign wars that grow out of economic nationalism. For such warfare only destroys and does not protect life and property.

While an individual peacebreaker can easily be punished and isolated in a penitentiary, a collectivist nation conducting policies of economic nationalism can be disciplined and subjugated only through a full-scale war and subsequent occupation of its territory. To discipline a nation that refuses to embrace the doctrines of freedom and free enterprise is an endless and hopeless task.

A citizen of a free country who goes abroad should know that he travels at his own risk. Crossing the border of his state and entering socialist or interventionist territory is to leave law and order behind. He risks transgressions by the foreign state upon his life, liberty, and property. A businessman who invests his funds in collectivist territory must consider the risks of expropriation, foreign exchange control, confiscatory taxation, and many other "welfare" measures. He is beyond the protection of his capitalist government. He is on his own.

The Principles of World Leadership

Despite curbs and checks on its power, and its inaction in a world of conflict, a government designed for freedom is a natural leader. The creative power of a free nation by far excels that of socialist or interventionist countries of similar size. And it is productive strength that lends the position of leadership to a country in a world that is always fighting or preparing to fight.

But true leadership that exerts potent influence toward world peace and prosperity springs from a far more important source than material and military might. True leadership grows out of impeccable behavior and moral conduct. A leading nation that lacks these prerequisites can guide the world only to more chaos and conflict.

Above all, such a nation must refrain from any act of economic nationalism. It must not harm any other nation through "welfare" policies of its own. It must adhere to its own design for freedom. To reprimand other nations for policies of economic nationalism while waging economic war upon its own neighbors would be hypocrisy and sanctimony.

Throughout most of the nineteenth century Great Britain was a true world leader. Her famous open-door policy treated Britishers and foreigners alike. The Empire was a vast free-trade area in which the government merely undertook to maintain peace, law, and order. Most civilized nations soon followed suit in removing their trade barriers and adopting the Empire standard of exchange, the gold standard. The British government indeed led the

world during the most peaceful century of human history.

A leading nation must also reject the immoral principle that one act of economic nationalism by one government sanctions the nationalistic policies of all other governments. This is the principle that crime becomes righteousness if a previous crime has remained unpunished. But this very assumption underlies many prevailing notions concerning foreign affairs.

Things We Can Do

World leadership demands that we should openly judge world events and explain the fallacy of every act of economic nationalism. If a foreign government contemplates or embarks upon economic aggression through "welfare" legislation, we should call attention to the inevitable harm inflicted upon other nations. We need not intervene forcibly, for nations cannot be coerced to peaceful coexistence. Only a change in political and economic outlook can bring this about.

Naturally, we would sign no treaty with a government that has disregarded its own agreements and torn up its own charters. Nor would we assist any government that nationalizes private industries, for then we would be helping to promote collectivism and ultimate destruction. There could be no point in our extending diplomatic recognition to any government that indulges in economic nationalism.

Finally, world leadership requires that we constantly defend the principles of individual liberty and free en-

terprise. At every opportunity we should call out to the world that only competitive private enterprise can lead to peace and prosperity. We have a glorious history of individual freedom and safety of property—the absence of nationalization and confiscation by an omnipotent state. Our recent excursions toward the Welfare State endanger our record—and ourselves. But if we will correct that trend, then with pride we can demonstrate to the warring world that individual liberty is the only durable foundation for peace and prosperity.

If our way is freedom, then other nations on their disastrous roads may someday listen to reason and follow us as all civilized nations followed Great Britain during the nineteenth century. Law, order, and peace may then return once again to a battered world suffering from an absence of individual freedom and free enterprise.

REMOVING OUR TRADE BARRIERS

by W. M. Curtiss



DEAR MR.———:

In arguing for tariffs and against international free trade, you suggest that we are already a low tariff nation and that we have been lowering our tariffs steadily. The American Tariff League has released figures to show that our tariffs are very low and that we are near the bottom of the list of countries when arranged in order from high to low tariffs. They show that in 1952 our imports were \$10,745,000,000 and customs receipts were \$575,000,000. Therefore, our "average tariff level" was 5.3 per cent, among the lowest of all nations.

I believe you will agree that this method of calculation leaves something to be desired. For example, our tariff structure might be applied only to a few items and at so high a level that none would be imported; using this formula, then, we would conclude that our "average tariff level" is zero.

The important thing, to me, is not our "low average

Dr. Curtiss is a member of the staff of the Foundation for Economic Education. This essay was prepared to answer an inquiry about tariffs.

level” but the fact that in 1951, forty-one rates were 100 per cent or more and over 900 rates were 40 per cent or more. The ATL makes such a strong point of our low tariffs that I am tempted to say: “If that’s so good, then why not still lower?” Unless we stay with basic principles, we are likely to be drawn offside in arguing about what the level of tariffs should be, or the degree by which we have reduced them.

You’ve also suggested that “trade has caused more wars than any other single factor.” With this I must disagree, if by trade you mean free, private trade. If trade could be carried on between nations by private individuals or corporations, I am convinced there would be little international conflict as a result. It is when governments inject themselves into the picture that trouble arises. For example, if your firm, as a private corporation, makes an unfortunate deal with a German corporation, it will be difficult for you to get Congress excited enough to do something about it. But when government steps in and tells you the conditions under which you can trade with Germany, or Russia, or Red China, that can become the subject of an international debate in the U. N.

You suggest that a free nation cannot trade to advantage with a socialistic nation unless it adopts the socialistic restrictions of the latter. You suggest that the reason free trade has worked between our states is because we all believe in free competitive enterprise. Granted, much of our progress in this country has resulted from almost universal acceptance of relatively free enterprise. But I don’t follow the argument from there. If Iowa were a

“free enterprise state” completely surrounded by socialistic states, I think it would be to her advantage to remove her own restrictions to trade and do the best she could with her neighbors.

We Can Remove Our Restrictions

Free trade, as I would define it, can only exist when there are no restrictions on either side. Therefore, it is absurd to think of its existing in the world today with practically all countries operating under some degree of socialism. But, I would argue that it is to our own advantage to remove *our* restrictions, then trade as best we can under the restrictions imposed by other nations. It would be far from ideal, but their restrictions are basically their responsibility and not ours. My entire argument is based on what I think would be best for our own citizens, as producers and consumers, and I am not too much concerned with policies of other nations, however foolish I may think they are. Perhaps I should say I am concerned, but it is not within my province to try to force their reform.

You raise the question of low wages in foreign countries. It is sometimes argued that we should postpone free trade until all countries have achieved our wage levels. This is a subject to which I devoted considerable space in the booklet, *The Tariff Idea*.¹ It seems to me it is a completely fallacious idea and counteracts the whole

¹ Curtiss, W. M. *The Tariff Idea*. Irvington-on-Hudson, New York: Foundation for Economic Education.

idea of the advantages of trading. Any time two people can trade to the advantage of both, they should be permitted to do it. Under freedom, they won't trade unless they do see an advantage.

I believe that the principle most commonly lost sight of in our discussions of trade is that consumption is the sole purpose of production. We sometimes tend to think that the preservation of an industry or a particular firm or a man's job is the important thing to preserve. This leads to all sorts of uneconomic measures which adversely affect the consumer—the king.

Freedom Admits Strange Company

Your last point refers to the concept of free trade as “phony liberalism.” Pursuing and trying to explain the freedom philosophy places one in very strange company at times. For instance, among the advocates of free trade are various individuals with quite some reputation as world planners and international meddlers. This is an important reason why we have always tried to stick pretty close to ideas and leave personalities out. We may find ourselves on the side of the “phony liberals” when we discuss loyalty oaths, academic freedom, segregation, and a host of other problems. If one has his principles firmly fixed, his company need not bother him greatly.

As an example of this, I could cite the recent discussions involving the General Agreement on Tariffs and Trade (GATT) and the Organization for Trade Cooperation (OTC) as promoted in H.R. 5550. One might expect

our position to be favorable toward GATT, simply because we believe in free trade. But such is far from the case. The advocates of GATT are not, as I see it, merely advocating free trade, but are promoting a world-wide control of trade, dividing the markets, regulating prices, and the like.

A well-known business leader recently exploited that idea to the utmost, implying that one must either be for tariffs or for socialism. This is certainly a "guilt by association" idea, and just because some of the world's leading socialists *seem* to favor free trade, does not mean that free trade is a socialist idea.

We have sometimes been charged with pointing a finger at tariffs when they are really a minor restriction to trade. With this I would have to agree. I believe exchange controls, quotas, subsidies, bilateral and multi-lateral agreements, bulk buying and selling by nations, and other restrictions are perhaps materially more damaging than tariffs. Nevertheless, I believe the same principles apply to all and it may be easier to get the lesson across by using the relatively simple example of tariffs.

WHEAT AND WORLD TRADE

by *Paul de Hevesy*



THOUGH agriculture is the very foundation of all human activity, it constitutes only one part of man's economic life. It should therefore be brought into conformity with the general economic system. The question is whether this system should be based on the free decisions of private property owners, engaged in competitive enterprise, or on public ownership of the means of production and distribution and in consequence, on central planning and price-fixing.

The American farm policy, with its parity prices, its legally enforced restriction of acreage, and, as it is now proposed, its payment for crops not grown—that is, for acreage left fallow—does not provide a true solution. The evil results of this unprincipled policy are already manifest.

Though the farmers of Europe and of the United States are heavily subsidized, yet they bitterly complain that their incomes are steadily diminishing. Meanwhile, food prices are everywhere rising. Small wonder that the tax-

Mr. Paul de Hevesy, economist and former member of the Wheat Advisory Committee, London, is the author of *World Wheat Planning*, Oxford University Press, 1940.

payer complains that he must both provide for high agricultural subsidies and pay high food prices. Coming presidential elections in the United States will be contested on the agricultural issue. Other countries are confronted with similar problems.

Wheat Plays a Vital Role

An important element, not only in agriculture but in the general economy of the world, is the price of wheat; for it decisively influences the prices of other grains, which in turn influence those of meat and of many other foodstuffs, and these ultimately determine the agricultural price-level itself.

There are commodities, like oil and cotton, which enter into international trade in larger quantities than wheat; but none of them has so powerful an impact as wheat on general economic and social conditions.

The United States and Canada apprehensively harvested their grain crops of 1955, which were abundant at a time when the accumulated surpluses in North America were larger than ever before. These surpluses would never have accumulated if planning governments had not interfered with free and open markets and maintained arbitrary prices.

Much of that governmental interference with respect to wheat marketing has been concentrated under the International Wheat Agreement. This is a kind of many-sided treaty between national governments representing net exporters and net importers of wheat. The theory was

that these nations could fix a price that would please everyone. But in practice, if the fixed price is too high the importers will not accept delivery, and if too low the exporters will not deliver. And the result is that wheat is not moving under this controlled agreement.

A Formidable Monopoly

The most formidable monopoly in the world is that of the principal wheat-exporting countries which maintain artificially high prices for wheat and, through their effect on other farm prices, for all other foodstuffs.

The traditional exporting countries now hold surplus wheat in store corresponding to two years import requirements of the whole world. And traditional wheat importing countries still prefer, in spite of their high costs of production, to grow as much wheat as they can. Productive resources are thus being devoted to wheat production which might be better utilized for other purposes.

The present world wheat situation affords a striking proof of the impotence of the Agreement from which the United Kingdom wisely holds aloof. It is to be hoped that its government will, as a matter of principle, stand firm against all pressure to accede to the Agreement which expires in July 1956.

If the Americans were not to interfere with farm prices—if they were to allow the varying pressure of supply and demand to effect the reciprocal adjustment of prices—food throughout the world would in all proba-

bility become less expensive than it now is. Nobody would be so ungrateful as to impugn the incomparable generosity of the United States; but a sound American agricultural policy would be of greater value to the world than all their loans and gifts.

Since the United Kingdom does not export foodstuffs, its agricultural policy has little influence on world food prices; but the competitive position of its industry would be improved if it were to buy all its food from the cheapest source. Moreover, the economic policies of the United Kingdom and the United States are closely watched and are often imitated by other countries.

Subsidized Producers

In the United Kingdom there are about one million acres where the composition of the soil and the incidence of the rainfall are such that wheat of fairly good quality can be grown at a competitive cost. But the present policy of sowing wheat on two million acres makes it impossible to establish a price satisfactory alike for the farmer and the consumer. The price for millable wheat received by the British farmer averages at present about \$2.25 a bushel for wheat which is being sold to the millers at \$1.57 a bushel. A subsidy of 68¢ a bushel has to be met out of the pocket of the British taxpayer.

Meanwhile, United States taxpayers are subsidizing wheat exports at a rate varying between 44¢ and 70¢ a bushel, and are paying a storage bill of \$1,000,000 a day

on wheat and other farm products arbitrarily withheld from the channels of trade.

Suppose that the total world requirement could be satisfied with wheat costing not more than say, \$1.40 a bushel to produce. In this case, if economic freedom prevails, most individual farmers, wherever they may farm, whose cost of production is higher than \$1.40, would go out of wheat-production—in any case, out of wheat export. Quality and distance also would have some effect on prices; but the average world wheat price could then be neither much lower nor much higher than \$1.40 a bushel.

The enemies of economic freedom contend that the prices of farm products, if not fixed, are subject to violent fluctuations. But there is no reason to assume that, if economic freedom were to prevail, either world demand or world supply in the principal farm products would vary much from year to year. Consequently, the prices of these products would not vary much either.

World Production Is Quite Stable

It should be borne in mind that the average world yield per acre of those crops which are grown in all parts of the world hardly varies, and that, in consequence, their total volume almost entirely depends on their total acreage. The smaller the territory investigated, the larger the variations in yield; the larger the territory investigated, the smaller the variations in yield.

The problem of wheat, and indeed of all major world

crops, can be solved internationally on the basis of world-wide free trade. Market forces on the one hand and modern transport on the other could succeed in distributing all products throughout the world, especially if the poorer countries, thanks to a more liberal policy in international trade and investments, will take the opportunity of exporting their own products and thus of acquiring the purchasing power necessary to import foodstuffs and other goods from abroad.

If excess or scarcity is to be avoided and prices are to be neither too high nor too low, nothing but supply and demand should regulate production and prices. If this policy is to succeed, it will be necessary that governments refrain from blocking the channels of national and international competition.

Competition or Dictation

In the long run, the choice must be made between economic competition and dictation. There can be no doubt which of the two systems would lead to a better future for mankind. But if the competitive system—in other words, private capitalism—is to prevail, the relations of all prices of all commodities to each other, demonstrating the impact of peaceful competitive forces, must be left to operate without restraint. These price relations are far too important to be left to the whims of sectional interest or even of national governments. They should depend on the voluntary market decisions of all consumers and all producers of all commodities throughout the world.

Who—individual, committee, or government—would dare to suggest that he or they can judge better than the totality of producers and consumers what can and should be produced? And who would dare to judge not only what the people wish to consume, but also the measure of sacrifice that they are willing and able to make for acquiring some of these commodities in preference to others?

Those who, by subsidizing single groups of producers, throw the quantitative and qualitative production of goods out of balance and keep it so; those who, aided by tariffs and import licenses, discriminate against goods according to their origin; those who, desirous of protecting their home producers, resort to the discreditable expedient of raising tariffs and import quotas, thus weakening the urge to greater efficiency as a means of lower prices; those who reject the cheapest tenders on the mere ground that they are submitted by foreign contractors; those who impede the movement of capital and labor; and those who, protected by international commodity agreements, maintain prices above or below their economic level and force supplies into artificial channels, thus preventing the consumer from buying in the cheapest markets—all are responsible for dearness in general and for dear food in particular.

Controls Provoke War

The control of prices of agricultural products, and indeed of any product, is not only harmful in its quanti-

tative effects, but also inconsistent with the peacetime activities of democratic nations. For the free and open market provides an international exchange with unlimited potentialities for human progress. Prices thus maintained, raised, or lowered regulate both production and consumption. Free and open market prices express individual preferences—in sharp contrast to the controlled production and distribution of the dictatorial system.

Survival of the capitalist system depends on vigorous competition both in production and in marketing; for this is the only way to produce goods of the highest qualities at the lowest costs and to sell them at the lowest prices.

This policy can be fulfilled only by promoting a free world market, convertible currencies, the suppression of monopolies, and the conduct of all trade by independent merchants whose experience and competence present a reassuring contrast to the ineptitude of public functionaries unwisely vested with mercantile powers.

LABOR'S TRUE "MAGNA CHARTA"



SINCE the beginning of 1933 more than 630 million man-days of work have been lost as a direct result of work stoppages, with no account taken of the secondary idleness caused by the failure of struck industries to deliver their products or perform their services on time and by the decline in the purchasing power of striking workers.

What has labor to show for these losses? A rough idea can be gained from the government's figures for manufacturing industries. The average hourly earnings of factory workers have more than quadrupled since 1932, but the increase has been offset by the rise in prices of finished goods. The ratio of earnings to prices, which measures the real ability of the worker to buy the product, has risen 76 per cent, while productivity (average output per man-hour) has increased 77 per cent. Thus, despite the sharp rise in money wages, the real gain to the worker has been limited to the increase in productivity, just as it was before the days of industry-wide unions and national-emergency strikes. . . .

This study in futility has come about mainly as a result

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of the persistent belief that the earnings of labor somehow can and should be exempted from the free-market processes by which prices, values, and distributive shares in general are determined in a competitive economy—a belief that is epitomized in the declaration that “labor is not a commodity.” How did this expression originate, what does it really mean, and what does it imply?

Labor vs. Laborer

Superficially, the statement that “labor is not a commodity” has a strong humanitarian appeal. It sounds like a sort of declaration of independence for labor, an assertion that the workingman is not a slave or chattel to be bought and sold in the market place. It was undoubtedly this aspect of the matter that led Pope Leo XIII in 1891 to issue his famous encyclical on the condition of labor, *Rerum Novarum*, a document that has done much to shape recent thinking on labor questions. The official English version contains these words:

“Religion teaches the rich man and the employer that their work-people are not their slaves . . . and that it is shameful and inhuman to treat men like chattels to make money by. . . .”

No doubt it was likewise the humanitarian appeal mixed perhaps with other considerations, that led Congress to declare in the Clayton Act of 1914 that “the labor of a human being is not a commodity or article of commerce. Nothing contained in the antitrust laws shall be construed to forbid the existence and operation of

labor, agricultural, or horticultural organizations, instituted for the purposes of mutual help, and not having capital stock or conducted for profits, or to forbid or restrain individual members of such organizations from lawfully carrying out the legitimate objects thereof; nor shall such organizations, or the members thereof, be held or construed to be illegal combinations or conspiracies in restraint of trade under the antitrust laws."

A Dubious Privilege

This provision was enthusiastically hailed as a "Magna Charta" of labor. Subsequent court decisions showed that its practical effects were much less important than had been thought, and Congress eventually found it necessary to pass the Norris-La Guardia Act of 1932 in order to give labor unions the legal immunity that was deemed desirable. This, however, is beside the point. The point is that the majority in Congress, like many others, believed (1) that a legislative enactment could exempt labor from the normal competitive determination of its rates of pay, and (2) that labor would gain by such an exemption.

The same philosophy underlies the whole trend of recent governmental labor policy and labor legislation: the National Industrial Recovery Act of 1933, the Wagner Act of 1935, the Fair Labor Standards Act of 1938, the Smith-Connally Act of 1943, the Taft-Hartley Act of 1947, and a multitude of other federal and state laws. Some foreign countries still commonly called "free" have

gone even further in regulating or influencing labor-management relations in general and wage rates in particular. Whatever the means may be, the underlying intent is the same: to "emancipate" the worker from the rule of the market, to prove that "labor is not a commodity."

What Is a Commodity?

The statement that working people are not slaves or chattels and the declaration that their labor is not a commodity or article of commerce sound much alike, and this superficial similarity appears to have caused a great deal of confusion. Actually, not only are they two very different assertions, but in their final implications they are mutually contradictory. This becomes clear when a little consideration is given to the real economic position and significance of human labor.

The essential characteristics of a commodity or article of commerce are (1) that it is in demand and (2) that its supply is not unlimited. These two characteristics give it value, enable it to command a price in the market in exchange for other valuable things. The price is determined by the interaction of demand and supply—demand as affected by the commodity's price and usefulness, supply as affected by the price obtainable for it and the difficulty or cost of producing it.

Human labor possesses all these characteristics. It is in demand; its supply is limited; hence, it commands a price in the market. The demand for it arises from the fact that employers can use it profitably and is limited by the

ability of employers so to use it. The supply arises from the need of workers to meet their personal wants and is limited by the number of workers and their preference for leisure; that is, for noneconomic pursuits.

Economists usually make a distinction between commodities and services, commodities being material articles and services consisting of useful actions. The distinction is not essential to the present purpose, because the basic economic characteristics of the two categories are the same. If labor is not a commodity in this sense, it is certainly a service, and from the economic standpoint it is, in every essential respect, a "commodity or article of commerce."

What does this mean to the individual worker? It means that he is the owner of a valuable commodity, his capacity to work, which other men are eager to buy and pay for. This commodity is inalienably his, and he is free to sell it in the most attractive market he can find. He can pick and choose, not only among pay offers but among occupations. He is, in a larger or smaller way, an independent proprietor, an entrepreneur. His opportunity to rise is limited only by his capacity to make himself useful to others through his ability, energy, and diligence. He is able to command an income from others, not by virtue of any authority or compulsion by a paternalistic state, not because of any protection or favor bestowed upon him by a public or private organization, but because others are ready to buy voluntarily, and in their own interest, what he has to sell. The fact that his labor is a commodity does not make him a slave or a chattel. On

the contrary, it makes him, in the full sense of the phrase, a free man.

How Wages Are Determined

To say that employers seek to "make money" by hiring workers is not to say that they are treating them like chattels. The employer does precisely what the worker does: he tries to employ his resources to the best advantage. In this endeavor, each party attempts to "make money" from the other; that is, each hopes and expects to profit by the employment contract, and each tries to make the best bargain he can. Only in this way can an economy of free enterprise function effectively. If it were not for the hope of "making money," there would be no employment and no enterprise. "Making money" is merely the form which the efficient use of resources takes in an enterprise economy. To read a sinister meaning into the phrase is to betray a lack of understanding of the whole economic process.

It is as pointless to criticize the employer for not paying more than he must as to blame the worker for refusing to work for less than he can get elsewhere. Each party obtains the best terms he can. The worker must work for a wage that will make it profitable for the employer to hire him in turning out a product at a price which consumers are able and willing to pay in a competitive market. The employer must pay a wage that will prevent the worker from being drawn away by other employers. In this way there is established a wage struc-

ture, a set of "going rates" for different occupations and grades of labor. These rates reflect the productivity of industry at the time, the quantity of goods and services produced in relation to the quantity of resources employed. If wage rates are not higher than they are, it is not because of the rapacity of employers but because the productivity of industry, while greater than ever before, is still limited.

The idea of a fair, just, or reasonable wage is very appealing. But what is fair, just, and reasonable under the conditions prevailing at a particular time? Since the dawn of history, buyers and sellers have had very different ideas regarding the concrete meaning of these words. How are such differences to be resolved? There is only one valid and objective criterion: the free market, which, under the consumer's whiplash (and the consumer means everyone), forces both buyers and sellers of labor to conform to the basic reality of the situation, the current level of productivity. . . .

Socialism Really Enslaves Workers

To abolish the market determination of wages—that is, the commodity character of labor—it would be necessary to destroy private enterprise and resort to socialism. Then the worker really would become a chattel. No longer would his wages depend upon his individual ability to make himself useful, as determined ultimately by the current state of industrial productivity, but upon the will of a political master, from whose decision there

would be no appeal. No longer would he be free to choose his occupation, or even his place of residence; he would have to work at his assigned task, whatever and wherever it happened to be, at the bidding of the same political master.

The true "Magna Charta" of labor lies in the very fact that labor is "a commodity or article of commerce," not a pawn in a totalitarian game.

FACTS ABOUT THE “INDUSTRIAL REVOLUTION”

by *Ludwig von Mises*



SOCIALIST and interventionist authors assert that the history of modern industrialism and especially the history of the British “Industrial Revolution” provide an empirical verification of the “realistic” or “institutional” doctrine and utterly explode the “abstract” dogmatism of the economists.¹

The economists flatly deny that labor unions and government prolabor legislation can and did lastingly

¹ The attribution of the phrase “the Industrial Revolution” to the reigns of the two last Hanoverian Georges was the outcome of deliberate attempts to melodramatize economic history in order to fit it into the Procrustean Marxian schemes. The transition from medieval methods of production to those of the free enterprise system was a long process that started centuries before 1760 and, even in England, was not finished in 1830. Yet, it is true that England’s industrial development was considerably accelerated in the second half of the eighteenth century. It is therefore permissible to use the term “Industrial Revolution” in the examination of the emotional connotations with which Fabianism, Marxism, the Historical School, and Institutionalism have loaded it.

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benefit the whole class of wage earners and raise their standard of living. But the facts, say the anti-economists, have refuted these fallacies. As they see it, the statesmen and legislators who enacted the factory acts displayed a better insight into reality than the economists; while laissez-faire philosophy allegedly taught that the sufferings of the toiling masses are unavoidable, the common sense of laymen succeeded in quelling the worst excesses of profit-seeking business. The improvement in the conditions of the workers, they say, is entirely an achievement of governments and labor unions.

A False Impression

Such are the ideas permeating most of the historical studies dealing with the evolution of modern industrialism. The authors begin by sketching an idyllic image of conditions as they prevailed on the eve of the "Industrial Revolution." At that time, they tell us, things were, by and large, satisfactory. The peasants were happy. So also were the industrial workers under the domestic system. They worked in their own cottages and enjoyed a certain economic independence since they owned a garden plot and their tools. But then "the Industrial Revolution fell like a war or a plague" on these people.² The factory system reduced the free worker to virtual slavery; it lowered his standard of living to the level of bare subsistence; in cramming women and children into

² Hammond, J. L. and Barbara. *The Skilled Labourer 1760-1832*. 2d ed. London, 1920. p. 4.

the mills it destroyed family life and sapped the very foundations of society, morality, and public health. A small minority of ruthless exploiters had cleverly succeeded in imposing their yoke upon the immense majority.

A Wretched People

The truth is that economic conditions were highly unsatisfactory on the eve of the Industrial Revolution. The traditional social system was not elastic enough to provide for the needs of a rapidly increasing population. Neither farming nor the guilds had any use for the additional hands. Business was imbued with the inherited spirit of privilege and exclusive monopoly; its institutional foundations were licenses and the grant of a patent of monopoly; its philosophy was restriction and the prohibition of competition both domestic and foreign. The number of people for whom there was no room left in the rigid system of paternalism and government tutelage of business grew rapidly. They were virtually outcasts. The apathetic majority of these wretched people lived from the crumbs that fell from the tables of the established castes. In the harvest season they earned a trifle by occasional help on farms; for the rest they depended upon private charity and communal poor relief. Thousands of the most vigorous youths of these strata were pressed into the service of the Royal Army and Navy; many of them were killed or maimed in action; many more perished ingloriously from the hardships of the

barbarous discipline, from tropical diseases, or from syphilis.³ Other thousands, the boldest and most ruthless of their class, infested the country as vagabonds, beggars, tramps, robbers, and prostitutes. The authorities did not know of any means to cope with these individuals other than the poorhouse and the workhouse. The support the government gave to the popular resentment against the introduction of new inventions and labor-saving devices made things quite hopeless.

Obstacles to be Surmounted

The factory system developed in a continuous struggle against innumerable obstacles. It had to fight popular prejudice, old established customs, legally binding rules and regulations, the animosity of the authorities, the vested interests of privileged groups, the envy of the guilds. The capital equipment of the individual firms was insufficient, the provision of credit extremely difficult and costly. Technological and commercial experience was lacking. Most factory owners failed; comparatively few succeeded. Profits were sometimes considerable, but so were losses. It took many decades until the common practice of reinvesting the greater part of profits earned accumulated adequate capital for the conduct of affairs on a broader scale.

That the factories could thrive in spite of all these

³ In the Seven Years' War 1,512 British seamen were killed in battle while 133,708 died of disease or were missing. Cf. W. L. Dorn, *Competition for Empire 1740-1763*. New York, 1940. p. 114.

hindrances was due to two reasons. First there were the teachings of the new social philosophy expounded by economists, who demolished the prestige of mercantilism, paternalism, and restrictionism. They exploded the superstitious belief that labor-saving devices and processes cause unemployment and reduce all people to poverty and decay. The laissez-faire economists were the pioneers of the unprecedented technological achievements of the last two hundred years.

Then there was another factor that weakened the opposition to innovations. The factories freed the authorities and the ruling landed aristocracy from an embarrassing problem that had grown too large for them. They provided sustenance for the masses of paupers. They emptied the poorhouses, the workhouses, and the prisons. They converted starving beggars into self-supporting breadwinners.

Jobs Meant Survival

The factory owners did not have the power to compel anybody to take a factory job. They could only hire people who were ready to work for the wages offered to them. Low as these wage rates were, they were nonetheless much more than these paupers could earn in any other field open to them. It is a distortion of facts to say that the factories carried off the housewives from the nurseries and the kitchens and the children from their play. These women had nothing to cook with and to feed their children. These children were destitute and starv-

ing. Their only refuge was the factory. It saved them, in the strict sense of the term, from death by starvation.

It is deplorable that such conditions existed. But if one wants to blame those responsible, one must not blame the factory owners who—driven by selfishness, of course, and not by “altruism”—did all they could to eradicate the evils. What had caused these evils was the economic order of the pre-capitalistic era, the order of the “good old days.”

In the first decades of the Industrial Revolution the standard of living of the factory workers was shockingly bad when compared with contemporary conditions of the upper classes and with the present conditions of the industrial masses. Hours of work were long, the sanitary conditions in the workshops deplorable. The individual's capacity to work was used up rapidly. But the fact remains that for the surplus population which the enclosure movement had reduced to dire wretchedness and for which there was literally no room left in the frame of the prevailing system of production, work in the factories was salvation. These people thronged into the plants for no reason other than the urge to improve their standard of living.

Catering to the Rich

The laissez-faire ideology and its offshoot, the “Industrial Revolution,” blasted the ideological and institutional barriers to progress and welfare. They demolished the social order in which a constantly increasing number of

people were doomed to abject need and destitution. The processing trades of earlier ages had almost exclusively catered to the wants of the well-to-do. Their expansion was limited by the amount of luxuries the wealthier strata of the population could afford. Those not engaged in the production of primary commodities could earn a living only as far as the upper classes were disposed to utilize their skill and services.

Serving the Poor

But now a different principle came into operation. The factory system inaugurated a new mode of marketing as well as of production. Its characteristic feature was that the manufactures were not designed for the consumption of a few well-to-do only, but for the consumption of those who had hitherto played but a negligible role as consumers. Cheap things for the many, was the objective of the factory system. The classical factory of the early days of the Industrial Revolution was the cotton mill. Now, the cotton goods it turned out were not something the rich were asking for. These wealthy people clung to silk, linen, and cambric.

Whenever the factory with its methods of mass production by means of power-driven machines invaded a new branch of production, it started with the production of cheap goods for the broad masses. The factories turned to the production of more refined and therefore more expensive goods only at a later stage, when the unprecedented improvement in the masses' standard of living

which they caused made it profitable to apply the methods of mass production also to these better articles. Thus, for instance, the factory-made shoe was for many years bought only by the "proletarians" while the wealthier consumers continued to patronize the custom shoemakers. The much talked about sweatshops did not produce clothes for the rich, but for people in modest circumstances. The fashionable ladies and gentlemen preferred and still do prefer custom-made frocks and suits.

Mass Production for the Masses

The outstanding fact about the Industrial Revolution is that it opened an age of mass production for the needs of the masses. The wage earners are no longer people toiling merely for other people's well-being. They themselves are the main consumers of the products the factories turn out. Big business depends upon mass consumption. There is, in present-day America, not a single branch of big business that would not cater to the needs of the masses. The very principle of capitalist entrepreneurship is to provide for the common man. In his capacity as consumer the common man is the sovereign whose buying or abstention from buying decides the fate of entrepreneurial activities. There is in the market economy no other means of acquiring and preserving wealth than by supplying the masses in the best and cheapest way with all the goods they ask for.

Blinded by their prejudices, many historians and

writers have entirely failed to recognize this fundamental fact. As they see it, wage earners toil for the benefit of other people. They never raise the question who these "other" people are.

Mr. and Mrs. Hammond tell us that the workers were happier in 1760 than they were in 1830.⁴ This is an arbitrary value judgment. There is no means of comparing and measuring the happiness of different people and of the same people at different times. We may agree for the sake of argument that an individual who was born in 1740 was happier in 1760 than 1830. But let us not forget that in 1770 (according to the estimate of Arthur Young) England had 8.5 million inhabitants, while in 1831 (according to the census) the figure was 16 million.⁵ This conspicuous increase was mainly conditioned by the Industrial Revolution. With regard to these additional Englishmen the assertion of the eminent historians can only be approved by those who endorse the melancholy verses of Sophocles: "Not to be born is, beyond all question, the best; but when a man has once seen the light of day, this is next best, that speedily he should return to that place whence he came."

The early industrialists were for the most part men who had their origin in the same social strata from which their workers came. They lived very modestly, spent only a fraction of their earnings for their households, and put the rest back into the business. But as the entrepreneurs

⁴ Hammond, J. L. and Barbara. *loc. cit.*

⁵ Dietz, F. C. *An Economic History of England*. New York, 1942. pp. 279 and 392.

grew richer, the sons of successful businessmen began to intrude into the circles of the ruling class. The highborn gentlemen envied the wealth of the parvenus and resented their sympathies with the reform movement. They hit back by investigating material and moral conditions of the factory hands and enacting factory legislation.

Continuously Better Living

The history of capitalism in Great Britain as well as in all other capitalist countries is a record of an unceasing tendency toward the improvement in the wage earners' standard of living. This evolution coincided with the development of prolabor legislation and the spread of labor unionism on the one hand and with the increase in the marginal productivity of labor on the other hand. The economists assert that the improvement in the workers' material conditions is due to the increase in the per capita quota of capital invested and the technological achievements which the employment of this additional capital brought about.

As far as labor legislation and union pressure did not exceed the limits of what the workers would have got without them as a necessary consequence of the acceleration of capital accumulation as compared with population, they were superfluous. As far as they exceeded these limits, they were harmful to the interests of the masses. They delayed the accumulation of capital, thus slowing down the tendency toward a rise in the marginal productivity of labor and in wage rates. They conferred

privileges on some groups of wage earners at the expense of other groups. They created mass unemployment and decreased the amount of products available for the workers in their capacity as consumers.

Unionism Credited Unduly

The apologists of government interference with business and of labor unionism ascribe all the improvements in the conditions of the workers to the actions of governments and unions. Except for them, they contend, the workers' standard of living would be no higher today than it was in the early years of the factory system.

It is obvious that this controversy cannot be settled by appeal to historical experience. With regard to the establishment of the facts there is no disagreement between the two groups. Their antagonism concerns the interpretation of events, and this interpretation must be guided by the theory chosen. The epistemological and logical considerations which determine the correctness or incorrectness of a theory are logically and temporarily antecedent to the elucidation of the historical problem involved. The historical facts as such neither prove nor disprove any theory. They need to be interpreted in the light of theoretical insight.

Most of the authors who wrote the history of the conditions of labor under capitalism were ignorant of economics and boasted of this ignorance. However, this contempt for sound economic reasoning did not mean that they approached the topic of their studies without

prepossession and without bias in favor of any theory. They were guided by the popular fallacies concerning governmental omnipotence and the alleged blessings of labor unionism.

It is beyond question that the Webbs as well as Lujo Brentano and a host of minor authors were at the very start of their studies imbued with a fanatical dislike of the market economy and an enthusiastic endorsement of the doctrines of socialism and interventionism. They were certainly honest and sincere in their convictions and tried to do their best. Their candor and probity exonerates them as individuals; it does not exonerate them as historians. However pure the intentions of a historian may be, there is no excuse for his recourse to fallacious doctrines. The first duty of a historian is to examine with the utmost care all the doctrines to which he resorts in dealing with the subject matter of his work. If he neglects to do this and naively espouses the garbled and confused ideas of popular opinion, he is not a historian but an apologist and propagandist.

The Antagonism Persists

The antagonism between the two opposite points of view is not merely a historical problem. It refers no less to the most burning problems of the present day. It is the matter of controversy in what is called in present-day America the problem of industrial relations.

Let us stress one aspect of the matter only. Vast areas—Eastern Asia, the East Indies, Southern and Southeast-

ern Europe, Latin America—are only superficially affected by modern capitalism. Conditions in these countries by and large do not differ from those of England on the eve of the “Industrial Revolution.” There are millions and millions of people for whom there is no secure place left in the traditional economic setting. The fate of these wretched masses can be improved only by industrialization. What they need most is entrepreneurs and capitalists. As their own foolish policies have deprived these nations of the further enjoyment of the assistance imported foreign capital hitherto gave them, they must embark upon domestic capital accumulation. They must go through all the stages through which the evolution of Western industrialism had to pass. They must start with comparatively low wage rates and long hours of work. But, deluded by the doctrines prevailing in present-day Western Europe and North America, their statesmen think that they can proceed in a different way. They encourage labor-union pressure and alleged prolabor legislation. Their interventionist radicalism nips in the bud all attempts to create domestic industries. These men do not comprehend that industrialization cannot begin with the adoption of the precepts of the International Labor Office and the principles of the American Congress of Industrial Organizations. Their stubborn dogmatism spells the doom of the Indian and Chinese coolies, the Mexican peons, and millions of other peoples, desperately struggling on the verge of starvation.

A DUTY OF MANAGEMENT

by *Ben Moreell*



THERE is a growing sense of responsibility on the part of businessmen for the support of education. There are, also, certain responsibilities of business management to its stockholders, those who have invested their savings in the business. Included among these are:

1. Recruiting and training a labor force
2. Procuring sources of raw materials
3. Acquiring efficient tools and equipment
4. Developing economical manufacturing processes
5. Locating profitable markets, and
6. Making a decent profit

But more important than all these is the responsibility for preservation of the stockholders' property.

When "government ownership of industry" ideas are on the rampage, as they are now, and when the only antidote to these are "private ownership ideas," it is the duty of management to aid educational efforts which *promote private ownership ideas*, to withhold aid from those which *support government ownership ideas*.

Admiral Moreell is Chairman of the Board of Jones & Laughlin Steel Corporation. The above statement is from an address, "The Role of American Business in Social Progress," before the Indiana State Chamber of Commerce at Indianapolis, December 9, 1955.

LOOKING OUT FOR YOURSELF

by Leonard E. Read



FIRST, may I offer you hearty and well deserved congratulations on completing the formal, institutional phase of your education. And I especially offer you best wishes for the next and most important phase of your education—that which is to come under your own management. For assuredly, graduates of this splendid Institute will avoid an all too common error—the notion that the beginning of earning is the end of learning!

It is not at all improbable that you have, until now, been so engrossed in technical and other formal educational pursuits, that you have given but scant thought to the educational program you must resolve for yourself, beginning tomorrow. I would like to present for your consideration some of the problems I foresee for you, issues with which students of specialized subjects may not be too familiar.

Unless you are alerted, or are different from most of the folks I know, you can easily remain unaware of the two opposed ways of life that will be contesting for your

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attention and support in the years ahead. One of these ways—the collectivistic—has by far the most numerous adherents. Indeed, you will be fortunate if you find even a few individuals who harbor no collectivism whatever. Collectivism is easy enough to identify when it comes plainly tagged as socialism, communism, Fabianism, Nazism, the Welfare State, the planned economy, or state interventionism. But one has to be sharply discriminating to discern it when it is untagged or concealed; when it is offered as proper fare by so-called conservative political parties; when it is endorsed by many high-ranking business leaders and their organizations; or when it is urged upon you by your best friends.

Collectivism is a system or idea which holds that the collective—as distinguished from the individual—is what counts. Individual hopes, aspirations, and needs are subordinated to what is termed “the collective good.” Practically, no such system can be implemented unless some person or set of persons interprets what “the collective good” is. Since it is impossible to obtain unanimous and voluntary agreements to these interpretations, they have to be enforced—and enforcement requires a police arrangement which in turn dominates the lives of all persons embraced by the collective. Implicit in all authoritarian systems are wage and price controls, dictation as to what will be produced and distributed, and by whom.

Russia is the world's most pronounced example, but here at home we see the same thing rearing its head in the form of rent control, Valley Authorities, public hous-

ing, parity prices, acreage allotments, union monopoly, federal subsidies of every description, federal subventions to states and cities and districts, governmental foreign-aid programs, import quotas, tariffs, manipulation of money, such as the monetization of debt, and so on.

A Positive Approach

However, it is more or less idle for me to dwell on what I believe to be error. As has been well repeated over and over again, "It is better to light a candle than to damn the darkness." A much sounder approach is to displace the wrong by advancing the right, to argue positively instead of negatively. With this in mind, I should like to take sides in the ideological hassel of our times and commend to your attention the way of life which is the opposite of collectivism. This way of life, also, has numerous labels, but I'm going to give it a simple and descriptive name, "Looking Out for Yourself." That's about as opposite as you can get from having the government looking out for you.

Now there's a lot more to this looking-out-for-yourself philosophy than first meets the eye. To the unreflective person—to the victim of clichés and catch phrases—it will suggest a life of non-cooperation, greed, the law of the jungle, and no concern for the well-being of others. But, be not deceived. If you intelligently look out for yourself, you will thereby follow the way of life most valuable to others.

Perhaps you will better understand this idea when I

explain why there isn't anyone on earth you can constructively control except yourself. Control can be divided into two types, the destructive and the creative. It is simple enough to control others destructively. Little intellectual achievement is required to restrain others, to inhibit their actions, to destroy their lives. There are all sorts of ways to get on the backs of others and hinder them in their creative actions. But the hindering type of control is quite different from the helping type. The hindering type rests primarily and ultimately on the application of brute or physical force.

The Limited Role of Force

Now brute or physical force is all right if confined to its proper sphere—that is, restraining and inhibiting destructive actions such as violence, fraud, misrepresentation, and predation against peaceful persons. Broadly speaking, this is the logical function of government. In sound theory, government should use its police powers only to do for all of us equally that which each of us has a moral right to do for himself in defense of his life, liberty, and property. It should apply physical force only defensively in order to repel that which is evil and unjust.

It should be clearly understood that brute, physical, or police force cannot constructively help anyone. It can give only a negative assist by clearing the obstacles from the road to opportunity. No person, nor any set of persons, can physically force anyone to invent, to discover,

to create. Let us face this fact: One can have no control whatever over any other person creatively. We are indeed fortunate if we have very much control even over ourselves creatively. In any event, such creative control as any of us possesses is confined strictly and exclusively to self.

Creatively, man has no control over others, no power over others, except the power of attraction; and even then, it is the other person who decides upon and determines the degree of attraction. This is a God-bestowed limitation on all men for which we should be forever grateful. I, at least, am pleased that others cannot *compel* me to accept as eternal verities that which they claim to know. And I am even more pleased that I cannot force my opinions and beliefs upon others.

The Power of Attraction

The power of attraction is always and forever a subjective judgment! One may be attractive to none, to a few, to many. Figuratively, others look us over and decide for themselves whether or not we have anything worth their consideration. After all these years of schooling, you fully realize that no teacher is ever self-designated. It has always been you who decided what, if anything, you learned from your teachers. Or, to use a more obvious example, it is the person with the receiving set who does the tuning in—it is never the broadcaster.

Put it this way: I can help you in a material sense only if I have money to lend or give to you, or goods and

services to exchange with you. I cannot help you materially if I am a pauper. Intellectually, I can assist you if I possess understanding not yet yours. The moron can give us no help intellectually. Spiritually, I can be of value to you only if I am in possession of insights which you have not yet experienced. Materially, intellectually, and spiritually, I am limited to what I can do for any other person by what I have to give, by how well I have looked out for myself in these areas.

Once we have grasped the idea that the best way to help others is first to look out for ourselves, we should next consider how important it is that we do help others. I would like to emphasize the point that each of us, if self-interest be interpreted accurately, has a vested interest in the material, intellectual, and spiritual well-being of others; that our very existence depends on others.

A Society of Specialists

To appreciate the extent of our dependence on others, we need but realize that we are living in the most specialized, the most advanced division-of-labor, the most removed-from-self-subsistence society in all of recorded history.

For example, you will discover, as you take up your highly specialized tasks, that someone else will be growing, processing, and delivering your food, that someone else will be making your clothing, building your home, providing your transportation, supplying your heat, and

making available to you most of the new knowledge you acquire. Indeed, you will discover that individuals from all over this earth will be at your service, willingly exchanging their millions of specialties for your own single specialty. You will discover that you will consume in a single day that which you could not possibly produce solely by yourself in thousands of years. You will see about you a release and exchange of creative energies so fabulous that no living man can trace or diagnose the miracle. You will, for instance, pick up the receiver of a telephone, and instantly there will flow to your personal service the creative energies of Alexander Graham Bell—of tens of thousands of metallurgists, engineers, scientists, operators, linesmen—a complex of creative energies flowing through space and time in order that you may talk to your parents or friends in a matter of seconds.

No one of us can exist without these others. And I repeat, each of us has a vested and vital interest in the creative energies of other people and in the uninhibited exchange of their services, ideas, and insights. We must, if we would intelligently look out for ourselves, see to it as best we can that these others be free of private or political marauders, interventionists, and parasites. Any inhibition to their creative lives is opposed to your and my personal interests, and we err and do not look out for ourselves if we sanction or fail to oppose such debasement. And further, it is incumbent upon all of us to rise as far as we can in our own intellectual and spiritual statures so that these others, on whom we depend, may find something in turn to draw from us.

There is another point about this highly specialized society which deserves your reflection. You men and women, highly trained as specialists yourselves, represent the cream of this year's crop. Tomorrow, you will enter a society in which there will be millions of specialists, the cream of numerous former crops. I hope you will not emulate so many of them who attend only to their own specialties and little else beyond acquiring wealth and entertainment. Perhaps the most dangerous trend of our times is this: Specialists—the cream of the crop in intellectual and spiritual potentialities—who, by attending only to their diverse specializations, leave to the skim milk of the crop the vital problems of man's proper relationships to man.

Danger of Overspecialization

Specialization has its unquestioned blessings. But there is always the danger, which we are now witnessing, of its taking off like spokes from the hub of a wheel, on and on with no regard to boundary or periphery, with each specialist heading into an ever-advancing remoteness, into an atomistic world of his own, always widening his distance from others, losing social cohesiveness with society disintegrating as each of us loses integration with others, with communication between specialists becoming more and more impossible, with nearly all specialists "too busy" to read, study, and meditate on the general problems of man's proper relationships to man. When these trends characterize a society, that society

isn't merely doomed to collapse; it is destined to explode! If you would look out for yourself—and thus for others—you will by example and precept do your part in reversing such trends.

In order that I be not misunderstood, I repeat that specialization has its unquestioned blessings. Specialization, when practiced by whole men, by those who reflect on the meaning of life, by those who have an acquaintance with the humanities, and in a society where creative energies are uninhibited, is the road to material wealth—which can, in turn, lead to intellectual and spiritual wealth. But while specialization is the means to wealth, let us not think of material wealth as an end in itself. Material wealth, like specialization, is only the means to higher ends—intellectual and spiritual wealth.

Wealth Can Free Man for Higher Aims

It seems to me that if material wealth has any moral purpose at all, it is to free man from the restrictions which are imposed by a subsistence level of living; for when one has to labor in the rice paddies from sunrise to sunset merely to eke out an animal existence, he doesn't stand much chance of evolving and developing those numerous potentialities peculiar to his own person. But wealth is not something to be pursued for wealth's sake or merely for luxuries, or quick retirement, or for shirking the problems of life. Material wealth, morally speaking, is but the means to free us from lower employments so that we may labor more industriously at

higher employments, that we may develop more fully the life of the intellect and of the spirit. Material wealth is but a tool to help us develop our God-given faculties of intellect and spirit.

Broadening One's Perspective

And now, a word of counsel. The market place is in high-pitched competition for your specialized services, and the emoluments being offered are relatively high. This may make the future look extraordinarily promising to you. And it can be promising if you don't become isolated in your own specializations. There are many brilliant but lost specialists in industry today, persons who cannot be promoted into higher positions because of a narrowness in their scope. They lack an interest in the problems of others on whom they depend, and an understanding of the society in which it is their lot to live.

Broadening one's scope, continuing one's education into other than one's own specialty, is not a dismal but a glorious prospect. It can be the very zest of life. Certainly, it is a well-known fact that any specialist, be he writer, painter, cook, or engineer, is a better specialist if there be breadth in his understanding, if he be an integrated person, if he has balanced judgments as to right and wrong principles in man's relationships to man.

The devilry going on in the world today is not primarily caused by criminals. The truly malevolent persons are too few in number to account for our wars and the

continuing accumulation of vast armaments between major conflicts. The thoroughly evil persons among us are not numerous enough to account for all the racial and national hatreds and prejudices, for labor violence, for the growing belief that the honest fruits of one's labor no longer belong to the earner, for restrictions on the exchange of goods and services, and for the many other collectivistic inanities and horrors. These things are not the doings of criminals. They originate mostly with the well-intentioned, those who wish to do good to others but who, lacking personal means, thoughtlessly see no harm in employing the police establishments to impose their brand of good on the rest of us, to use the fruits of other persons' labor to satisfy their own charitable instincts.

God bless you in your chosen pursuits, but I implore you not to specialize to the exclusion of your role as good citizens. Don't leave us and yourselves to the mercy of political parasites, those who would try to act the part of God, those who would cast us all in their immature little images. If you would effectively look out for yourselves and thus for others, if you would have a society in which your specializations are to have meaning for you and for your fellow men, if you would realize the possibilities in your own individual creations, you will attend to the perfections of that society. And you will best do this by the perfection of yourselves, not only as skilled specialists but also as accomplished expositors of the looking-out-for-yourself philosophy.

GOVERNMENT IN BUSINESS

by Murray N. Rothbard



IN THE midst of nationwide prosperity, some economic and social problems keep nagging at the public. All over the country, they take the same form. What are they? Traffic congestion, inadequate roads, overcrowded schools, juvenile delinquency, water shortages. Such matters have proven troublesome in many ways; above all, they seem to breed conflicts. Fierce battles are raging between warring groups of Americans. Some want "progressive" education; others want varying blends of the traditional. Some want socialism taught in the schools; others favor free enterprise. Some want religion in the schools, and others proclaim separation of Church and State. Some Americans want water fluoridated, and others want it unmedicated.

Is there anything special about water or schooling that creates insoluble problems? How does it happen that there are no fierce arguments over what kind of steel or autos to produce, no battles over the kind of newspapers to print? The answer: There *is* something special—for the problems of schooling and water supply

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are examples of what happens when government, instead of private enterprise, operates a business.

Have you ever heard of a private firm proposing to “solve” a shortage of the product it sells by telling people to buy less? Certainly not. Private firms welcome customers, and expand when their product is in heavy demand—thus servicing and benefiting their customers as well as themselves. It is only *government* that “solves” the traffic problems on its streets by forcing trucks (or private cars or buses) off the road. According to that principle, the “ideal” solution to traffic congestion is to outlaw all vehicles! And yet, such are the suggestions one comes to expect under government management.

Is there traffic congestion? Ban all cars! Water shortage? Drink less water! Postal deficit? Cut mail deliveries to one a day! Crime in urban areas? Impose curfews! No private supplier could long stay in business if he thus reacted to the wishes of customers. But when government is the supplier, instead of being guided by what the customer wants, it directs him to do with less or do without. While the motto of private enterprise is “the customer is always right,” the slogan of government is “the public be damned!”

Control Breeds Conflict

Conflicts and bitterness are inherent in government operation. Imagine what would happen if all newspapers were published by government. First, because a government operation gets its revenues from coercive taxation

instead of voluntary payment for services rendered, it is not obliged to be efficient in serving the consumer. And, second, conflicts among groups of taxpayers would rage over editorial policy, news content, and even tabloid versus regular size. "Rightists," "leftists," "middle-of-the-roaders," each forced to pay for the paper, would naturally try to govern its policy.

On the free market, in contrast, each group finances and supports its own preferred product, whether newspaper, school, or package of baby food. Socialists, free enterprisers, progressives, traditionalists, gossip-lovers, and chess-lovers, all find schools, papers, or magazines that meet their needs. Preferences are given free rein, and no one is compelled to take an unwanted product. Every political preference, every variety of taste, is satisfied. Instead of a majority or the politically powerful tyrannizing over a minority, every individual may have as much as he can afford of precisely what he wants.

Conscription of Capital

The standard government reply to charges of inefficiency or shortage is to blame the public: "Taxpayers won't give us more money!" The public literally has to be forced to hand over more tax money for highways, schools, and the like. Yet, here again, the question arises: "Why doesn't private enterprise have these problems?" Why don't TV firms or steel companies have trouble finding capital for expansion? Because consumers pay for steel and television sets, and savers, as a result, can make

money by investing in those businesses. Firms that successfully serve the public find it easy to obtain capital for expansion; unsuccessful, inefficient firms of course go out of business. In government, there are no profits for investors and no penalty charged against the inefficient operator. No one invests, therefore, and no one can insure that successful plants expand and unsuccessful ones disappear. These are some of the reasons why the government must raise its "capital" by literally conscripting it.

Many people think these problems could be solved if only "government were run like a business." And so they advocate jacking up postal charges until the Post Office is "run at a profit." Of course, the users would be taking some of the burden off the taxpayers. But there are fatal flaws in this idea of government-as-a-business. In the first place, a government service can *never* be run as a business, because the *capital* is conscripted from the taxpayer. There is no way of avoiding that. (Finance by bond issue still rests on the power of taxation to redeem the bonds.) Secondly, private enterprise gains a profit by *cutting costs* as much as it can. Government need not cut costs; it can either cut its service or simply raise prices. Government service is always a monopoly or semi-monopoly. Sometimes, as in the case of the Post Office, it is a compulsory monopoly—all competition is outlawed. If not outlawed, private competition is strangled by taxes to cover the operating deficits and raise capital for tax-exempt government operation.

Prices Permit Calculation

There is another critical problem in government operation of business. Private firms are models of efficiency largely because the free market establishes prices which permit them to *calculate*, which they must do in order to make profits and avoid losses. Thus, free "capitalism" tends to set prices in such a way that goods are properly allocated among all the intricate branches and areas of production that make up the modern economy. Capitalist profit-and-loss calculation makes this marvel possible—and without central planning by one agency. In fact, central planners, being deprived of accurate pricing, *could not* calculate, and so could not maintain a modern mass-production economy. In short, they could not *plan*. There is no way to gauge the success of a product that the customers are compelled to buy. And every time government enters a business, it distorts pricing a little more, and skews calculation. In short, a government business introduces a disruptive island of *calculational chaos* into the economic system.

No wonder, then, that our economic problems center in government enterprises. Government ownership breeds insoluble conflicts, inevitable inefficiency, and breakdown of living standards. Private ownership brings peace, mutual harmony, great efficiency, and notable improvements in standards of living.

GOVERNMENT LENDING



GOVERNMENT lending is not limited to the lending of money. The government's guarantee, when it is held by private people, is no less a pledge of the public credit than is the government's direct loan paid out in cash; each is the undertaking to risk the government's funds in a venture managed by private parties.

In the sense that each borrower undertakes to repay out of the revenues produced by his work, all government lending is lending to finance enterprise. Where there is no enterprise, there is no prospect of repayment. In this broad sense, where enterprises and enterprisers are discussed in these general comments, the terms are used to apply to farmers and working people as well as to businessmen, partnerships, and corporations.

The theory of government lending is that it produces economic activity which otherwise would not occur. This means that if the government offers to pay the bills, now or later, homes will be built, factories will be constructed and outfitted, minerals will be mined, crops will be grown, electric power and telephone lines will be erected, goods will be exported for sale abroad, employment op-

Extracted from the February 1955 report by the Task Force on Lending Agencies, prepared for the Hoover Commission on Organization of the Executive Branch of the government.

portunities will be created, and many other business transactions will be undertaken, even if in each case it would have been unattractive or financially impossible for the people concerned to undertake the transaction unassisted.

The Good Intentions

Thus, by having the use of the government's financial resources, through a loan or a guarantee, a man can become the owner of a home without first having earned and saved enough money to make a substantial down-payment. A manufacturer, producer, or distributor can expand his facilities and his output without first having accumulated enough property to collateralize a bank loan. A rural cooperative group can sponsor the extension of power and telephone lines into sparsely populated areas without first having acquired enough wealth to make the initial investment and to pay the premium costs of a marginal operation. An exporter can ship his goods for sale abroad in the face of substantial uncertainty concerning profits and collections. An employer can meet payrolls even though his resources may be temporarily frozen in overstocked supply bins and warehouses or in overexpanded customer charge accounts. And many businesses are afforded the opportunity to recover from disaster or from the mistakes of faulty management which, but for the government's assistance, would have brought the threat of business failure and bankruptcy. . . .

These are the aims and the direct results of govern-

ment lending, and they are represented to be its benefits. What are the indirect results and what, if any, are the drawbacks?

The Results and Drawbacks

By legal restrictions and other requirements of trusteeship, private lenders are sometimes restrained from making a loan simply because the borrower's need is too great or because it extends over too long a term.

When the government lends to fill this so-called credit gap, or when through its guarantee it induces private lenders to do so, it takes a considerable share in responsibility for initiating the borrower's project, or for sponsoring its continued operation, more or less in the form in which the borrower conceived it. By doing so, the government relieves both the borrower and the private lender of responsibility for finding additional private investors, for reorganizing the project in other ways, or for working it out by other private means. Among other things, in a particular case, this may tend to stifle initiative.

The need for funds in large amounts or for long periods of time more often than not is the need for owner's capital, and it is unsound economically to try to meet this need by supplying lender's capital instead. Owners are free to tie up their funds for long periods. They also may take risks which lenders may not take. Where the government undertakes to lend what should be owner-capital, or where a banker does so in response to the government's

urging, they shift the business risk from owner to lender and the effect is to lower the standards of lending.

The hazard which goes along with lowering the standards of lending is the hazard that an owner will lose his property by inability to repay the loan with interest, and the lender will become the owner in his place.

The risks of ownership are inseparably woven into the concept of private property. When an owner is relieved of his normal risks other than by his own effort and industry, he is beholden to those who assume the risks in his place. This increases the likelihood that he also will be relieved of the other attributes of property ownership—the right, for example, to decide how, when, where, and by whom the property shall be used. In the end he is likely to be relieved of the property as well. When these things occur where the government provides the financing, the private property becomes public property instead and the government has the right to decide how, where, when, and by whom the property shall be used.

Responsibility follows risk. When an owner's risk in an enterprise has been minimized or eliminated because the government has supplied the funds which he otherwise would have to supply, then, speaking comparatively, the owner tends to feel no great pain from the failure of the enterprise. He would stand to gain by its success, of course, and so he would tend to work for its success; but his position is an unbalanced one because he will not try desperately to prevent its failure. . . .

Private lenders are sometimes restrained from making a loan because the borrower's collateral is not sufficiently

marketable or because there is not enough of it and accordingly the risk of loss is too great.

Lending to Bad Risks

When the government lends to fill this credit gap, or when through its guarantee it induces a private lender to do so, it takes the risk of tying up its funds beyond the time agreed upon; or it takes more than the normal risk of losing them in whole or in part. It may take both. Also, it takes the responsibility which goes along with the decision to initiate or prolong what certainly is a marginal enterprise and what may well be an uneconomic enterprise.

Here the government not only shifts the business risk from owner to lender, but also it weakens the nation's economic structure by preventing the failure or other elimination of weak links in the chain.

We may not like to acknowledge it, but it is an essential truth that many in our society, though they may honestly wish to try, are not capable of being successful businessmen, successful farmers, or even successful homeowners. The failures of such people may be personal misfortunes, but there seems little justification for assessing the taxpayers to cover their losses.

The effect of government lending in these circumstances is not only to lower the standards of lending but to encourage mistaken enterprise with its accompanying dissatisfaction and frustrations.

Private lenders are sometimes restrained from supply-

ing funds to a particular borrower because, though the risks are not too great, equally good investments are more conveniently available, or more profitable investments can be made at a lesser risk.

Promoting Failure

Where the government lends to fill such a credit gap as this, it is assisting unsuccessful competitors. The risks are the normal risks of conventional lending. But in addition, the government assumes responsibility for launching the projects which the borrowers could not launch through their own contacts in the private economy; and it does so without curing the defects which stood in the way.

When loans are made to business enterprises under these circumstances, the borrowers and their business associates are assisted in their competition with others who do not have the backing of the government. This raises in each case the question of whether the general public gains more benefit from helping the otherwise unfortunate loan applicant than it loses by hindering his otherwise more fortunate competitor. It is not possible for the government to assist one competitor without placing handicaps in the path of another.

When a private lender advances funds to a private borrower, both have a stake in the borrower's enterprise. The lender will see to it that the borrower has a sufficient investment to assure his wholehearted effort for success of the undertaking; and once the lender has invested, he

may generally be counted on to support the enterprise in every way that he can. Both stand to gain by its success. Lenders looking out for their own best interests can be, have been, and should continue to be a constructive force in the sound development of homes, communities, and businesses in the United States.

Separation of Interests

Something less than this occurs when the government makes direct loans. The government will not fail and go out of existence because its loans go bad. It will not even be seriously inconvenienced, and its officials are less likely to be criticized for having made a bad loan than they are for having rejected a borrower's application. The government's interest in success of the borrower's enterprise is a remote, impersonal, statistical sort of an interest, almost totally dissociated from its interest as a lender.

A private lender's interest in a borrower's enterprise tends to be equally remote and impersonal when the lender holds the government's guarantee. This has been amply demonstrated of late by the Senate's inquiry into the "Federal Housing Administration scandal." The private lender's investment here is not a stake in an enterprise. It may appear to be one, but it actually is an investment in governmental debt and its financial soundness as an investment is unaffected by the fortunes of the borrower's enterprise.

Irresponsible undertakings occur in these circum-

stances, and they are directly the result of the circumstances. Government lending tends to increase the incidence of irresponsibility in the undertaking of business transactions, including the undertaking to own a home.

The Promoter's Role

Whether we like the idea or are repelled by it, promoters have always been important figures on our national scene. These are enthusiastic people with attractive ideas and persuasive ways. They know how to make friends and influence people.

The function of the promoter has been to originate new ventures and then to find operators and financiers and bring them together. The promotion may be as small a thing as the making of home repairs, and it may be as large a thing as the building of a bridge over the Bosphorous. . . .

The economic problem concerning promoters is to keep them responsible, to restrain them. A part of the restraint comes from the prospective operator who, knowing his business, decides that the promoter's dream makes sense or it doesn't; in part, it comes from the prospective financier who, knowing his business, finds the financial risks acceptable or not. The financier and the operator working together explode the promoter's dream or bring it to fruition, or they may give it a try and fail. Between them also they help to control the promoter's fee, commission, or other compensation, this being a matter di-

rectly related to the success of their mutual undertaking.

When the government is the financier, much of the restraint on promoters is gone; government lending officials have nothing at stake in the borrowers' ventures. When the government is both the operator and the financier, the lack of restraint is even more severe. And anything can happen when the government is the promoter as well as the operator and the financier.

Promotional Abuses

The establishment of a government lending program is an invitation to promoters. . . . It is particularly an invitation to the irresponsible element among the promoters because the government is not a canny lender. When the lender is not canny, promotion meets with less resistance and it is more than likely to yield the promoter more lucrative returns.

An important feature of the study of Reconstruction Finance Corporation lending made by the Senate's Fulbright subcommittee in 1950 and 1951 was the disclosure of the weakness of the government's officials and their inability to stand off the promoters. Now in 1954 we read of roving bands of promoters who sell overpriced substandard repair jobs to unwary homeowners to be paid for with the proceeds of loans guaranteed by the government. . . .

A good loan is one which is certain to be repaid with interest at maturity. The certainty of repayment is at risk on a poor one. The better the collateral pledged to secure

repayment, the better the loan. Possession of the collateral, however, and freedom to use it, are at least as valuable to the borrower as they are to the lender and so it is generally to the borrower's narrow interest to pledge as little as he can get by with. If only the borrower's inclinations were to govern, the nation's loans would grow more and more speculative.

When private lenders are the custodians of the standards of lending, there is a strong resistance to a lowering of the standards. The lenders' own selfish interests are involved. This is one of the strengths of our American competitive economic system. . . .

Political Manipulations

Government lending programs and government guarantee programs have a fatal attraction politically. They can be used handily to bestow favor on particular groups and persons. Through them the use of the nation's wealth can be channeled to those people who are adjudged to have the need but not the means, and this can be done in large part without the appearance of taxing those who have the means. For lending purposes, the savings and other wealth of the people are assembled in the national treasury by issue of the government's obligations in one form or another and through the lending programs, they are applied where their owners would not otherwise willingly apply them. Indirectly, this is compulsory lending. It is politically acceptable—even desirable because the compulsion is concealed by the indirection. Who could ob-

ject to the exchange of his savings for government bonds? And who really feels injury when a bad loan comes to light, as in recent years they have been doing with disturbing frequency?

Because it is attractive politically, government lending grows and grows. Each successive national administration offers more than the last, lest there appear to be retrogression where progress is desired; and there are plenty of pressure groups ready, willing, and able to point to any reappearance of retrogression. On the face of it, the only way for a new national administration to offer more than its predecessor did is to expand the volume of the programs and the fields in which they are available, and to ease up on the standards so that more and more people can have the advantages with less and less risk on their own part.

From Bad to Worse

When FHA began in 1934, a very substantial equity investment, as high as 50 per cent in some areas, was necessary before a man could borrow enough to build himself a home. Now, 20 years later, the proposal has been made in all seriousness, that FHA be authorized in some circumstances to pledge the government's credit where a prospective homeowner has no resources at all and where 40 years is fixed as the term in which he will work out the mortgage. Forty years for many of us is the entire span of our working life and for some it is even more. . . .

Important economic degradation inevitably results when the government's credit is placed at the disposal of private persons and private business concerns to help them gain competitive advantages, and it is the opinion of the task force that the long-term debilitating effects of this latter class of lending outweigh the benefits which the activities yield. These lending programs stifle the private initiative of individual people and though the government can rather easily engage in activities which stifle initiative, there is no positive way in which it can repair the damage. Initiative is encouraged and character is strengthened mainly through the opportunity and experience of overcoming adversity.

THE GREAT SWINDLE

by *Henry Hazlitt*



WE LIVE in the Age of Inflation. It has become a fixed idea among governments that their paramount economic aim must be to maintain "full employment," and that full employment can be maintained only by deficit financing, artificially cheap money, or direct recourse to the printing press.

Once under way, inflation sets in motion powerful special interests which demand its continuance. For it benefits some groups of the population at the expense of all the rest. Inflation is a tax—the cruelest and most wanton of all taxes. Under it, all creditors are systematically swindled.

"He that would hang his dog," says an old proverb, "gives out first that he is mad." He that would swindle a creditor must first give him a bad name. The late Lord Keynes did this by calling him the "rentier." He implied that the rentier was simply an idle plutocrat who lived on unearned interest at the expense of the struggling workers. In his *General Theory* (page 376), Keynes spoke of "the euthanasia of the rentier, and, consequently, the

Mr. Hazlitt is a contributing editor to *Newsweek* in the June 25, 1956 issue of which this article first appeared.

euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital. Interest today rewards no genuine sacrifice."

But who in the modern world *are* the creditors, the "rentiers"? They include, in addition to the holders of mortgages and corporate bonds, the thrifty, the small people who put their money in savings deposits or life-insurance policies, and all the owners of government bonds, who were induced to take these bonds for patriotic reasons. And who are the debtors who are being relieved of the allegedly dreadful burden of having to pay interest and repay capital in currency units of the same value as those they borrowed? They include the big corporations, the big holders of common stocks, and the speculators who have learned how and when to jump in and out and exploit the value of a depreciating currency.

I append a table compiled by Franz Pick for his forthcoming 1956 edition of *Pick's Currency Yearbook*. This shows the depreciation of 53 currencies in the ten years from 1946 to 1955, as measured by each government's own cost-of-living index. This table, it will be noted, shows that the U. S. dollar, the world's monetary pivot, shrank 27 per cent in buying power over the past decade. The British pound sterling lost 35 per cent; the French franc 66 per cent. The currency units of Chile, Paraguay, Bolivia, and Korea had their purchasing power practically wiped out.

Some of the countries whose currencies suffered worst, such as Formosa and Korea, were struggling with special war or defense problems. But this was obviously not true

in Chile, Paraguay, or Bolivia. The truth is that this shocking swindle by governments of their own citizens was brought about in most cases by deliberate monetary or credit inflation. And it was all done under the pious pretense that inflation is a sort of calamity visited on a country by malevolent outside forces, which the politicians and monetary managers profess to be incessantly combating.

CURRENCY UNITS

Loss of purchasing power, 1946-55

	<i>Per Cent</i>		<i>Per Cent</i>		<i>Per Cent</i>
Portuguese	0	U. S.	27	Iceland	48
Dominican	2	Canadian	28	Mexican	48
Egyptian	2	Netherlands	29	Nicaraguan	49
Haitian	3	Norwegian	29	Australian	50
Indian	10	Iranian	30	Finnish	52
Pakistan	10	Venezuelan	30	Austrian	54
Ceylon	11	S. African	31	Peruvian	59
Lebanese	16	Spanish	31	Brazilian	60
Belgian	19	Swedish	31	Greek	61
Swiss	19	El Salvador	32	French	66
German	22	Turkish	32	Japanese	67
Honduran	24	Hong Kong	33	Israel	68
Irish	24	Thailand	33	Indonesian	69
Italian	24	Malayan	34	New Taiwan	85
Guatemalan	25	New Zealand	34	Chilean	91
Costa Rican	27	British	35	Paraguayan	91
Danish	27	Colombian	46	Bolivian	95
Ecuadoran	27	Uruguayan	46	Korean	99

THE POWER TO DESTROY

by *William Henry Chamberlin*



ALEXANDER HAMILTON perhaps spoke more wisely than he realized when he referred to the power to tax as the power to destroy. Neither in Hamilton's time nor in the nineteenth century were extreme taxation burdens imposed in free and civilized countries. The right of a man to retain the property which he might earn or inherit was taken for granted as one of the natural rights which figure so largely in the thinking of the Founding Fathers of the American Republic.

There was no general income tax in the United States until 1862. And the rates of taxation during the Civil War, the most desperate emergency in American history, were unbelievably mild by modern standards: 3 per cent on incomes from \$600 to \$10,000, and moderately progressive rates above \$10,000. The whole idea of a tax on income was thrown out the window in 1872 as inconsistent with the American ideal of unlimited personal opportunity. An attempt to levy a 2 per cent tax on incomes in 1894 was declared unconstitutional. Only after the pass-

Mr. Chamberlin has examined the drift toward collectivism as author of numerous books, lecturer, contributor to the *Wall Street Journal* and many nationally known magazines.

ing of the Sixteenth Amendment to the Constitution in 1913 was the principle of the federal income tax firmly imbedded in the United States fiscal system.

The Opening Wedge

It was a very thin opening end of the wedge. The original standard rate of income tax was 1 per cent, with exemptions of \$3,000 for single and \$4,000 for married persons. (Of course, these exemptions are much higher than they would be at present because of the severe depreciation in the purchasing power of the dollar.) There was a surtax of 1 per cent to 6 per cent on income in excess of \$20,000 (the equivalent of about \$53,000 at the present time).

There was a similar development in Great Britain. Only the Boer War, at the end of the nineteenth century, brought the income tax up to one shilling on the pound (5 per cent). Gladstone, the great leader of the British Liberals in the second half of the nineteenth century, wanted to abolish the income tax altogether and reduced it at one time to twopence on the pound (less than 1 per cent).

Notwithstanding what might have seemed the innocuously low rates which were set after the introduction of income tax in the United States, voices of warning were raised against the principle of a levy which placed all the earnings of American citizens at the mercy of politicians, most of them with the politician's instinctive impulse to spend. Senator Benjamin Harvey Hill warned that the

new tax would enable the government "to make all property and rights, all states and people, and all liberty and hope, its playthings in an hour and its victims forever."

Representative William Bourke Cochrane of New York declared in 1894 that "democratic institutions must perish from the face of the earth if they cannot protect the fruits of human industry wherever they are, or in whatever proportion they may be held by the citizens."

The Increasing Burden

The fantastic growth of yield from the personal income tax is illustrated by one striking comparison. The new levy brought in \$80 million in the first year of its imposition. Current yield is \$31.2 billion. Of course, in the intervening period, population and real wealth have grown and the value of money has declined. But not in such steep proportion as over 300 to one—the relation between the current take of income tax and what was levied in 1914.

This increased appropriation by the State of the fruits of the labor of its citizens, or subjects, is a world-wide trend, with one paradoxical exception. Rates of income tax in Great Britain are higher, and exemptions are lower than in the United States, although there is no British equivalent of the state income taxes which often add substantially to the taxpayer's bill in the United States. The German national income tax has been cut and is not so steeply graduated in the upper brackets as the American. However, Germans who are not refugees and who

were not bombed out during the war are obliged to pay a substantial levy, the so-called *Lastenausgleich*, for the benefit of those who were. This probably at least equals the score.

Japanese rates of income tax, applied equally to foreigners, are so heavy that many foreign newspapermen and businessmen cannot afford to live in Japan and have moved to Hong Kong. A recent report from Formosa was to the effect that income tax rates as high as 114 per cent had been levied there, although the Finance Minister was promising to look into the matter.

A Curious Exception

The one exception to a crushing load of direct taxation is found, curiously enough, in communist countries which started off with programs of wholesale nationalization, confiscation, and robberization and still do not tolerate private operation or ownership of industrial or commercial enterprises. But experience has taught the communist political bosses that unequal pay for work of unequal value is good stimulating medicine for productivity. So one finds very sharp wage and salary differentials, to say nothing of extensive perquisites of office in the shape of superior housing, cars, and the like for top level officials and members of the managerial bureaucracy. And in Tito's Yugoslavia, at least at the time of my visit in the summer of 1955, there was no income tax. Lest this should start a stampede of American expatriates to Yugoslavia, I hasten to add that there are many fea-

tures of Tito's brand of communism in that country even less pleasant than filling out income tax blanks.

Effects of Income Tax

The power to tax has indeed proved the power to destroy. The personal income tax, growing like a Frankenstein's monster and showing little abatement from war-time heights, has destroyed for American citizens, among other desirable things:

(1) *The precious sense of personal independence* that comes from being able to provide for their years of old age and retirement. The difference between nineteenth century and twentieth century rates of income tax is the difference between independence and dependence, between the ability of a man of reasonable thrift and diligence to "save up" for his later years and being dependent on some state handout or some company pension scheme. Anyone with a medium middle-class income can take paper and pencil, figure out how much he has paid to satisfy the exactions of federal, state, and sometimes also municipal tax collectors, and calculate what he has lost in terms of an annuity or retirement allowance.

In an age that prides itself on its concern for security, exorbitant rates of personal income tax are a most acute source of personal insecurity. Money that otherwise would have been saved for a rainy day is earned only to be siphoned off by the insatiable demands of the State.

(2) *The sense of economic freedom.* The United States conquered the wilderness, built great cities and fertile farm areas on land once tenanted by a few nomadic savages, built up a standard of living that made it, in Shakespeare's phrase, the envy of less happier lands because the individual American was free to earn what he could and to keep what he earned. Now the government, like a racketeer, "muscles in," demanding a large first cut of everyone's earnings, a cut that becomes progressively and rapidly larger as the individual is presumably more competent and efficient and able to earn more money.

The federal government has a prior claim on more than half (52 per cent, to be exact) of the profits of every corporation. A reversion to serfdom under modern conditions is suggested by the fact that almost everyone must work a certain amount of time for the government by surrendering a portion of his earnings. This time varies from one to two months for those in lower brackets to three to six months as steep progression exerts a leveling influence on those in middle and higher brackets. In the case of the highest incomes, where 91 per cent may go to the State, the individual may reckon that he is working only a few weeks for himself, the rest of the time for the government.

There can be only one end to the prolonged operation of the kind of steeply progressive income tax system which is in force in the United States today. This is to transform what was once a people of self-reliant individualists, accustomed to relying on themselves in emergencies, into an amorphous mass of wards and serfs

of the State. These would be neatly ticketed with social security numbers, conditioned to giving up to the State a larger and larger share of what they earn, and looking to the State to satisfy more and more of their needs. One of the most insidious consequences of the present burden of personal income tax is that it strips many middle-class families of financial reserves and seems to lend support to campaigns for socialized medicine, socialized housing, socialized food, socialized everything.

(3) *The spark plug of incentive* is brought to a sputtering halt by a taxation system that treats wealth as a crime and makes almost impossible the building up, without inherited wealth, of the medium and small fortunes which formerly testified to the vitality of the individualist economic system. Consider a situation that might easily arise in a small business. The income of the owner is \$200,000 a year. He might be able to increase this to \$300,000 by going to some trouble and risk in installing some new machinery that would make for higher productivity. But how much of the extra \$100,000 would he be able to keep? Only a few thousand dollars. Is it reasonable to expect a man to work as hard if he must turn over 90 per cent or more of the fruits of his labor to the State as he would if he could keep all or the greater part of it himself?

The enormous productive successes of the capitalist, or individualist, economic system during the nineteenth century were largely due to the fact that the sky was the limit as regards the rewards of energy and initiative.

Marx and Engels, who wished to destroy the capitalist system, knew what they were doing when they introduced a demand for a heavy graduated income tax into the *Communist Manifesto*. In the United States, where the Socialist party is in liquidation, where there is no taste for outright nationalization, the graduated income tax, regarded by left-wing theorists as a legitimate and desirable instrument of economic and social leveling, has achieved many of the results which were feared or hoped from socialism. It has served to discourage thrift and dilute incentive, sometimes to the vanishing point. It has enormously restricted the range of individual opportunity. It has made the individual vastly more dependent on the State and more avid for state handouts. It has shifted the balance in America from an individual-centered to a state-centered economic and social system.

Mr. Andrews Calls for Abolition

There is much more that could be said in criticism of this form of fiscal exaction. Much of it has been said very ably by a man in a position to know whereof he speaks, Mr. T. Coleman Andrews, former Commissioner of Internal Revenue. Mr. Andrews pulls no punches in an article entitled "Abolish the Income Tax," which is sprinkled with adjectives and expressions like brutal, confiscatory, murderous, brigandage.

Out of a wealth of recent experience the former Commissioner flatly asserts that the income tax law is so complicated that very few taxpayers do or can under-

stand it. Almost two years have elapsed since the Internal Revenue Code of 1954 became law, and it has not yet been possible for the Treasury Department to come up with an official interpretation of that law. The punch lines of Mr. Andrews' article may be found in these paragraphs of his appeal to members of Congress:

Whether you believe it or not, everybody is being overtaxed and the middle class is being taxed out of existence. Thereby the nation is being robbed of its surest guaranty of continued sound economic development and growth and its staunchest bulwark against the ascendancy of socialism. We, who somehow have managed to hold on, finally are beginning to see the shameful extent to which we have been made the special victims of rapacious tax enactments—and we don't like it.

We are concerned about the future because we don't believe that we could stand another serious recession, what with the present "good times" founded as largely as they are on defense production, deficit financing and other generators of thin-ice and phony prosperity, and with the tax collector taking the fruits of our labors in "progressive" ratio to our achievements. High rates of tax don't mean anything when there isn't anything to tax.

What might be deemed a flaw in the position of Mr. Andrews is that he calls for the abolition of the income tax without proposing what to do next. He merely advocates a congressional examination of the whole problem of taxation—an excellent idea in theory, but one that might well bog down in endless delays. Present rates of income tax, which in many cases confiscate the individual's margin for saving, have been more or less passively

accepted on the false assumption that the current level of government spending is untouchable.

No one who has had even limited acquaintance with government in operation is likely to be convinced that no savings in that field are possible. It is elementary human nature to spend government money more freely than one's own money. There certainly is desirable room for saving in handouts to unfriendly foreign neutralist governments.

The Hoover Commission, after a most exhaustive prying into all the dark nooks and crannies of civilian and military bureaucracy, has come up with concrete practical suggestions calculated to save many billions of dollars in federal expenditures. Further substantial savings could be realized if the amazing report of the Committee on Government Operations about the wide scope of government enterprises—often operated at a loss and in competition with private business—were heeded in economy legislation.

Everybody's Business

The time has long passed when the personal income tax could be regarded as something that merely knocked off a little of the surplus wealth of a few millionaires. Its bite is now deep and wide. A levy that starts at 20 per cent (a higher rate than the highest imposed when this tax was first introduced) is distinctly everybody's concern and everybody's business. What is needed is dynamic bipartisan leadership in a tax reduction program that

will make clear the folly of paying out of one pocket so-called benefits and "free" services which are supposed to put something in the other. The proposition should be hammered home that government does not and by its very nature cannot create wealth. It can only redistribute existing wealth and sell to people, at a steep and growing price in taxes, benefits which individuals could well provide for themselves, if they wanted, and if they were not required to carry such a heavy load of taxation.

The United States has been more resistant to socialism, presented under a socialist label, than most other countries. During decades of political activity the American Socialist party was only able to elect two representatives to Congress. And this was a long time ago.

But, while socialism has been refused admission at the front door, it has been sneaking in through the back door and through unguarded windows. Consider the implications of the following provisions of existing financial legislation:

The federal government, through the corporation income tax, takes 52 per cent of the profits of business firms. Then it taxes what is left of these profits a second time, when they are paid out in dividends. In the case of taxpayers in the higher income brackets this means that the government, without assuming any of the risks of business operation, establishes a prior lien on 90 per cent or more of the profits. And there are demagogues ignorant and unscrupulous enough to allege that this government, which through income, inheritance, gift, and

corporation income taxes annihilates private wealth on a gigantic scale, is "a rich man's government"!

History shows by many examples that excessive taxation, the reckless use of the power to destroy, as it has been so aptly called, is an important factor in the decline and fall of civilizations. The following citation from George Finlay's solid historical work, *Greece under the Romans*, is one of many that might be used to illustrate this point:

At last the whole wealth of the empire was drawn into the imperial treasury; fruit trees were cut down and free men were sold to pay taxes; vineyards were rooted out and buildings were destroyed¹ to escape taxation. . . . The increases of the public burdens proceeded so far that every year brought with it a failure in the taxes of some province, and consequently the confiscation of the private property of the wealthiest citizens of the insolvent district, until at last all the rich proprietors were ruined, and the law (of collective responsibility for the payment of taxes) became nugatory.

Small wonder that there was little will to resist the barbarian invasions in the West or the Moslem sweep in the East. The sucking up of power, initiative, and national wealth into a bureaucratic centralized apparatus

¹ In this country and, to a larger extent, in Great Britain, this destruction of spacious homes which cannot be kept up under existing burdens of taxation is already in full swing. In this and other such social and economic matters Britain offers a preview of what may be expected in this country after a decade or two if present trends are not reversed. In "Does the State Build Homes?" Russell Kirk, in his latest book, *Beyond the Dreams of Avarice*, gives a vivid description of the disappearance of British homes which were centers of culture and community sense.

of government is one of the most unmistakable of historical danger signals.

For the last quarter of a century and more this signal has been flashed with increasing urgency to the American people. Now the time has come to reverse the fatal trend toward centralization, to curb the power to destroy which is implicit in a form of tax that makes a mockery of the right of private property and gives the State an elastic and indefinitely extensible claim on the fruits of the labor of its citizens. A decisive repudiation of a type of taxation that stifles initiative and tends slowly but surely to transform free men into wards and serfs of the State would resound through the land with the invigorating effect of a new Declaration of Independence.

HOW ARE YOU DOING— PAYWISE?

by F. A. Harper



EACH of us is interested in the pay he receives for his work. Not only are we interested in what we get this week, but also how we are doing as the years go by.

Experience should add to one's worth at his work. If your pay is not increasing over the years, either your pay is not following the upward trend of your work or your work output is not increasing as it should. In either event, one should probably change jobs to where he can get the pay due him and find a new stimulus that will increase his output.

It seems a simple matter to tell how you are doing paywise over the years, doesn't it? Simply compare the dollars of pay year by year. But is it that simple?

Suppose your job has been one that has moved you from country to country, year by year. And suppose that your pay, in the currency of each country, has been as follows:

Dr. Harper is a member of the staff of the Foundation for Economic Education.

<i>Year</i>	<i>Country</i>	<i>Yearly pay</i>
1	U.S.A.	5,000 dollars
2	Mexico	50,000 pesos
3	England	2,000 pounds
4	Chile	2,500,000 pesos
5	Turkey	50,000 lira

How have you been doing, over the years?

And suppose that next year's post would be in France where you would be paid 2,000,000 francs. How good an offer is that compared with what you have been getting? Will you accept that offer or not?

Need for Common Denominator

These questions cannot be answered from the evidence given. Every man knows that. He can know nothing about how well he is doing until after he first converts these rates of pay in different currencies into some common denominator. He must first find, as best he can, some way to express them all in terms of comparable things he wants that can be bought with each year's pay. If he shuns the task of making such a comparison because of the difficulties it entails, he will never be able to know how well he is doing as the years go by. Unless he does this, he will never find answers to such questions. And if he fails to answer them because a common denominator seems to him imperfect, he will continue to live in economic blindness, subjecting himself to serious mistakes as a consequence.

The Changing Dollar

All this is quite clear when the problem is one of pay comparisons in lira, dollars, and pounds sterling, which we are never tempted to try to compare directly. But when our pay over the years is all in dollars, we compare it directly and thereby suffer a serious illusion about how well we are doing.

Suppose you had worked at these rates of pay in the United States over a period of years:

<i>Year</i>	<i>Yearly pay in dollars</i>
1	5,000
2	5,200
3	5,400
4	5,600
5	5,800

Since all are expressed in dollars, it seems valid to compare them directly. It appears clear that you have had a steady increase in welfare over the years.

But have you? Actually, it may be that you can tell no more about it than if the amounts year by year had been in terms of different currencies, as in the previous illustration.

Suppose, for instance, that there had been a steady inflation of 5 per cent each year. In that event, your pay would have been declining steadily in "real" terms, after making the dollars comparable in buying power.

Although your pay has been in dollars each year, dollars change in value. They may be as different, one year

from another, as the peso of Mexico is from the peso of Chile, or the franc from the dollar.

There is no easy way to tell how you are doing year by year under an unstable money system and changing tax rates. In fact, you can't tell anything about it until and unless you first make an adjustment for changes in the worth of your units of money remaining after taxes, with passing time.

Income after Taxes

The chart and tabulation show a comparison of 1956 pay dollars and 1940 pay dollars for a married person with two dependents. For other years and other tax dependencies the comparison would be different, of course.

To illustrate how the chart can be used, assume that you are such a person and that in 1940 your income was \$10,000 (base line). Your income in 1956 would have had to be about \$24,000 if its buying power after taxes were to be as much as in 1940.

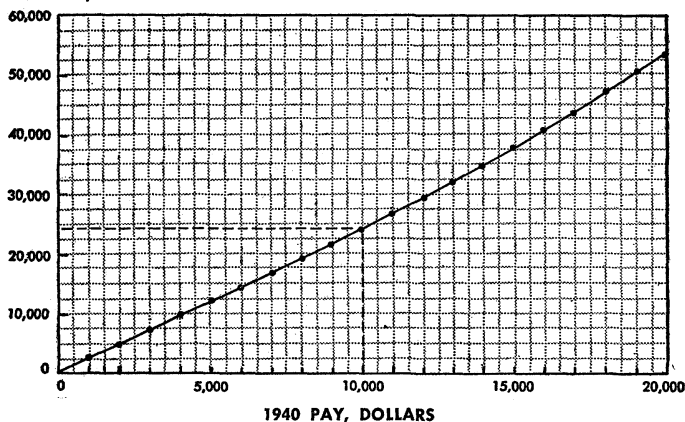
Or to state it another way, pay increases averaging about 6 per cent each year over the previous year would have been necessary, if you were merely to hold your economic position—*merely to hold your own* in the worth of your pay after taxes, over the sixteen-year period.

The \$14,000 additional required in 1956, in order to maintain your buying power, was needed to meet the increase in taxes—if inflation is considered as a form of

INCOME COMPARISONS EQUALIZED AFTER TAXES*

*INCLUDING INFLATION TAX

1955 PAY, DOLLARS



SOURCE: Basic information from issues of the *Statistical Abstract of the United States and National Income Supplements of the Survey of Current Business*, United States Department of Commerce. The tax burden on income at each income level was determined by adding the personal income tax at that level to the proportional share of expenditures of government not covered by the personal income tax. This amounts to assuming that, aside from personal income taxes, the process of bargaining for goods and services in our economy throws the other costs of government on all income levels in proportion to their incomes remaining after the personal income tax. Although any such assumption is unprovable, this one seems as reasonable as any other would be.

tax, as seems proper.¹ What we commonly call taxes, both direct and indirect, absorbed some of the increase, but most of it was due to the inflation tax.

If you are interested in a 1956 comparison with other than a \$10,000 income in 1940, it can be derived in like manner from this same chart. But if you want a compari-

¹ See "The Hiddenest Tax." *The Freeman*. October 1954. p. 138.

son for some other years, or for other than a married person with two dependents, you will have to prepare another similar chart. Laborious? To be sure. But that is another price to be paid for inflation and increasing taxes, before we can know how well we are doing pay-wise. We can't eliminate the question by failing to answer it.

INCOME COMPARISONS
1956 AND 1940

<i>Earned net income</i>	<i>1940 after taxes</i>	<i>1956 after taxes, in 1940 buying power</i>
\$ 600	\$ 467	\$ 241
1,000	778	401
2,000	1,556	802
3,000	2,335	1,155
5,000	4,001	1,797
8,000	6,034	2,747
10,000	7,440	3,373
25,000	16,676	7,514
100,000	44,398	19,290
500,000	132,576	39,129

EXECUTIVE INCENTIVE

by Crawford H. Greenewalt



AS OUR country has developed and matured, we have become increasingly dependent on an active and dynamic industry for our economic growth and prosperity. Without minimizing in the slightest the important contributions to our national economy made by the farmers, the professions, the service trades, the fact is that our standard of living is firmly anchored to our industrial development.

Industry, if it is to keep abreast of its responsibilities to the nation, must have a great number of first-class minds at its disposal. It must compete for them with all other phases of our society, for there are never enough to go around. The fields of government, education, the military, the arts, the professions—all are seeking to persuade able young men to cast their lot with them. Each has its own type of incentive to offer, and the demand for talent always exceeds the supply.

The question of incentive is essential, whether we are

Mr. Greenewalt is President of E. I. du Pont de Nemours & Company. This is an excerpt from his statement of November 9, 1955, to the Sub-Committee on Tax Policy of the Joint Committee on the Economic Report.

speaking of business getting its share of the talent crop or of encouraging the exercise of that talent once it is enlisted. It is perhaps unfortunate that human beings should require lures of any kind as the price of initiative, but I am afraid we have not yet reached that state of grace in which people will surely do their best without external motivation. People being people, they will for the most part respond with their highest ambitions only when there is some stimulus or some satisfaction associated with success.

Adequate incentives, of course, differ with different people. Some are attracted most strongly by the promise of prestige. Some are more interested in leisure time, to follow scholarly pursuits or perhaps simply to meditate upon the ills of the world. To some people, public notice or outward signs of rank and importance are alluring goals. Some seek power. For most, however, the strongest and probably the most desirable incentive is financial reward. Furthermore, financial reward is not only an incentive in itself, it is the only fluid medium that can be used to balance the attractions of the more intangible compensations such as prestige, power, or public notice.

Money Is Taxable

There is another aspect of the monetary incentive that seems to me worthy of comment. It is the only reward that can be cut down on a basis of fixed percentages. We do not, for example, withhold 91 per cent of an

Oscar going to the best moving picture actress of the year. The winner of a Nobel Prize does not have to give the government a certain percentage of the prestige accruing to him. A brilliant violinist does not have to share his applause with the Collector of Internal Revenue. These illustrations may seem facetious, yet they are based on a serious foundation; for we do in fact make the recipient of monetary rewards, and him alone, give up significant percentages in taxes. We are, that is, penalizing only one manifestation of success; and this seems to me, frankly, not only unfair but, for the future, a dangerous practice.

Taxation Destroys Incentive

I am certain that the effectiveness of the money incentive is being eroded by the tax rates that prevail in the upper brackets today. While many companies are experimenting with nonmonetary incentives, basically industry must rely upon the coin of compensation most suitable to its character. I am afraid the raw truth is that, in the long run, we shall begin to lose out and our proportion of the available candidates will fall unless some relief can be obtained.

I am necessarily talking in the future tense because it is quite clear that the point of concern is not the executive of today, nor even of the immediate future. I doubt that high personal taxation has had substantial effect upon the performance of present-day management. By the time a man has reached a position of eminence within

his organization, he is influenced importantly by his sense of loyalty, his sense of obligation, or a preoccupying interest in his work.

But in business, as elsewhere, it is important for us to induce as many of our younger men as possible to set their sights on the job ahead and to broaden their shoulders for responsibilities to come. If we are to do so, the game must be worth the candle. And some of my associates have already noted that there are signs among the younger men that promotion is a little less attractive than it used to be. How this trend may be expected to show up, in specific terms, is hard to say—my own guess is that it will take the form of slow attrition, beginning with borderline cases. Where we now have ten who want to try for the jobs of major importance, we may have nine tomorrow—one candidate deciding that since it is worth considerably less after taxes, it isn't worth the extra effort. So we have nine, and the next year we may have eight, and management will be the poorer for the loss.

Secondary Consequences

If the caliber of management available to American business declines, the results will be reflected inevitably upon everyone, in business or not. The economy we have created in this country is closely intertwined; the effect of one activity upon another is intimate and continuous.

Management ineptitude would assess its penalties in terms of higher costs, diminished opportunity, and a slow-

ing down of the kind of bold venture that is necessary to growth. It would be demonstrated, I think, in declining stability, for often the failure of one firm engulfs others. In so highly integrated an economy as ours, shock waves are transmitted with great speed and ruinous force. We cannot sustain many such shocks without impairing our strength and security as a nation.

And so every citizen has a stake. He wants lower prices, expanded employment, a degree of job security. He wants better schools, better medical facilities, better care for the aged, more cultural facilities. He can have them in an era of rapidly expanding population only if industry grows more dynamic rather than less, better managed rather than worse.

THE REAL REVOLUTION AND YOU

by Ivan R. Bierly



WHO ARE the real revolutionaries in the world today?

Many would say, "The communists, of course! Their day-and-night, around-the-world effort is the major revolutionary program of our times!"

Others would counter, "No! Revolution means a radical change—and communism is only a return to an age-old authoritarian tyranny, rooted in paganism and manifested in imperialism. What's new about that?"

Still others would suggest, "The revolution has happened here in the United States in the past 20 years! Almost overnight we reversed 'rugged individualism' and launched into a bold new era—with a prosperous planned economy and guaranteed security."

While it may come as a shock to some, there is nothing revolutionary or even new about America's quarter-century experiment in attempting to provide for "social welfare."

It has been tried on various occasions in the last 6,000

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years. To cite just one—Augustus Caesar planned meticulously for his people, and initiated various social reforms so they could live happily, free from want, and even without exerting much initiative. But Caesar's Roman Empire vanished into the centuries-long black-out of the Dark Ages.

The American Revolution

No, the greatest of all socio-economic revolutions occurred some 180 years ago on the shores of colonial North America—and it is still going on today. This revolution seemed to some only a battle of Minute Men and muskets—fought on such bloody fields as Lexington and Concord and Bunker Hill. But more significantly it was *a revolution of ideas, fought in the battlefield of men's minds.*

The idea that triumphed was startling in its simplicity, but so powerful that it has long made America the mecca of the downtrodden and walked-over of the world. The idea was simply this: You are an individual person—the equal of any other—not just in theory but in fact. You were created by God, given a mind with which to think, and plan, and learn, and do. Along with this you have a responsibility—to use your talents, and to be a responsible individual.

While this idea may seem obvious today, we must recall that it had never before been accepted as fact, and really practiced in societal life, in all the previous 6,000 years of recorded history! Always before, people

had been weighted down with the tyrannous belief that some men are divinely endowed to lord it over others.

The Declaration of Independence

But on July 4, 1776, a long-germinating idea burst forth its rebellious message. The Declaration of Independence was more than an angry protest that old King George was a wretched scoundrel for all the abuses he had hurled at the American colonists. It was a declaration that no man is delegated by God to rule over his fellows; that individual persons have rights from their Creator; and that along with these rights, individuals are willing and able to look out for themselves and to recognize the rights of others.

Much of the old world laughed. "Such nonsense! This upstart nation cannot last. No such loose government has ever lasted—none ever will. Some are chosen to rule, others to fawn and give!"

More than once the old-world cynics were almost proved right. Some colonists wanted to make George Washington king and transplant an old-world monarchy in America; but Washington knew that Valley Forge and the whole Revolution stood for something else—for throwing off the yoke of servitude.

Again, behind the closed doors of the Constitutional Convention, some notions were propounded that might have wrecked the young nation; but despite mistakes, the delegates produced a remarkable document, wisely

calculated to restrict the role of government and release the energies of free men.

One Great Asset

At the outset, the infant country was burdened with problems. Unemployment, high prices, unrest, and discouragement followed fast in the wake of the revolution. But the young United States also possessed an asset—one so great that it more than offset the liabilities. That asset was a magnificent individual freedom which permitted an unprecedented release of human energy.

Human energy is an interesting thing. The individual person has energy. *You* have some; but *I* can't turn it on. Only *you* can! Magnify the turning on of this energy, full force, in 13 colonies and a few millions of people, and you can understand what happened to America.

There were no economic plans. No blueprints. And no limitations but the requirement that what one did or made must be useful either to himself or someone else—useful enough so that another person would willingly give what he already owned in exchange for it.

Freedom in Action

Encouraged by the freedom to do as they pleased, as long as they did not interfere with the rights of their neighbors, and urged on by the knowledge that they were allowed to keep the fruits of their own labors, the colonists displayed a remarkable industry and a keen inven-

tiveness—ever seeking and finding better, faster, easier ways to do things.

Many saved enough to be able to invest in new ideas. Not all of these investments panned out; but when they did, they resulted in still more savings, which in turn were converted into the tools that made possible still further advances in production.

There was little regulation of industry, and no government attempt to guarantee individual security. Men were on their own—free to work as they pleased but obliged to be self-reliant and provide for their own needs.

The result: The greatest prosperity the world has ever known! The most stupendous advance in material well-being—in new inventions and in the standard of living—that has ever been seen!

Are We Forgetting Our Own Revolution?

But strangely enough, in the past half-century Americans have been running away from their own revolution. They have forgotten—or failed to understand—what it was that gave them their unprecedented prosperity. They have returned to the Old World and imported an alien idea—the socialistic belief that government has the right to control productive activity, and that it is entitled to take from some persons in order to give to others!

This Marxian notion—catering as it does to the human impulse to get something for nothing—has, in many of its forms, been widely accepted. There remains but a

relatively small group which recognizes that these socialistic tendencies are contrary to all that has made America great. And it is a still smaller segment who actually understand the religion-rooted, politico-economic ideas on which this country was founded. It is this group who are America's true revolutionaries. And those who are best informed and most articulate among them are fighting the most genuine revolution in the world today—the revolt against the tyranny of the socialistic Welfare State.

People sometimes say, "I believe in freedom. I thoroughly disbelieve in state socialism. What can I *do*? How can I help *change things*?"

The answer, as I see it, is: "First, do something to yourself; change yourself!" That is, develop your own understanding of the system you say you believe in. Until you thoroughly grasp the precious value of individual liberty, the immense productivity of the free economy, and the great necessity of strictly limited government, you can do little to aid the cause of freedom.

Ingredients for an Intellectual Revolution

Each of us must begin by building up his own idea-arsenal. Let me share with you elements of this again-revolutionary idea which I have found helpful in clarifying my own thinking:

1. A belief in the dignity and inherent worth of the individual.
2. The conviction, which follows naturally, that what-

ever an individual produces is rightly his own, to do with as he sees fit. To deny this is to deny his individual nature; unless his property is his own, he cannot be independent of those who would make a prior claim on his property. And so, no one has a right to tell a person what is a proper use for his property, so long as he does not employ it to damage others.

Every Nation Has Capitalism

In sharpening my own understanding of the private property concept, and in discussing ideas with others, I find it helpful to recognize that "capitalism" is universal in the modern world. Every advanced economy uses machines and tools to augment production, and these are capital. The big question is who will decide how the capital is to be used—the bureaucratic power, or the individuals in the market?

While ours is a capitalistic system, the goal is not just any kind of capitalism, but an *individual* or *competitive* capitalism. Russia today is a capitalist country. Everyone has seen in the newsreels the Soviet copies of American farm machines crossing great fields at harvest. How did Russia get these tools? From savings. If there were no savings, there could be no tools. And the conversion of savings into capital—tools—is capitalism.

So we see that the schism that is splitting the world today is not between capitalism and noncapitalism. It is between state capitalism and individual or competitive capitalism; between state control of the means of produc-

tion, and individual decisions in the market place; between *your* deciding what color and style of shirt you will wear, and someone else doling out his idea of what will satisfy your needs.

What's Happening to Individuals?

In my thought and conversation, I also find it helpful to consider the *individuals* involved in a situation, rather than vague groups such as "society" and "government."

One evening a young minister and his wife came to call at our home. He had never disguised his socialist leanings, and that night—as usual—we started to discuss politics and economics. The conversation soon ran to "social security," and he insisted that government could guarantee such security. I tried to show him that government had no income but what it took from its citizens, so it couldn't guarantee any one of us something we didn't already have—unless it forcibly took it from *someone else*. And at the same time, I observed, we had to pay a high-priced middleman in Washington to do the arranging for us.

He finally accepted this as a correct description of our "social security" system, but proceeded to *endorse* the process of taking from one to give to another.

Taking by Force To Do "Good"

I could hardly believe that this young clergyman, who took his Sunday morning texts from the Ten Com-

mandments, could deviate so far on a Wednesday night! So, I proposed a test of his good faith. I said I would like to act out with him, in a simple man-to-man situation, exactly the same kind of process he was endorsing in the "social security" system. He agreed.

"All right. Give me your wallet," I said.

"What do you mean?"

"Just this. You said it is proper for government to take from some, in order to give to others who are in need. I'm acting as 'government,' and I know three families between here and town who need the contents of your wallet more than you do."

"This is different!" he protested.

But his wife, who hadn't said much so far, spoke up.

"Give it to him, dear. He's got you trapped in your own arguments!"

Actually, I wasn't trying to trap him—only to help him think about this problem clearly. Then I asked him to consider what would happen if I were to rob him every day of a sizeable part of the fruits of his labors—in order to provide "security" for others. I pointed out that he might soon lose the incentive for activity. Like the people who have lived under the Pharoahs, the Caesars, the Czars, Kings, Queens, Committees, and other forms of tyranny, he would probably do no more than he had to, just enough to sustain his own life.

Of course, no one article can ever begin to explain the ideas and thought-techniques which the individual must acquire if he is to be a successful expositor of the freedom philosophy, and thus aid in the revolt against stat-

ism. But this one thing is certain: if any one of us is to help win this idea-revolution, he must be able to answer the questions that are on the minds of his fellow citizens—and answer them in the way that reveals the fallacies and dangers of socialism, and the inherent soundness of the free economy.

We Should Know the Answers

Judging by conversations with business friends and other associates, here are ten of the many questions which thoughtful people are apt to ask:

1. *How does inflation come about?* How much inflation have we had in this country since 1940? What does inflation mean to the man who has insurance, savings, or an investment in stocks and bonds?

2. *What is the present average investment per worker in American industry?* What has happened to the rate at which savings are being accumulated to invest in the tools of production, in order that the level of living might be maintained or improved?

3. *What have compulsory pension systems by industry done to the value of equities in these industries?* What is the significance of the fact that the “social security” program of the federal government is not a funded program?

4. *What is really meant by production?* Why was Karl Marx wrong in his “surplus value” theory? But what significance has the theory had in certain kinds of legislation in this country in recent years?

5. *What is meant by distribution?* What happens in the allocation of resources between different kinds of economic activity when this allocation is interrupted in its natural procedures and diverted by means of subsidies? Where do the funds come from with which subsidies must be paid?

6. *What is the significance of the Sixteenth Amendment*, and of other legislation that has been passed since 1913 to the concept of private property in this country? What is the meaning of private property? What is the basis for the idea that private property is important to a free market system? To a free political society?

7. *What is the function of exchange in a free market economy?* What is meant by a free market system? How can both parties to a transaction in a free market actually gain?

8. *What caused the depression that began in 1929 and extended through the thirties?* Is it correct to say that this was the breakdown of the free market system? Or was it rather the culmination of continued and regular intervention by government in our economy for a number of years prior to that time?

9. *In a free market system, how do we take care of the problem of concentration of "economic power"?* What is there to prevent continued concentration of economic power and domination of the whole society by a very limited number of persons?

10. *What is meant by competition?* What happens to an economy when it is curtailed or eliminated?

I would not pretend that I—or any other persons—have

found fully satisfying answers to all of these questions. I have presented them simply as a challenge—an indication of how much understanding each of us must develop if he is to become a truly able expounder of the free economy.

When Lightning Strikes

So often it is a query—a simple, obvious question which we ought to be able to answer—that reveals to us how little we know.

Once I was at dinner with my family when an electric storm broke loose. With his back to the window, my five-year-old son did not see the lightning strike, but he heard the thunder. We all jumped.

“What makes lightning, Daddy?” he asked.

It was a natural question. But did you ever try to explain lightning to a five-year-old?

While fumbling for the answer to that question, I wondered how soon he might be asking about other things: “What is socialism? What is capitalism? Or—what is individualism? What is a free market?”

And I hoped in my heart I would be able to explain these things so well that he, too, would want to join the great idea-revolution of our time—a revolt started almost two centuries ago by men who loved freedom more than life itself.

DEMOCRACY

The second definition, rather than contradicting the first, appears only to acknowledge that democracy is now with us.

U. S. Army Definition, 1928:

Democracy. A government of the masses. Authority derived through mass meeting or any other form of "direct" expression. Results in mobocracy. Attitude toward property is communistic—negating property rights. Attitude toward law is that the will of the majority shall regulate, whether it be based upon deliberation or governed by passion, prejudice, and impulse, without restraint or regard to consequences. Results in demagogism, license, agitation, discontent, anarchy.

United States Army *Training Manual*,
No. 2000-25, 1928. p. 91.

U. S. Army Definition, 1952:

Meaning of Democracy. Because the United States is a democracy, the *majority of the people* decide how our government will be organized and run—and that includes the Army, Navy, and Air Force. The people do this by electing *representatives*, and these men and women then carry out the wishes of the people.

The Soldier's Guide, Department of the Army
Field Manual, FM 21-13, June 1952. p. 69.

THE CAMEL'S NOSE UNDER THE SCHOOL TENT

by Roger A. Freeman



THE CRISIS in educational accomplishments in the United States has been observed by many persons. President Harold W. Dodds of Princeton University, for instance, has said: "High school graduates no longer have as firm a grasp on the basic 'three R's'—with all that they imply—as they had a quarter century ago."

Three out of every four freshmen entering the University of Nebraska in the fall of 1955 were not prepared for regular college English courses.

Rudolph Flesch's *Why Johnny Can't Read* remained on the best-seller list for 37 weeks.

History has become a thing of the past in many public schools; geography, an unknown and uninhabited territory.

U.S. News and World Report relates: "Many students

Mr. Freeman, formerly Research Director of the Education Committee of the U.S. Commission on Intergovernmental Relations, was one of the Committee of Four assigned by the Committee for the White House Conference on Education to prepare an advance factual report on school finance and federal aid. This article is condensed from an address before The Civic Federation, Chicago, October 31, 1956.

[in European countries, including Russia] at 16 have acquired an education that compares with that of an American college graduate of 20 or 22 years."

The Educational Testing Service at Princeton found that 71 per cent of a group of prospective teachers of elementary arithmetic have a long-standing hatred of the subject. They drop it in high school as soon as allowed, avoid it in college, and return to teach another generation to detest it.

In the past five years, engineering degrees fell to less than half in the United States while the Soviet Union was doubling its output of engineers.

Many see this crisis as due only to a lack of funds. And they feel that this can be cured by federal aid.

Five Fallacies

The case for more finances for the public schools is commonly based on five beliefs:

1. *The schools are being discriminated against in the allocation of public funds.*

The fact is that education has for many years been the largest item of public expenditure in the United States, next to national defense. Comprising about one-third of all state and local government expenditures, it is gaining on the other public services. Between 1900 and 1955 public school enrollment doubled, but school costs in price-adjusted dollars increased more than twelve times. The plain fact is that school funds have consistently risen

faster than enrollment and are continuing to do so. The schools are *not* being discriminated against.

2. *The schools are now receiving a smaller share of the national income than they used to.*

The fact is that expenditures for public education in 1955 were 3.8 per cent of the national income—4.6 per cent, if we leave out war-connected expenditures—as compared with 1.5 per cent in 1900. The United States spends not only more money but also a larger share of the national income on education than any other country of record, according to the World Survey of Education by the United Nations.

3. *The shortages of teachers and classrooms are getting worse and the schools are falling behind.*

The fact is that the number of teachers in the public schools has consistently risen faster than the number of pupils. The teacher-pupil ratio has risen:

1 : 36.7 in 1900

1 : 30.1 in 1930

1 : 26.9 in 1955

Much of the teacher shortage is due to inefficient use of the available teachers. We have tended to limit rather than extend the services of good teachers, in contrast to the other professions. Despite the declining financial rewards of a college education as compared with the manual trades over recent decades, teaching has been doing better than other professions in attracting candidates; and last year only 1.2 per cent of teachers in public schools left to accept other employment.

As to classrooms, there are many serious shortages all over the nation, but they can and will be met if we will avoid waiting for Santa Claus or Uncle Sam to provide them.

4. *The schools are being managed efficiently and are giving the most education for every dollar—but they are not getting enough dollars.*

Since we are investing more money in education than in any other public undertaking except national defense, we should seek the cause of unfavorable results in how the money is being spent rather than in the amount we are spending. Dr. Clarence H. Faust, president of the Fund for the Advancement of Education, recently said that, as compared to the need for buildings and teachers and money for expenses, our school system “needs even more to find ways of making better and more effective use of its resources for the major purposes of education.” Many communities are not willing to tax themselves more heavily for what today’s schools are giving their children, yet nonpublic schools—despite their tuition charges—have been expanding three times faster than public school enrollment.

5. *The states and communities lack the fiscal capacity to take care of the school needs. Federal aid is necessary to provide adequate school support.*

The fact is that there is no federal aid except that taken from within the borders of the 48 states. The Education Committee of the President’s Commission on Intergovernmental Relations found no state economically un-

able to support an adequate school system, and concluded that "federal aid is not necessary either for current operating expenses for public schools or for capital expenditures for new school facilities." At the White House Conference on Education, the advance factual report of the Committee of Four on school finance and federal aid was altered before it was laid before the participants, with some of the questions changed in such a manner as to make it difficult to vote against federal aid. Yet the 1,800 Conference participants found that "no state represented has a demonstrated financial incapacity to build the schools it will need during the next five years." Though the citizens of even the low income states are not anxious to receive federal school aid, the Governor of prosperous New York pronounced in favor of federal aid.

It appears that the sponsors of federal aid have far more in mind than the \$400-million-a-year initial program proposed. Their real purpose is to get a foot in the door, to get the principle of federal responsibility for the schools established, and then prove in subsequent years that the amounts were far too small. Beardsley Ruml has already proposed that the federal government contribute \$3½ billion or more a year to the schools.

Regulation Accompanies Subsidy

It would be naive to assume that the federal government would spend several billion dollars a year for any purpose and have nothing to say on how the money is to be spent. Sooner or later federal administrators would

suggest that schools conform to their ideas of how they should be organized and administered. This is what has happened in all other major federal grant-in-aid programs, as the amounts increased. History teaches that political power inevitably follows the power over the purse.

Judicial opinion has already been expressed on this point, as a matter of fact. The United States Supreme Court, in 1942, proclaimed:

It is hardly lack of due process for the government to regulate that which it subsidizes.¹

A Fateful Step

Federal aid in even small amounts, then, is but the first and fateful step in the nationalization of the public schools. And the dominant philosophy among these school administrators is just the opposite of improvement in educational standards and a restoration of learning in the schools. Instead, it is less emphasis on teaching the basic skills and more hours devoted to the social graces.

E. Smythe Gambrell, as president of the American Bar Association, last year declared his belief that federal aid to the public schools could ultimately bring the destruction of freedom in this country; that it would be nothing short of a national calamity for the public schools to become dependent upon federal aid.

President Eisenhower, while the head of Columbia

¹ United States Supreme Court. *Wickard v. Filburn*, 317 U.S. 111, p. 131, October 1942.

University, once said about the proposal for federal aid for schools: "Unless we are careful, even the great and necessary educational processes in our country will become yet another vehicle by which the believers in paternalism, if not outright socialism, will gain still additional power for the central government. . . . Very frankly, I firmly believe that the army of persons who urge greater and greater centralization of authority and greater and greater dependence upon the federal Treasury are really more dangerous to our form of government than any external threat that can possibly be arrayed against us. I realize that many of the people urging such practices attempt to surround their particular proposal with fancied safeguards to protect the future freedom of the individual. My own conviction is that the very fact that they feel the need to surround their proposal with legal safeguards is in itself a cogent argument for the defeat of the proposal."

Again, in 1956, President Eisenhower warned of "the growth of a swollen bureaucratic monster government in Washington, in whose shadow our state and local governments will ultimately wither and die."

So while we hasten to attempt to cure the educational plight we are now in, we must not in our concern about a competitive race with Russia take steps making tragic prophecy of Abraham Lincoln's warning that "if this country is ever destroyed, it will be from within." What we must guard against is perhaps not so much the Soviets as our own tendency to yield to expediency instead of facing up to problems.

HIGH SCHOOL ECONOMICS

by *Thomas J. Shelly*



STUDENT answers to questions concerning business practices, government controls, labor relations, and other aspects of human affairs ought to indicate what they have been taught about economics. Here are the results of a recent poll of 1,443 students in 13 high schools in a typical industrial community:

56% said owners get too much compared with employees.

56% favored price controls over competition.

77% believed that, in many industries, one or two companies are so large as to constitute virtual monopolies.

71% thought a worker should not produce all that he can.

66% said that the most practical way for workers to raise their living standards was to "get more of the company's money"; only 34 per cent chose the answer: produce more.

54% believed that "the fairest kind of economic system is one that takes from each according to his ability and gives to each according to his needs."

56% when asked, "Which has done most to improve living standards in this country?" chose organized labor; 16

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per cent said "business management"; 14 per cent, "government"; 14 per cent admitted they didn't know. 76% said that owners, not workers, get most of the increased output due to new machinery.

The survey showed that many of the economic opinions of these high school students were socialistic, egalitarian, and quite unrealistic. Apparently most of the students had not been impressively exposed to the ideas of free enterprise or the results it has shown.

Parental Shortcomings

That teen-agers give socialistic answers to questions of economics is an indication of serious neglect of homework—by their parents, that is.

Another interpretation of the results of the survey might be that the boys and girls, having nothing else to go by, were influenced by their teacher's opinions—that their answers reflected indoctrination. Undoubtedly, that sort of thing sometimes happens in our educational institutions, whether done deliberately or simply through the teacher's own lack of economic understanding.

A further reason why so many high school students know so many wrong answers to economic problems may lie in the poor quality of the textbooks that teachers must use. Evidence to that effect is revealed in an experiment by the Foundation for Economic Education.

During the 1954-1955 school year, the Foundation offered to send the following books, on request, to high school principals and teachers:

Understanding Our Free Economy, a textbook by Fairchild and Shelly

Economics in One Lesson by Henry Hazlitt, and *Study Guide* by Thomas J. Shelly

Essays on Liberty, a collection of treatises published by the Foundation, and *Study Guide* by Thomas J. Shelly

The Fairchild-Shelly text carries its own study questions at the end of each chapter. The other books were supplemented with study guides designed to help the teacher present the ideas. All these books approach the subject of economics in the tradition of competitive private enterprise.

Altogether, 5,079 principals and teachers requested 6,232 copies of the books offered. After several months, the recipients were asked their opinions of the books and what use they were making of them. More than a third of them have replied to date. Of the first 1,300 replies only 14 were negative; those teachers did not like the books. All the others responded more or less enthusiastically.

In some cases, where the principals or teachers were able to do so, the books are being used as classroom texts; this practice is not extensive because the selection of textbooks is often the prerogative of state, county, or district high school boards. But, in practically every case the teachers are recommending the books for collateral reading.

It should be remembered that economics as a separate

discipline is not generally included in high school curricula; it is usually merged with other subjects in a course called "social studies." Hence, books on economics must come into study by the side door, so to speak.

This experiment reveals no general prejudice among high school teachers against the free economy; a number of the letters point rather to an unfamiliarity with it, and to an interest in finding out more about it. It is true that the most widely used textbooks, to which the teachers were exposed in their college days, stress egalitarian ideas and the need of government intervention. But it is not true that all teachers have fully accepted these ideas or the ideology of which they form a part. The minds of a large number of them are open. They are willing to learn. Their greatest need is for more and better tools—a body of literature explaining the superiority of the free market over other so-called economic systems.

THE USE OF BOOKS

by Edmund A. Opitz



Books are instruments of culture and indispensable aids to personal cultivation; but reading may also be a substitute for thinking. It depends on what is read. And in our time things have conspired to place obstacles in the path of the person who has the capacity to use books as instruments of his own upgrading.

In such a time and place as eighteenth century England, for example, literature was produced by a relatively small number of writers for the delectation of each other and of a not much greater number of discriminating readers. The larger public was illiterate. Thus the canons which then guided the writing, publishing, and reading of a book were, for the most part, literary canons. But now, however, things are different. In this age of the many-too-many, when everybody can read and nearly anybody can write, there is a deep and broad public demand for books which have no literary pretensions at all. The public hunger for distractions and sensations in book form puts the catering publisher's head in a noose; his enterprise, to the extent it serves this public, ceases to be

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literary and becomes merely commercial. When this happens, the markets are flooded by books which have no excuse for being except that a vast public will buy them. In an environment of this sort the individual who has an innate gift for dealing with ideas is in danger of having this divine spark smothered by the avalanche of trash disgorging off the presses.

Man is poorly equipped with sensibilities at birth. Such powers as he may develop in the course of growing up are evoked by his environment from latent and rudimentary capacities possessed as an infant, a child, or an adolescent. Men differ in their native talent for handling ideas, but even the most gifted will fall far short of his potential unless he somehow gets into an intellectually stimulating environment. Such an environment is inconceivable without books—the right books. But there's the rub! How does one encounter the right books when each one has to be retrieved by wading through a sea of trash to get at it?

Know the Literature

The men of Dr. Samuel Johnson's circle could discourse with facility on the large questions of religion, art, literature, music, economics, and politics. It is inconceivable that a monumental work in any of these fields, or in a field that impinges on any of these, should be unknown to any member of the circle. Today, the reverse appears to hold true. Men make their reputations by the resolution with which they exclude any reference to relevant

but minority opinion. And this is especially true in the fields of economic and political theory.

Here, for example, is a theologian with one of the most penetrating minds in his field in our time. He was already well-known by the mid-1930's and a full professor in a graduate school of divinity. In 1935 he wrote a widely read book on ethics, constructing his theory within a social framework supplied by Marxian economic and political theory. In 1956 he is forced to say, "I was only dimly feeling my way in this book toward a realistic and valid Christian ethic. I disavowed some of my ideas and amended others in later works, which roughly represent my present position. I am not, therefore, able to defend, or interested in defending, any position I took in *An Interpretation of Christian Ethics*."

It takes a broad-gauged man to acknowledge his own error publicly, and all credit to a thinker for this. But the point is that in 1935, a man possessed of his intellectual gifts and standing so high in the academic world should disregard the abundant literature which, even by the thirties, had divested socialism of all claim to intellectual merit. By 1935, Ludwig von Mises' monumental *Socialism* had been available in German for thirteen years, and there were numerous books in English. When it is so hard to write a book for which one recants two decades later, and so easy not to write a book, what on earth persuades a man to indulge in such an effort?

Political passion, probably. The intellectual creed of our time is that while speculative thought, or knowledge for its own sake, might have been all right for the quiet

times in history, the thinker in these revolutionary times must seek to guide the forces of revolution. In embracing this position the intellectual betrays himself, and abandons his indispensable leavening role in society. The average man is thus left without proper guidance and must rub along by himself as best he can. Yet, if he scrabbles around hard enough, he can uncover contemporary works of an intellectual stature to do credit to any age.

Neglect of Economics

The characteristic intellectual of our time is above taking any interest in economics. He is, apparently, as prudish in his grasp of how economic goods are produced as was the worst Victorian prig on the subject of how babies are produced. Nevertheless, even our inauspicious age has witnessed the appearance of works on economics that take their place with the classics in the field. Mises' massive *Human Action* is one of these; Carl Snyder's *Capitalism the Creator* is another. If so many of the intellectuals of our time were not as immune as they appear to be to the basic facts of economics, the political insanities that bedevil us would shrink to man size. The bulk of our present political trouble stems from sheer, willful ignorance of the rules governing the production, distribution, and consumption of material goods. In no field is ignorance a self-curing disease; in economics, perhaps, least of all. There is no cure but the self-imposed discipline of hard study.

Libertarians, generally speaking, have given themselves a pretty fair grounding in basic economics. Their trouble is a tendency to double back on themselves, to get lost in self-contemplation and read nothing outside the narrow confines of their own orthodoxy. This is understandable, but not excusable. It is to follow the line of least resistance. No man has thoroughly explored even his own orthodoxy who has not examined every facet of it in the light of some heresy. To shield an orthodoxy behind a sterile moat is not to protect it; it is only to guarantee that it will die pure. A body of thought must grow or perish, and to grow it must be fertilized by the deliberate practice of exposing it to ideas which raise the blood pressure. What could be healthier, in the long run, than for the libertarian who feels he has his case well in hand to expose it for a few months to the mordant irony of Joseph Schumpeter's *Capitalism, Socialism and Democracy*? This might be one way to separate the men from the boys; there are others.

A Broader Perspective

Those who feel that all the irritation they want comes to them in the course of a normal day might not like the idea of deliberately rubbing themselves the wrong way. Indeed, the wiser course may be to start working with the general premises one already uses and then deliberately push them out so as to lengthen the perimeter of his frame of reference. Government is doing what it shouldn't do, the liberatarian contends. Very well, but why this

misplaced faith in political action at this particular juncture in human affairs? There is no better constructive analysis of the present predicament than Wilhelm Roepke's *The Social Crisis of Our Time*. An even broader perspective of the problem of man upon the earth is to be gained from two books by Gerald Heard, one old and one new: *The Third Morality* and *The Human Venture*. These books will stretch the mind out toward its potential horizons.

Crucial Questions

Having gone thus far, one can no longer postpone a real facing up to the problems which constitute the traditional issues of philosophy, such as: What is the universe like? What is the place of man in it? How do we obtain knowledge? What is good? These are some of the most complex questions a man can ask. Their very abstractness is forbidding to some minds whose bent lies in a different direction. Nevertheless, these questions must be wrestled with. But the books which wrestle most successfully might as well be written in a foreign language, so far as the uninitiated is concerned. His first impulse is to push them aside with an impatient gesture. A morsel which delights the gourmet's educated palate may repel the man who knows only mashed potatoes and vanilla ice cream. For example, open up C. D. Broad's *The Mind and Its Place in Nature*. This is a book, Aldous Huxley has said, "which for subtlety and exhaustiveness of analysis and limpid clarity of exposition takes rank

among the masterpieces of modern philosophical literature." So speaks the connoisseur. But one needs a fairly comprehensive acquaintance with the landscape and terminology of philosophy before tackling such a book as this.

For the man who wants to walk in on the ground floor and get his orientation in philosophy, there is no book to equal C. E. M. Joad's *Guide to Philosophy*. Although Joad did not achieve top rank, even among modern philosophers, he is far and away the most lucid of the tribe. Nevertheless, even this book will keep the mind on tiptoes as it provides a guided tour through the major problems and systems of philosophy. With this in hand, one may go on to Joad's *Matter, Life and Value*, a long and comprehensive exposition of Joad's own system which endeavors not to slight any facet of this universe—either the world of material nature, the domain of life and mind, or the realm of value.

Ethical questions occupy a prominent place in libertarian discussions of economics and politics, but the implications of the ethical premises are seldom explored. They are thoroughly investigated from every angle in a modern classic, *The Faith of a Moralist* by A. E. Taylor of Edinburgh. This huge work will amply repay the hard work it requires. It is a wise book, beautifully written, completely free of technical jargon. Taylor, incidentally, is one of the few moralists who has acquainted himself with the subjective evaluation theory which plays so important a role in free market economics, and who understands that this theory does not necessarily commit the

believer to a denial of the proposition that values have objective reality.

Processes of Growth

We live in an age of digests, popularizations, and simplified versions. There are people who want Plato explained in a paragraph, when even the master himself took a score of volumes without exhausting his subject. But even if the conclusions of a philosopher could be summarized in a few sentences, which is dubious, the more important thing is the processes of thought by which the man reached his conclusions. It is only by long exposure to these processes that the mind of the average man is enlivened, his habitual outlook and attitudes re-oriented, his thought disciplined, his stance corrected. These are processes of growth; there is no substitute for them, and growth takes time.

When a man undertakes a well-considered program of study, he grows in knowledge and understanding. But in addition, the program pays him an extra dividend—his life takes on new meanings. He can say, with Matthew Arnold, "One must, I think, be struck more and more the longer one lives, to find how much in our present society a man's life of each day depends for its solidity and value upon whether he reads during that day, and far more still on what he reads during it."

SELF-HELP

by *Samuel Smiles*



“HEAVEN helps those who help themselves” is a well-tryed maxim, embodying in a small compass the results of vast human experience. The spirit of self-help is the root of all genuine growth in the individual; and, exhibited in the lives of many, it constitutes the true source of national vigor and strength. Help from without is often enfeebling in its effects, but help from within invariably invigorates. Whatever is done *for* men or classes, to a certain extent takes away the stimulus and necessity of doing for themselves; and where men are subjected to over-guidance and over-government, the inevitable tendency is to render them comparatively helpless.

Even the best institutions can give a man no active help. Perhaps the most they can do is to leave him free to develop himself and improve his individual condition.

Though trained as a physician at Edinburgh, Samuel Smiles (1812-1904) was best known as an author. *Self-Help*, “with illustrations of Character, Conduct, and Perseverance,” was published in 1859 and translated in 17 languages. The book grew out of a series of lectures before a group of young men gathered for mutual improvement: “Those who knew a little taught those who knew less—improving themselves while they improved the others.” Presented here are selections from Chapter I of the book.

But in all times men have been prone to believe that their happiness and well-being were to be secured by means of institutions rather than by their own conduct. Hence the value of legislation as an agent in human advancement has usually been much overestimated. To constitute the millionth part of a Legislature, by voting for one or two men once in three or five years, however conscientiously this duty may be performed, can exercise but little active influence upon any man's life and character.

Moreover, it is every day becoming more clearly understood that the function of government is negative and restrictive, rather than positive and active; being resolvable principally into protection—protection of life, liberty, and property. Laws, wisely administered, will secure men in the enjoyment of the fruits of their labor, whether of mind or body, at a comparatively small personal sacrifice; but no laws, however stringent, can make the idle industrious, the thriftless provident, or the drunken sober. Such reforms can only be effected by means of individual action, economy, and self-denial; by better habits, rather than by greater rights. . . .

The Greatest Charity

If this view be correct, then it follows that the highest patriotism and philanthropy consist, not so much in altering laws and modifying institutions, as in helping and stimulating men to elevate and improve themselves by their own free and independent individual action.

It may be of comparatively little consequence how a man is governed from without, whilst every thing depends upon how he governs himself from within. The greatest slave is not he who is ruled by a despot, great though that evil be, but he who is the thrall of his own moral ignorance, selfishness, and vice. Nations who are thus enslaved at heart can not be freed by any mere changes of masters or of institutions; and so long as the fatal delusion prevails, that liberty solely depends upon and consists in government, so long will such changes, no matter at what cost they may be effected, have as little practical and lasting result as the shifting of the figures in a phantasmagoria. The solid foundations of liberty must rest upon individual character; which is also the only sure guaranty for social security and national progress. John Stuart Mill truly observes that "even despotism does not produce its worst effects so long as individuality exists under it; and whatever crushes individuality is despotism, by whatever name it be called."

OUR NATION'S WATER RESOURCES

by *John Chamberlain*



ADMIRAL Ben Moreell is one of the most fearsomely efficient men alive today. He organized the Seabees during World War II. Since his retirement from the Navy in 1946, he has presided over the rising fortunes of the Jones and Laughlin Steel Corporation. In addition to his skills as industrial planner and administrator, Ben Moreell is an intellectual in the non-pejorative, non-egghead sense of the word. He thinks clearly, and his thoughts flow easily into lucid, direct English. Beyond all this, fusing it all into an effective entity, Ben Moreell has a firm grip on the moral values that underlie both the American Constitution and the system of voluntary economic association and free exchange.

Given his special characteristics, it was a foregone conclusion that Admiral Moreell's chairmanship of the Second Hoover Commission Task Force on Water Resources and Power would result in a report that would go way beyond the journeymen necessities of the assignment. The Task Force not only gathered the facts, which

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were all there in thousands of reports anyway. More important, it approached the job with the genius for conceptual thinking. Patriotic beyond the call of duty, it took a completely serious view of the mandate handed it by Congress to provide philosophic criticism of our sprawling, hit-or-miss and frequently wantonly socialistic federal water policies.

Naturally, since Admiral Moreell and his mates are partisans of the libertarian philosophy (Madison and Jefferson were, too), the framing of the report has had the public power associations up in arms. Admiral Moreell realizes that his "six principles" of freedom as applied to the control and uses of water are "poorly designed to attract the support of those who believe in special privilege for political pressure groups." Nevertheless, he hews to his line and, to mix the metaphors, damns the torpedoes.

Just how merrily the chips fly and the torpedoes explode is apparent in his new book, *Our Nation's Water Resources—Policies and Politics* (published by the Law School, the University of Chicago, \$3.50). Originally designed as a series of lectures, the book contains much sober history of the evolution of our federal water policies. There is also a clear exposition of the way the federal government is organized to handle water resources development. The conclusions that are to be drawn from Admiral Moreell's sober juxtaposition of incontrovertible facts are, however, not exactly conducive to a sober state of mind. In fact, the implications of the conclusions are frequently hair-raising.

Upper Colorado Project

Take, for one example, Admiral Moreell's treatment of the recently authorized Upper Colorado River Storage Project. On the face of it nobody could object to conserving Rocky Mountain water for use in the more arid reaches of the Colorado-Utah uplands. The full Upper Colorado project would consist of ten storage dams for impounding water for "river regulation" and development of power, and thirty-three participating irrigation projects. Four of the dams and eleven of the irrigation projects are ticketed for early construction and development, at an initial expense of \$760 million. Although estimated at \$3 billion, the full Upper Colorado project will probably chew up the better part of \$6 billion, given the inflationary bias of the American political economy.

What earthly objection is there to going ahead with the Upper Colorado dams? Well, in the first place, the proposed reservoirs will not be needed for river regulation for at least twenty-five years. (This is a statement made by the Department of the Interior, not something dreamed up by Admiral Moreell.) The sole function of the dams for many years to come will be to provide revenue from the sale of power to subsidize the irrigation projects which are to be operated independently of the dams.

So what, you may ask, is wrong about bringing life-giving water to dry Colorado acres? There would be nothing wrong about it if it were economically justified. The truth is, however, that the capital costs for direct

irrigation investments in the Upper Colorado region would range from \$200 to \$800 an acre. This is so far in excess of the present \$150-an-acre selling price of comparable land that is already irrigated that it would be a true give-away to large and small realty interests. It would be much more practicable and intelligent to hand the money to Georgia or Pennsylvania farmers to improve soil that is far closer to big urban markets. There is a further irony to the whole Upper Colorado irrigation project: the land that is to be fructified at a cost of \$200 to \$800 an acre would produce grains, sugar beets, and sheep, all of which are in sufficient superabundance to be under the price support program.

Water for Industry

Though he thinks it a silly waste of money, the prospect of putting water on soil that would only add to unwanted agricultural surpluses is not what really causes Ben Moreell's blood pressure to rise. His scorn derives its full force from his positive conviction that Colorado will someday need all the water it can get to develop and utilize its oil, oil shale, coal, uranium, titanium, and manganese deposits. With such a plentiful supply of the raw materials of industry, Colorado could support a far greater industrial development than she has at present. Where one thousand gallons of water will grow ten cents worth of crops in Colorado, the same thousand gallons would permit the production of \$5.00 worth of industrial products. Once precious water is committed to sugar

beets or grain, however, it would be politically impossible to take it for any other purpose.

Admiral Moreell's flair for devastating statistical analysis gets free play in his treatment of the TVA. According to the Army Engineers, once in 500 years a flood occurs in the Tennessee Valley which would cover some 666,000 acres of land if there were no dams to impound the water. It would seem, then, that the TVA can be credited with offering protection to a lot of soil. But the TVA's value as a soil protector becomes a trifle elusive when one considers that to save 666,000 acres from a once-every-half-millennium flood it has been necessary to submerge 463,000 acres of land below the normal level of the reservoirs. In addition, 128,000 more acres of river lands must be reserved by the TVA for flood discharge. Thus the TVA has effectively drowned 591,000 acres of the 666,000 it was created to protect. If this makes sense, then Count Screwloose of Toulouse ought to be sitting in the White House!

Admiral Moreell is not suggesting that it would be wise to tear down Norris and Bonneville and Grand Coulee dams. What he is suggesting is that Congress should count the true costs of the water control programs which it initiates. He is willing to admit the federal government has some responsibility in the fields of flood damage abatement and reclamation. But the ultimate objective of the federal government should be to "assess against beneficiaries" the full cost of providing benefits. There is no reason why Georgia or Ohio farmers should be assessed to aid competitors on desert acres in Utah.

Regulatory Confusion

According to the findings of Admiral Moreell's Task Force, there are so many overlapping agencies and authorities in the public water and power fields that it is impossible to find any consistent pattern or purpose in the way things are being done. Lacking coordination, government agencies compete with each other for the right to build dams and irrigation ditches. Things are always being put over under wrong names; power is subsidized in the name of navigation, reclamation is instituted in the name of flood control, etcetera, etcetera. The federal government often uses water resources and power development projects not for economic purposes but to accomplish indirect social and political ends. Programs are undertaken without sufficient analysis of data, the federal government is hit-or-miss in its requirement of adequate contributions for the use of its money for capital outlay, and the states are seldom given enough consideration in planning for the use of water and water power.

Admiral Moreell is particularly critical of the "yardstick" theory of federal power. There can be no "yardstick" when tax exemption and cheap government money make impossible a sound comparison of costs between investor-financed utilities and government projects. Federal power, the Admiral says, "is always subsidized and the rates do not include all of the real costs." When power is disposed under preference clauses to cooperatives and municipally-owned systems, the favored groups get two

unfair advantages, price and priority, over other citizens. But the nonpreference customers contribute to the cost of the subsidies. If the "privileges and immunities" of the citizens are supposed to be equal, then the "preference clause" must be an illegal thing.

Even the old saw that water power projects are usually "too big" to be handled by the states or by private groups fails to survive Admiral Moreell's withering treatment. Says Moreell: the Wisconsin Valley Improvement Company "furnishes an excellent example of an integrated and complete river development undertaken without government subsidy. Here is a privately owned, taxpaying organization which has constructed a series of twenty-one reservoirs on the Wisconsin River." The improvement is "subject to regulation, pays full local, state, and federal taxes, and provides for a 6 per cent return on investments." As for irrigation, "over three-quarters of the irrigation in the West and all of the irrigation in the East has been provided by private enterprise."

Thus the clichés fall like trees in a hurricane in Admiral Moreell's pages. The biggest cliché to bite the dust is the one about the unconscionable private power lobby which is supposed to be mulcting the citizens of hard-earned cash. Ben Moreell brings out the statistic that the cost of power to the average U.S. householder is about 1 per cent of his family budget as against 29 per cent for food and 2 per cent for tobacco. A reduction of 3 per cent in the citizen's tax bill would pay for all of his power!

ECONOMIC ENDS AND MEANS



IN THE current debate over federal farm policy, those who express concern at the government's mountainous holdings of surplus agricultural products are accused of lacking sympathy with the plight of the farmer. When the full-employment bill was under consideration, its opponents were charged with desiring a "pool" of unemployed so that plenty of labor would be available at low wages. Similar accusations are heard in connection with housing, Social Security, "public" power, and many other politico-economic questions. Whenever it is proposed to exert governmental authority for the supposed economic benefit of one group or another, those who question the wisdom of such action tend to be branded as selfish, callous, and indifferent to the welfare of the beneficiary group.

Charges of this kind illustrate the tactical disadvantage suffered by those who look at economic issues from various angles instead of from only one. The forms of political intervention in economic life that add up to the "welfare state"—or, if carried to their logical extreme, to outright socialism—are directed at ends which may appear, and sometimes are, desirable in themselves. No one could

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quarrel with such objectives as continuous full employment, fair prices, adequate housing, and cheap power, if these ends could be defined clearly, attained successfully, and considered apart from the means by which they are sought. Those who oppose measures aimed at ends which are desirable *prima facie* have the burden of proof thrust upon them, a burden that is the more difficult to sustain because the objections, however grave, are usually less obvious than the ends themselves.

Intentions and Results

This seems to be why the world-wide drift toward authoritarianism and inflation is so difficult to combat. Authoritarianism and inflation are not conscious ends but means, or rather secondary results of means. The vast majority of people have no desire to live in political strait jackets or to see their currencies debased. They desire freedom and sound money. But they also desire the "social programs" upon which all modern governments have embarked, and in aiming at one set of goals they are unintentionally moving toward the other. The movement could be stopped in its tracks if the people could grasp the full political and economic implications of the words Montaigne wrote almost four hundred years ago: "It is common to see good intentions, if they are carried out without moderation, push men into very vicious results." To most people, it appears, the "vicious results" are thus far less visible than the "good intentions." As long as governments and popular majorities wear these

economic blinders, as long as they have eyes only for the ends aimed at and not for the secondary results that actually follow, the gradual loss of both freedom and true security seems likely to continue.

The truth of Montaigne's words, as applied to current affairs, rests upon a few easily observable facts. One is that every economic objective involves the sacrifice of one or more other possible objectives. Another and more important one is that every means adopted toward the desired end becomes the cause of many undesired results. Hence it is impossible to aim successfully at one end alone. Intelligent consideration of a concrete proposal must start not with the end but with the means, and it must include as many as possible of the ends which that means will tend to produce. It is not enough to ask whether the objective aimed at is desirable and whether the proposed means will attain that objective. It is necessary to inquire also whether the conscious objective is more important than those which must be sacrificed for it and whether it is important enough to justify the many undesired and perhaps undesirable results that will be entailed.

The Farm Program

The record abounds in illustrations of means that have been directed at certain ends and have produced quite different ones. For example, in the effort to insure "fair" prices for farm products, the United States government offered nonrecourse "loans" on so-called basic commod-

ities at 90 per cent of parity, and on some other farm commodities at varying rates. To prevent overproduction, farmers were required to accept acreage restrictions and, under some conditions, marketing quotas in order to qualify for the loans.

The unintended result was that production of the price-fixed crops continued to increase despite the restrictions. It became worth-while for farmers to cultivate land more intensively and increase yields per acre. Land withdrawn from price-fixed crops was used for others, and these in turn were overproduced. Prices fixed at levels above those prevailing abroad destroyed foreign markets for American farm products. Consumers at home were forced to pay artificially high prices for their foods and fibers, and domestic consumption was discouraged. Farm products from abroad were attracted here by the high prices. The development of competing commodities was stimulated. Even though the government gave away vast quantities of farm products, its holdings continued to grow until, in President Eisenhower's words, "farmers, the intended beneficiaries of the support program, today find themselves in ever-growing danger from the mounting accumulations. Were it not for the government's bulging stocks farmers would be getting far more for their products today."

Housing and Labor

To protect tenants against high housing costs, governments have established rent controls. The unintended

result is that new building and even normal maintenance have been discouraged, housing shortages have persisted, people have been forced to live in antiquated structures and, in some countries, comfortable living quarters have become almost unobtainable at any price.

To improve housing standards, the United States government has provided subsidies in the form of public housing projects and loan guarantees. The unintended result is that the construction industry has been overloaded. Building costs have risen to unprecedented heights. Housing intended for middle- and low-income families has been placed beyond the financial reach of such families. Consumers' incomes have been diverted from other avenues of expenditures into housing. "Wind-fall" profits of builders have given rise to public scandals.

To improve wage-earners' standards of living, the government has enacted minimum-wage laws and encouraged large-scale unionization of workers. As a result, marginal workers have been rendered unemployable. Costs of production have been rigidified and employers virtually forced to economize by abolishing jobs instead of reducing wage rates in slack periods. The strike has been used increasingly as a weapon against the general public and even against the government, rather than against the employer. Major strikes have, in fact, assumed the proportions of national emergencies, forcing the government into the position of virtual arbitrator between the contracting parties. The wage demands of powerful unions, by pushing prices and costs of living sharply upward, have become perhaps the most potent

instrument of inflation in our economy. Meanwhile, the general level of real wages has continued to rise with productivity, as it always has done, irrespective of legislation and unionization.

“Welfare” and “Security”

In the endeavor to protect people against the hazards of unemployment, old age, sickness, and other personal misfortunes, governments all over the world have assumed the responsibility of maintaining high levels of business activity and of providing financial aid to individuals under certain conditions. The means by which these ends are sought are of three principal types: (1) direct control of various phases of economic life, such as prices, wages, hours of labor, and the like; (2) manipulation of the money supply and interest rates by central banks and governments; (3) direct outlays of public funds, either taxed or borrowed, not for the purposes of government but to provide “welfare” and “security” to individuals, as these terms are understood by governmental legislators and officials.

Both the intended and the unintended results vary with the degrees and types of control adopted and the economic positions of countries. Some nations still have serious unemployment problems. In most countries a condition of virtually full employment seems to exist at present, and in some an unmistakable boom is under way, with serious inflationary pressure. Such extraneous factors as wars, revolutions, armament programs, and

American aid have played their parts in bringing about these conditions, in some countries more than others, so that generalizations are difficult. On the whole, the situation tends to strengthen rather than allay doubt as to whether governments can meet the "full-employment commitment" over an extended period.

As for the unintended results, two are beyond question: the suppression of economic freedom and the bias toward inflation. In some countries, freedom of enterprise and freedom of contract have all but disappeared. Almost everywhere, bureaucratic controls over the people's economic lives have been widened and strengthened. There has been constant upward pressure on wages and prices. Persons dependent upon fixed incomes have been impoverished. Tax burdens have become heavier and governmental budgets more difficult to balance. Costs of production have been forced upward. The internal and external purchasing powers of currencies have drifted apart. International payments have been thrown out of equilibrium. To restore balance, governments have shackled foreign trade and foreign exchange with restrictions that have resisted all efforts to free them. Hope for currency convertibility has waned. Recurrent rumors of impending devaluation sweep across the world. Beneath the "pegged" exchange rates and the other regulated values is an all-pervading instability that makes a mockery of all devices for economic security.

The moral effects are less tangible but perhaps no less important. Under the influence of compulsory redistribution of wealth and income by state action, respect for the

individual property rights that lie at the foundation of free institutions has weakened. Many independent, self-reliant citizens have found the lure of "something for nothing" too strong and have degenerated into pressure groups fighting for what they have been taught to regard as their share of the taxpayers' money.

The Final Outcome

The evils, contradictions, and absurdities of the "welfare state" are, in the final analysis, the results of narrow and superficial economic thinking—thinking that concerns itself with a single, seemingly desirable end and not with the innumerable effects that flow from the means adopted toward that end. The proper aim of economic life is an over-all aim: the use of limited human and material resources in such a way as to serve most effectively the needs and desires of all the people. This aim tends to be achieved automatically in a regime of free markets where the people's needs and desires can express themselves in price offers to which producers are forced by economic necessity to conform.

When political authority, even with the best of intentions, interferes with this self-regulating flow of goods and services, it sets up chains of cause and effect which it can neither foresee nor control except by constantly widening its authority. The final outcome is a regimented society from which all objective and valid guides to human effort have vanished, along with human freedom.

TIDINGS FROM THE LORD

by *Leonard E. Read*



IMAGINE a stairway with an infinite number of steps. Next, imagine such a stairway for every subject known and unknown to man—an infinity of stairways.

With these infinities in mind, I contemplate my own several stairways of knowledge, particularly the one that is my favorite—the understanding of liberty.

I assess my position on this stairway, the one which more than any other I wish to ascend. The exact step, following 25 years of effort, appears impossible to designate but, realistically, it isn't far up—shall we say not more than a dozen steps from the bottom. Looking above, I observe quite a few persons, but below me I see untold millions. It seems to me that most of them have failed to take even the initial step.

Two influences try to overwhelm me, each with some success. The first encourages an exaltation by reason of the “advanced” position in which I find myself. The second urges an intolerance toward those many millions and an almost irrepressible desire to set them straight once and for all. Unchecked, these influences would make a reformer of me.

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But something does check them. Now, anyone who believes as I do that the Creator is the Source of Truth believes that we can sometimes glimpse fragments of Truth in the form of ideas. No one can be certain that his ideas are in fact Truth. The nearest approach to certainty is an idea which we believe right. And the nearest approach to right is that which we believe the Source of Truth would commend. Therefore, I must expect the Creator to commend those ideas which I believe to be right. With this in mind, the ideas would be about as follows:

- I have tidings for you. Your actions more often respond to primordial instincts than to dictates of human reason. For one thing, every single person among all of those millions has climbed further up *some* stairway than you. Indeed, many of them have climbed far up numerous stairways that you do not know exist.

Know this, too. I did not assign you the task of setting these folks straight. I have reserved that task for my own management. Those millions must account to me, not to you.

You were given the assignment of perfecting yourself. The opportunities are without limit, so this is a larger chore than you can ever complete. If you wastefully exhort and cajole those folks you think below you, you won't have time to make yourself a worthy example.

Turn your thoughts upward, not downward. See if you can take your next step up the stairway of your chosen understanding. No doubt you will find this difficult, for

you have foolishly used these millions as the standard by which to judge your own perfection. Thus you have gained the false impression that you have arrived. Take the next step and you will see what I mean. You will discover many more persons above you than you can see from the step where you now stand. They possess ideas which you do not now understand and are therefore outside your ken. And, you will be surprised. As your ability to see improves, you will note that some of these new-found persons are among the millions you had thought below you. Regardless of how many steps you take, you will always find that others know more of some things than you do.

A few more thoughts about the ones you think of as being below you. Stand ever ready to communicate, to announce, what you discover as you advance. You will not rise higher if you take the approach of "setting them straight." Nor will you rise higher if you become incommunicado. As you cannot give without receiving, neither can you receive without giving.

You have no way of aiding mankind to climb except by the power of attracting others to you. I have given you this sole means of helping others to understand. If you would increase your powers of making your life attractive, attend to your next step. If you help others by finding new truths, then they also will rise higher and the problems of humanity which so much concern you will to that extent decrease.

In any event, aside from your powers of attraction, leave these others and their understanding to me and to

them. Instead of "setting them straight," help me by moving yourself in the direction of Infinite Intelligence and Consciousness. If you would improve others, you can take only this course. I have not given you the power to cast others in *your* image. Attending to your next step is *your* means of reflecting yourself in *my* image.

Do not be discouraged by this discovery that you are limited. Rather, be encouraged that you have freed yourself of your ignorance of your limitations. The way of intolerance, the way of trying to make others over to suit your own fancy, indeed, the way you are going, not only will fail to improve others—it will destroy you. My way will bear fruit—as much fruit as you possess the capacity to improve yourself. Can you with any logic ask for a faster way? Would you want others endowed with powers to make you over faster than you can improve yourself? I have opened the way of improving man's self to all. I have made each person free to choose whether or not he will take this way.

SERVING OTHERS

by Benjamin F. Fairless



AS FAR as I know, there are only two basic motivations that cause you and me and other people to serve our neighbors voluntarily and regularly. One, of course, is the moral code found in the teachings of our Judeo-Christian religion. We believe it is our moral duty to help our fellow men who are in need—regardless of race or creed or nationality, and regardless of whether or not they can pay for it.

The other motivation that causes us to serve our fellow men is the desire to get something in return from them.

It is sometimes said that when service is motivated by charity and love, it is good; but that when the motivation is materialistic, it is bad. Well, I'm going to challenge the second part of that concept. I'm going to explore the possibility that the desire to earn a profit may cause us to serve more people—more effectively—than does our desire to be charitable.

Of course, I want it clearly understood that the idea

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of serving others with no expectation of return—that is, true charity—is a wonderful practice, and I wish we had more of it. I have the greatest admiration and respect for those dedicated persons who, because of love of God and man, devote their lives to helping others. Without those saintly persons among us, this world would be a rather dull and uninspiring place to live—regardless of the amount of material things we might possess.

Production Must Precede Giving

But it is obvious that only a comparative few of us can devote our entire lives to serving others with no possibility of any material return. If all of us tried it, the production of material goods and services would soon cease completely. Soon there just wouldn't be anything to share with others.

I think that the following question by a little boy to his Sunday school teacher goes straight to the heart of this matter. He asked: "If the reason for our being on Earth is to help others, what reason do the others have for being here?" Since the little boy in that story never did get an answer to his question, I'll try to answer it right now.

It's true that we are here to help others. But it's equally true that the others are here to help us, too. It's just that simple; we're here to understand and love our Creator, to respect our fellow men who are all equal under God, and to serve and help each other. In that way, all of us can live in peace with each other and have

more of the things we want, whatever they may be.

Stop and think with me for a moment as to what would happen to you—or to me or anyone else—if no one helped us in any way.

I assure you that if no one helped me, my standard of living would soon plummet to near zero. Literally, if other people refused to share their talents and skills with me, I would soon perish. I'm just not capable of being my own doctor, making my own clothing, and growing my own food. Even though I'm an engineer, I still can't generate my own electricity, build my own house, and do the ten-thousand-and-one other things that make life both possible and pleasant.

Self-Interest Calls for Trade

If for no other reason, self-interest alone would cause me to offer my poor talents in the service of other people in order to persuade them to help me. For example, how would I manage without the service of the hundreds-of-thousands of persons who maintain and operate our railroads and other forms of modern transportation? Why would anyone go to the trouble of building a railroad for me and others to use?

There must be some excellent reason that causes the owners and operators of the railroads to spend all that time and effort to serve us. Is their motivation charity? Do they do it strictly because they love us? No, I think not.

As near as I can figure it, they do it because we've got

something they want. And the only way they can get it from us legitimately and honestly is to serve us by offering us something we need and want in return. Actually, their primary motivation is profit. After the trade, they hope to have more of what they want than they had before the trade.

And the persons with whom they do the trading also operate on exactly the same basis. The most wonderful thing about this mutual service that is motivated by self-interest is that everyone profits from it.

Since ours is a money economy, we usually exchange currency instead of the actual products of our talents and skills. But what those railroad men *really* want are goods and services produced by others.

They want medical care from the doctors who ride in comfort in their safe and speedy trains. They want food from the farmers and grocers who patronize them. From the shoemakers, they want shoes. From the movie kings and queens, they want entertainment. From the barbers, they want haircuts. And so on through the thousands of other goods and services the railroad owners and employees want and need.

From the hundreds-of-thousands of owners and employees of United States Steel, they want steel to make rails and locomotives. In practice, of course, we don't actually exchange steel for train rides; we find it more convenient to use money that can be converted easily into the desired goods and services.

Because of this self-interest or profit motive, the railroad owners and operators are constantly striving to

serve you and me better. They know that if you and I don't like their service, then we won't serve them in turn by offering to trade the products of our own specialized talents and skills.

As long as coercion and violence are forbidden and suppressed by government—as long as peaceful competition is permitted and encouraged—then the profit motive of self-interest will cause us to devote much time and effort to devising ways and means to serve our fellow men.

A Proper Motivation

Again, I don't mean to imply that the owners and employees of the railroads aren't charitable. Of course they are. Like the rest of us, they also contribute their full share to those unfortunate persons among us who can't produce enough to buy the necessities they need. But the charitable part of their service is probably only a tiny fraction of their total services. Of necessity, the owners and employees of the railroads mostly serve persons whom they expect to serve them in turn.

That attitude and motivation is good, not bad. It is the motivation that causes the production of the greatest amount of products and services for the greatest number of people. It is the basis of our democratic way of life, and it is in perfect harmony with our Judeo-Christian religion.

Unfortunately, there are many sincere persons among us who seem to think that there's something immoral

about making a profit. Whether those misguided persons know it or not, they are thereby discouraging the production of food and shelter for the poorest people who need them most.

That startling fact can be seen most clearly and dramatically by comparing the development of nations where the profit motive is permitted to operate freely, and the development of nations where the profit motive is restricted or entirely illegal. Even without examining them, I am confident you would have no difficulty in guessing which of those nations would show the greatest amount of mutual service, the lowest degree of poverty, and the highest standard of living.

For example, take Venezuela—a country in which our company does considerable business, and which I have visited several times. It is one of the many nations that encourages people to serve each other in the hope of making a profit from their services. The Venezuelan people have something we want, and the American people have something they want. Self-interest causes us to serve each other by exchanging our talents, skills, and resources.

The people of both countries have profited by this exchange. In Venezuela, the result has been a marked rise in education, medical service, roads, housing, food, clothing, and the thousands of other material facilities and services that enable the people to live fuller, better, and longer lives.

Because of this profit-inspired increase in material goods and services in Venezuela, there has also been

an increase in the other type of service—that is, charitable service motivated by love of God and man, with no thought of profit. You see, however much you might want to help your needy neighbor, it is rather difficult to do so when you don't have anything yourself. Only the persons who have accumulated something beyond the requirements for their own subsistence are in a position to share with their less fortunate fellow men.

I don't mean to imply that everything is perfect in Venezuela, the United States, or any other nation that uses the profit motive to increase production and service. Since we are dealing with human beings—and since none of us is perfect—we naturally expect to find greedy persons, evil practices, and questionable laws in every nation. But compared to other nations that use various pretexts to suppress the profit motive, our peoples show a superior record in serving each other.

Suppression of the Profit Motive

I'm not going to identify by name those other nations that discourage or suppress the profit motive. But I will attempt to identify them roughly by two general types, and you can easily do your own selecting.

First there are the nations that claim to operate on the principle laid down by Karl Marx over a hundred years ago. That principle is: "From each according to his abilities, and to each according to his needs."

I'll admit that there is a principle of service in that idea. But since it runs contrary to human nature, it just

doesn't persuade people voluntarily to provide many goods and services for each other.

The high producers soon tire of producing for other people who offer them little or nothing in return for their services. And the low producers who are promised a standard of living based on their needs instead of their efforts, tend to produce even less than they did before. When that happens, the police force must be called in to whip up production all along the line. That is a modern form of slavery, and it is not noted for high production. While it may produce an abundance for the few at the top, it does so at the expense of the great mass of the people.

Monopolies and Cartels

Next are the nations that admit the validity of the profit motive but strangle its operations by means of private monopolies, government monopolies, and various other forms of restriction against competition at home and abroad.

The vast natural resources and the potential skills of the unfortunate people within those nations generally lie idle. The misguided leaders refuse to permit private capital and a competitive market to develop either the resources or the skills. Apparently they fear that someone might make a profit.

Because of this discrimination against the profit motivation of service, the people are discouraged from producing and exchanging products. As a result, they

continue to remain close to a mere subsistence level. The leaders of those backward nations apparently operate on the fallacious idea that if one person makes a profit, then some other person must necessarily suffer a loss.

Trade vs. Aid

Sometimes I think that instead of merely continuing to pour gifts into these backward nations, we would serve them better by devoting more of our efforts to showing them how everyone makes a profit when people exchange goods and services with each other. We should explain to them that no person can make a legitimate and honest profit without serving or supplying other people with something they want and need—something they consider to be an improvement over their former conditions.

I believe that a correct understanding and acceptance of that idea would do far more to feed and clothe the world's people than would all the charity of which we are capable. Further, it would increase the self-respect of people who would no longer be objects of charity. They would become skilled and proud producers, and thereby earn the service of others by serving them in turn.

It is an unquestionable fact that the profit motive here in the United States has caused the greatest outpouring of goods and services the world has ever known. I believe I am safe in stating that, on the average, the poorest one-third of our people have more goods and services at their disposal than do the richest one-third of the people

in most of Africa and Asia, in many areas of Europe, and in some sections of the Western Hemisphere. Yet, in spite of that record, many well-educated persons among us still attack the idea of profits and losses in a competitive economy.

Those misinformed and sometimes vicious critics baffle me. On the one hand, they claim that they want more material goods and services for all. Yet on the other hand, they condemn the motivation that has produced—and will continue to produce—the results they claim to desire.

Some of those critics may say that they don't condemn the profit motive as such, but merely the fact that it permits a few persons to become wealthy. Thus, while those persons may oppose discrimination on the basis of race and creed, they consider it right and desirable to discriminate on the economic basis of wealth.

Reward for Service

Apparently, those critics of wealth fail to realize that if profits are permitted, it naturally follows that some people will become wealthier than others. Actually, in a free market, the persons who become wealthy are those who serve their fellow men most efficiently by producing the goods and services the people most want. Thus when a person condemns wealth, he is merely using different words to condemn the profit motivation that causes the production of the maximum amount of goods and services for the greatest number of people.

In the second place, wealthy people don't carry their assets around with them in the form of cash in a shoe box. Nor do they hide it under the mattress. Instead, their wealth is in the form of factories and machines and other capital equipment that provides jobs and is used to produce and distribute the goods and services we have in such abundance.

When I read some of the schemes for "sharing the wealth," I am frequently curious as to how the authors would divide up a blast furnace among the poor people they profess to champion. I dislike questioning the motives of anyone, but I sometimes suspect that what those persons are really after is control of the wealth for themselves and their own particular groups.

"A Fool and His Money . . ."

I am well aware that a few wealthy persons have proved to be poor stewards of the resources in their care. But even so, I suspect that punitive laws against them would do a great deal of harm and little or no good.

There is a tried and true economic law that will soon dispose of the few misfits among us who have managed to earn or inherit great wealth. That economic principle has been summarized in this Americanism: "A fool and his money are soon parted." If we attempt to hurry up the process by greasing the slide for those on the way down, we thereby injure the general welfare of all by discouraging those on the way up.

Anyway, we must acknowledge the fact that these few

selfish misfits have come by their wealth legally. It's their money, and I'm always reluctant to decree how other people should live and spend their legally acquired resources.

Also, in a free country such as ours, laws aren't designed to apply to specific individuals but to all of us equally. If we attempt to legislate against the particular man who squanders his wealth on riotous living and idle and nonproductive pleasures, we also automatically legislate against the overwhelming majority of the persons who use their wealth wisely for the benefit of all.

Personally, I can see nothing wrong or evil about self-interest and serving others because you have to have them serve you in turn. Like anything else, the profit motive and the resulting accumulation of wealth can also be used for evil purposes by evil people. But by and large, the motivation of profit is primarily responsible for the vast amount of mutual service we find among us today. It is responsible for the constantly increasing standard of living in our country and the world in general. It is a moral method of encouraging all of us to serve each other better and effectively.

MOST IMPORTANT

by Victor Jacobson



THE MOST important people are the farmers, so it is said, for they feed the nation. Laborers, however, are just about as important because they do the real work. On the other hand, were it not for the doctors and for medical science, our life expectancy would be shorter, with less opportunity to enjoy all the other nice things. So we see after all that the doctors are the most important—except for the ministers who are most important because this life is so short and the next one so long.

Let us remember, though, that teachers are the ones who lay the foundation for everything; and unless they do their job well, we won't even get started along any line; we will regress to barbarism. And bear in mind that if it were not for the savers and capitalists, we would still be plowing with a stick and pounding corn in a hollowed stone.

Where would we be if the milkman didn't get up early to serve us and our babies? If our babies were to die, what would we have? So there really is no argument; the milkman is the most important. Of course, we have

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to have electricity or nearly everything would stop. The house would be cold, the refrigerator warm, and the television set would go dead. Think of it! Electric service surely is of paramount importance. In case the service is disrupted, one must call the power plant, by telephone. Perhaps phone service is the most important.

Before telephones, delivering a message over muddy roads was slow and tedious. Now, of course, many roads are paved and greatly improved. Our modern highways are most important, particularly those which lead to our most important commuting stations and airports. But what would these improved roads be worth without cars? Think what the automobile factories really mean to us!

Individuals Know Best

The truth is that many different things are most important, each of us having his own idea of their relative importance, depending upon the time and circumstances. Each of us tends to do what seems most important to him at the moment, and this accounts for all human creativity and production. With our creative and productive specialties we come to be important to one another, often in ways which could not be foreseen and which many of us may never clearly understand. This variability in the subjective judgments of the importance of things is the basis of all trade and voluntary cooperation, enabling each productive individual to gain peaceful possession and use of vastly more than he could ever hope to attain strictly on his own.

We also know that personal freedom to judge the importance of things can lead to conflict as well as to voluntary cooperation. There are those who think it most important to gain something for nothing, which leads to conflict, making the power of compulsion seem most important. Hence, we tend to rate national defense, the maintenance of internal law and order, and the administration of justice—the force of government—as most important. But the governmental power to suppress private outbursts of violence, thus protecting life and property, is also a power capable of taking the lives and the property of individuals. And in the name of promoting their own special interests, groups often advocate compulsory action detrimental to the peaceful and proper interests of others.

Therein lies the danger of concluding that any one thing is most important—so important that force and compulsion seem justified as a means to that end. Coercive means tend to become ends in themselves, having no logical stopping place until all resistance, all deviation, all competition, all exchange, all initiative, all individuality is suppressed.

THE PRICE OF FREE MEDICINE

by Colm Brogan



LAST year the British National Health Service paid one million pounds (\$2,800,000) for bottles and other containers to be used for drugs and medicine. In contrast, the grant for research in mental health was a mere 27 thousand pounds (\$75,600).

These figures illustrate the most damaging though least heeded effect of socialized medicine. Floods of money feed the insatiable appetite for pills, while fundamental medical research is largely neglected. Intelligent doctors are fully aware of this threat to the whole future of British medicine, but the British people generally do not sense the danger. Socialized medicine allows popular demand to dictate the use of available resources through political pressure, the consequence being this gross distortion of the strategy and tactics of medical development.

Not even Mr. Bevan himself denies that the British people are heavily overindulging in nostrums of dubious value. Faith in these nostrums is scarcely more intelligent

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than faith in magic, but vast sums are poured out of the public purse for cures of largely imaginary value for diseases which are also largely imaginary.

At the same time, nearly half the hospital beds in Britain are occupied by mental patients, and many would-be voluntary patients must be refused admission. Conditions in some of these mental hospitals are deplorable. They are badly understaffed and shockingly overcrowded. Yet not one new mental hospital has been opened in Britain since the start of the Health Service, nearly eight years ago. In fact, no hospital of any kind has been built and opened.

At a time when both medical advance and the challenge to medicine are undergoing great and dramatic changes, British practice is being fossilized in attitudes as out-of-date as the hansom cab and the wooden stethoscope.

“Noble Experiment”

That, of course, was not the original purpose of those who framed the Health Act. They offered it as an “experiment noble in purpose”; and the British people were promised everything, regardless of expense. Not only would their home treatments be provided free of direct charge, but the hospitals would for the first time have ample funds for treatment and research. It was said to be a disgrace to a progressive country that the great voluntary hospitals, some of them of world-wide fame, should be dependent on uncertain charity and sorely

handicapped in their beneficent work. There would no longer be any need for humiliating appeals, nor restrictions on staffing, building, or research; and in addition, health centers would be established everywhere to bring all the general practitioners of an area together in happy comradeship, with all the most expensive resources of modern medicine at their immediate command.

That was a fine dream, but the reality proved to be far different. The administrators soon found themselves faced with two inescapable facts. The available supply of trained doctors, nurses, medical scientists, and members of the semiprofessional ancillaries like physiotherapists and orthoëpists was not enough to meet all the needs of the grandiose plan.

The financing of the plan was even more strictly limited. Enthusiasts for nationalized medicine found themselves in competition with the enthusiasts for extended education, state subsidized housing, higher state pensions and benefits, and a dozen other schemes with a strong emotional and vote-catching appeal. There was competition not only for funds, but also for materials and for future staff. While hospital wards were shut for lack of nurses, the potential nurses of the future were tempted into teaching to meet the demands of the risen birth rate and the extra compulsory year at school ordained by the socialist government. Building materials and labor that might have been used for temporary hospital and clinic accommodations were used for temporary classrooms.

If no checks had been put on Health Service expenditure, it would have assumed fantastic proportions. But

when expenses soon came to more than double the original estimate, it was found necessary even for a socialist government to impose a ceiling and eventually call a halt.

A part of the corrective action attracted much attention and stirred a good deal of resentment. The patient looking for spectacles or for dental treatment had to pay a proportion of the cost, and for some the proportion was substantial. In addition, all patients were required to pay a shilling for each prescription filled. The prescription charge failed in its purpose, however. Most of the patients resented having to pay and tried to get as much as possible on one prescription, which doubtless encouraged waste. In any event, the Labor Party, which originally imposed the charges, promises to abolish them when they get back to office—a measure of the depths to which demagoguery can sink.

Dentists in Difficulty

But the other thing that was done attracted little notice outside of the medical profession. Dentists were paid by piecework, and the original rates for the various jobs were lavishly set to coax dentists into the scheme. For some time, dentists were in financial clover. But the rates have been slashed three times, reducing dentists to a very modest standard and putting some in grim financial difficulty as they must pay surtax on the high earnings of a previous year out of a current income drastically reduced by arbitrary decree. This situation has

brought a catastrophically reduced enrollment in dental colleges, thus ending most dreams of a dental service that would concentrate on scientific conservation instead of hasty pulling and patching.

The doctors fared better than the dentists. Their resistance to the scheme had been so strong that they were offered an income equal in purchasing power to the average medical income of 1938. When R. A. Butler became Tory Chancellor of the Exchequer, he was faced with an arbitration award which gave general practitioners not only an increased annual payment for each patient but also a lump sum of fifty million pounds to make up for past underpayment. Nurses and lay hospital workers were in no mood for cuts in salaries and wages. Inflation steadily increased the bill for all hospital supplies and also for the drugs and pills doled out so lavishly through the doctors' offices.

The End of Medical Progress

Thus, the National Health Service budget was strained to the breaking point. And the cuts fell on the unprotected sector of health expenditure, though this was the sector which alone could keep Britain abreast of the civilized world in medical advance. The grandiose schemes of expansion were almost all dropped, and the great teaching and research hospitals suddenly found themselves more pinched than they had ever been before. One hospital, which had almost completed an ambitious and modern laboratory, had to turn the key in the lock for a

considerable time because they lacked funds for the microscopes needed if the laboratory were to serve its purpose.

This is only one example of a deleterious process. Public demand and demagogic compliance have diverted available funds away from the fruitful and imperative lines of medical advance in order to supply that kind of medicine which satisfies the credulous patient. The mass of the public were well enough pleased. Hypochondriacs and people with nothing much to do could still crowd a harassed doctor's office at no immediate cost to themselves and call for a pill or a bottle which they might have seen advertised. Many doctors have told me that since the enactment of the Health Act a growing number of patients come to the office and say they want this drug or that, not waiting for the doctor's examination and verdict, but making their own selection as they might choose sweets in a confectioner's shop.

There is the case of a woman whose baby was suffering diaper rash. She got a doctor's prescription for no fewer than ten bottles of an expensive new medicament. The rash finally was cured when the woman was told to keep her baby dry and to apply a simple ointment. The ointment which did the trick cost fourpence (about 5 cents); the ten bottles which did no good cost thirty pounds (\$84). This is one example of waste, but it could be multiplied indefinitely.

The Ministry of Health has tried to deter doctors from easily prescribing expensive proprietary drugs when much cheaper equivalents are available, but the doctors

resent any dictation and the patients are even more resentful.

For a long time it has been the ambition of conscientious practitioners to wean their patients away from this pathetic faith in bottles and pills; but the Health Service has undone all such effort, and fundamental medical research is the chief sufferer.

The brilliant triumphs of modern medicine have nearly all been won in the laboratory, not at the patient's bedside or in the doctor's office. The weight of medical investment should be in that direction, but in Britain it is being swung in what is strictly the reactionary and obsolete way.

Diseased Minds

As for mental illness which is the greatest and most disturbing challenge to Western civilization, the treatment and the cure of this menace is only in its infancy. Patient research and investigation covering the whole of social life are necessary, and equally necessary is a huge expenditure to provide the material means of effective treatment here and now. But there are British mental hospitals where the patients' beds are so crowded that it is impossible even to put a locker between them. It is impossible to get anything like enough native-trained nurses, men and women, for any kind of hospital; but at the same time, many experienced and highly qualified nurses are employed in "welfare" work where their skill and knowledge are thrown away.

I have no space to deal with the wastefully expensive tests and treatments to safeguard the doctors against legal action by litigious patients, whose court action is likely to be paid for by the same State that pays for the hospitals.

I believe that the contemporary and scientific conception of medicine cannot flourish fully and firmly where medicine has been socialized. The great medical advance will continue, but there is nothing in prevailing British conditions to encourage the hope that British medicine will play in the future as remarkable and as leading a part in that advance as it has played in the past. This pessimism is not purely personal. It is shared by nearly every doctor I know who is alive to what is going on in international medicine, while stagnation of method is forced upon himself.

FREE-MARKET FARMING

by W. M. Curtiss



AN ECONOMIST of national reputation once told me: "The trouble with agriculture is that it is a decadent business." This came as something of a shock to one who had been raised on a good Illinois farm, attended an agricultural college, operated a farm for a time, and who had dedicated his life to teaching and research in the field of agriculture. Isn't food the first essential to life? Haven't people, through the ages, given up almost everything else rather than go hungry? Then how could the production of food be a decadent occupation?

I think I know now what this economist meant, although I believe he chose an unfortunate word to describe what has happened to agriculture in this country. True, the proportion of the population engaged in farming has declined; but if decadence means retrogression or deterioration, then it simply doesn't fit.

The "farm problem" in varying stages of acuteness has been with us now for some 30 years. Not that farmers haven't had problems since the beginning of farming. But agriculture became clothed with the dignity of a

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national issue when the government began trying to do something to correct the plight of farmers. To a lesser extent, of course, the farm problem goes back to the Grange movement, the free silver question, the tariff issue, and others. But the farm problem as we think of it today had its origin with the Farm Bloc, the McNary-Haugen Bill, and the Federal Farm Board of the 1920's. Since then, so many things have been done to alleviate the farm problem that most of us are greatly confused about just what is going on in agriculture. Contributing to the confusion is the mixture of politics and economics until it is almost impossible to separate them. It is difficult to see the forest for the trees. Needed is a bird's-eye view of agriculture in relation to the whole economy.

Following the Revolutionary War, farmers made up 96 per cent of the population. It was subsistence farming. Practically every member of the family worked from sun to sun to produce the food, clothing, and shelter essential to a meager living. A small part of the farm production, in excess of the family requirements, could be traded with the few merchants in the villages for imported articles and some of the "luxuries" of life. Thus, at that time, farmers produced food and fiber primarily for themselves with just a little left over for a few non-farmers.

This subsistence way of living was typical of most of the world before the Industrial Revolution and still exists in vast areas. Nearly half of the world's population lives in countries where about three-fourths of the workers are farmers. But in the United States today, instead of 96

per cent of the population, farm households make up less than 12 per cent of the total. Instead of a farm family producing barely enough food and fiber for its own needs, the typical modern farm yields enough for its own and eight other households. This increasing efficiency of agriculture has a very important bearing on the farm problem and on the economy in general.

Surplus—at a Price

The current farm problem is said to be a matter of surpluses—some seven billion dollars worth of farm commodities which the government either owns or holds under loan. As a result of the careless use of the term “surplus,” we are expected to believe that the farm problem exists because there are “too many farmers” or “farmers produce more than we need.”

Actually, the surplus exists only because the government has tinkered with the market mechanism. Prices for commodities have been set above where a free market would set them; there is insufficient demand *at those prices* to move the available supply. As a result, stocks have accumulated.

We witnessed the same phenomenon, in reverse, in wartime. The government set prices on some commodities below where a free market would have placed them and an immediate “scarcity” arose. That forcible displacement of the market as a method of allocating commodities necessitated direct rationing or other forms of allocation.

In an economic sense, with a free market, the words "surplus" and "scarcity" simply do not exist. Only when the market is tampered with—when prices are set either too high or too low—do we find surpluses or scarcities. Unless we first recognize that the farm problem is basically a government-made pricing problem resulting from tinkering with the free market, then we are fairly certain to come up with a faulty solution.

Cotton Fiasco

One need cite only one example to show how government controls can raise havoc with a major segment of farm production. Before the last war, the United States exported about half of its cotton crop annually. Nearly one-fourth of the world's exports of cotton was supplied by this country. We have lost a substantial part of the world market because our prices were fixed by government above the world market price.

While thus arbitrarily withdrawing from world markets, we have directly stimulated cotton production elsewhere in the world. This has occurred in Mexico, Argentina, Turkey, and other nations, in part financed by United States government loans.

To make matters worse, this has come at a time of growing technology in the development of synthetic substitutes for cotton fibers. Such developments are praiseworthy and would no doubt have come in a free market, but they received an uneconomic stimulus because of cotton price-support programs.

A result of this fiasco is that we now find ourselves with excess carry-over equal to one year's crop of cotton in government warehouses. Aside from its economic consequences, this constitutes an international political football.

One could supply further illustrations with wheat and other products. For example, we have witnessed the per capita consumption of butter in this country cut in half in a few years. Many factors have contributed to the rise in the consumption of other edible fats but part of the blame must be laid at the door of government for pricing butter out of the reach of consumers and into government warehouses.

Population Is No Cure

Some argue that farm "surpluses" are only a temporary thing and that with our population growing so rapidly, if we can just hold on for 10 or 20 years, our population will outrun production and surpluses will turn into scarcities. Such an argument is nonsense. The present so-called surplus production is merely an artificial situation arising because prices are arbitrarily set higher than the free market will bear. Even if the population doubled in ten years—with the present output of food—if prices were then set higher than the market, there would still be a surplus.

But farmers are not getting their "fair share" of the national income, some say, or they cannot afford to "live as they should," and we must do something to help them.

Indeed the government has demanded of all taxpayers for nearly a century that they help farmers make two blades of grass grow where only one grew before. Tax funds have been used for farm research and education. Whether in spite of or because of these subsidies, farmers have become more efficient through better varieties, better breeds, better feeding, better cultural practices, and better mechanization. Compared with 25 years ago, 34 per cent fewer farmers, working fewer hours, are now producing 54 per cent more. Truly amazing! But now it is said that they are producing too well and something must be done about it.

Why Be Efficient?

We should be proud of the increased efficiency of farmers, but such an accomplishment makes sense only if the market is left free to move this phenomenal production.

Suppose the framers of our Constitution had adopted the "parity" principle for farmers. Suppose they had set about to guarantee farmers their "fair share" of the national product. Had that happened, the chances are that 90 per cent of our population would still be farmers. Farm support programs tend to keep the inefficient farmers on the farm and to discourage their looking elsewhere for more useful employment.

The startling fact is that 7 per cent of our population now produces 90 per cent of our food and fiber—an accomplishment certainly not attributable to the various

farm programs with which agriculture recently has been "blessed." The Industrial Revolution, marked in part by increasing farm efficiency, made it possible for farmers to decrease proportionately in numbers while industrial workers increased. Can you imagine an economy in this country today with 90 per cent of the workers on farms? Who would produce the automobiles, the transportation, the educational institutions, the doctors, the theaters, the fine homes, the recreation, and the arts? One could go on and on enumerating what we consider as making up the high standard of living we now enjoy. In an economy with nearly all the workers on farms, the standard of living can consist of little more than food, clothing, and shelter; and these only in meager amounts.

Solution Lies in Free Market

The solution of the farm problem depends on a free market for farm products. True, that would speed the exodus of farmers to other occupations—but to the benefit of all concerned. The high-cost producers of farm products would find they could improve their economic status by working elsewhere. And now is the best time for that shift. Historically, the greatest movement of families from the farm has come when jobs were plentiful in the villages and cities. Only in severely depressed times, such as the 1930's, has this movement been reversed. Who knows—the time may come when only one worker in 100 will be needed on the farm. But it cannot come if we continue to subsidize inefficient farmers.

Changing one's occupation is a highly individual problem and one which collective planning can only complicate and confuse. This is as true for farmers as for school teachers or grocery store operators. We all know persons who prefer remaining in an occupation even though they might do better economically by changing jobs. One often observes an elderly couple operating a farm years after it has ceased to be profitable. That should be their privilege if it is their individual decision and if others are not forced by governmental action to become partners with them. The rising generation of young people from such farms may find what appears to them to be better opportunities elsewhere.

"Getting Even"

A sizeable group of persons concerned with the farm problem believe that agriculture must be "protected" or subsidized because of a powerful, organized labor force or because industry is "protected." This group seems to believe that the solution to a little socialism is total socialism. They seem willing to set up a socialized agriculture just because the economy is not completely free elsewhere. As one writer stated: "It is an axiom of economic history that an unsubsidized business cannot compete with a subsidized one." That statement demands careful inspection.

Assume, for example, that labor is organized and able to command wages higher than would prevail in a free market. Assume that this results in higher priced tractors

or trucks or other needed farm equipment. Assume that some items of a farmer's cost of production are higher than they would be otherwise because they are produced behind a tariff wall or some other trade restraint. Does this mean that farmers cannot meet these higher costs except as they receive guaranteed prices set above a free market or as they receive direct subsidies? Not at all!

If farmers' costs of production rise, *regardless of the reasons*, and incomes do not rise to offset them, then this is a signal to some of them to turn to a more profitable occupation. It may be a signal to others to try to produce more efficiently—to use more machinery, or more fertilizer, or expand their acreage or otherwise meet the rising costs.

People will buy food. They will pay as much as necessary to get what they need. This demand will bring out the needed production, assuring enough farmers a satisfactory price to produce it. This is not to say that all of the farmers will be perfectly happy with the situation; but those who feel most unhappy about it will turn elsewhere.

Room for Success

This is in no way a defense of labor monopolies, subsidies, or special privileges of any sort for any person or group. It is merely to say that a free agriculture *can exist* and prosper alongside these evils. The evil effects of "protected" industry and labor monopoly will be felt

throughout the economy generally, but no more by farmers than by others.

Some persons worry that, with a free market for agricultural products, only the most efficient farmers can stay in business. Actually, 40 per cent of the present farms account for about 90 per cent of total sales of farm products. The remaining 60 per cent include many farms that are too small, or the operators lack sufficient capital or experience to be efficient in the modern ways of farming. These farms produce very little for sale and the owners are often part-time farmers. Last year, work off the farm accounted for nearly 6 billion dollars of a total net income of 20 billion dollars received by persons living on farms.

The Chance to Try Elsewhere

With the decentralization of industry—expansion into small cities and villages in rural areas—there never was a better time for persons living on farms to find profitable employment off the farm.

Suppose we revert to a free market for agricultural commodities. Wouldn't the change cause tremendous hardship? Of course, there would be problems for individual farmers. Some would find they could no longer remain farmers. But that process has been going on for decades and accounts for our economic progress. Admittedly, it would be difficult to correct mistakes that have been pyramiding for 30 years.

The growing efficiency of commercial farms develops

in spite of recent government programs. With mechanization, family farms have increased in size by absorbing the less efficient farms around them. About one-third of all farms and tracts sold in the past year were bought for farm enlargement. This healthy trend can continue to the benefit of commercial farmers and consumers. Even the farmers who sell may benefit from finding more profitable employment elsewhere and from an improved economy generally. This is not a program to force small farmers off the land—of “plowing the farmer under.” Far from it! It would merely give farmers the opportunity to decide for themselves, free from coercion, what course to take in their own best interest.

Trying to live with the present 7 billion dollars of “surplus” farm commodities is indeed a grave and staggering political problem. The government owns or holds under loan more than \$10.00 worth of cotton for every inhabitant of the country. All surplus farm commodities amount to more than \$40.00 worth for each person and about \$1,400 worth for each farmer.

Disposing of Government Stocks

A sober conviction is spreading among thoughtful persons that the disposal of the surpluses on hand calls for economic rather than political action. The solution calls for transfer of these accumulated stocks to private ownership and control. The method is to allow prices to find the level the free market will bear. It seems likely that supplies in government stockpiles have quite as depress-

ing an effect on market prices as though the goods had never been withdrawn from private ownership. Refusal to accept this fact serves merely to aggravate and prolong the farm problem.

To the extent that there is need for any of the surplus commodities now in government hands, enterprising private investors, including farmers, would be glad to purchase and hold these supplies. Competition between them would preclude anything like a total collapse of farm price structures should the government release its holdings.

Restoring the free market to farm products at a time of unprecedented industrial activity in this country would benefit nearly everyone. Taxpayers (and who isn't?) would avoid the staggering cost of purchasing and storing commodities; marginal and submarginal farmers would be induced to seek more profitable employment off the farm; commercial farmers could go back to producing for a market they know exists; and the entire economy could once more get back to a steadily rising productivity, beneficial to everyone.

For nearly 30 years, we have tried political schemes of all sorts to solve the farm problem. It is time to try a plan that we know will work—one that has been time tested over nearly a century and a half—a free market for agricultural products.

FORMULA FOR DISCOVERY

by Charles F. Kettering



THE FUNDAMENTAL thing that we think we have developed in research is simply to run errands for an idea.

So our industry has grown up on the principle of letting the job be the boss, and I still think that is a good thing to do, because you can't expect material to do something just because you think it should.

We have had a lot of jobs like that. Take the extreme pressure lubricants. Lubricating oils are very old, and some time ago at Cornell University there was developed a lubricating testing machine based on a railroad journal. Many tests had been run, a lot of tables plotted out, and 6,000 pounds per square inch of projected area of the bearing was the highest that they could go with the best lubricating oils then available. We had built a small testing machine at our laboratories and our figures checked very well with this.

Now what more could you ask?

So I said, "Well, let's just try an experiment. Let's suppose that the lubricating oil testing machine is a dangerous weapon. It belongs to your worst enemy, and he

Mr. Kettering, famed inventor, was for many years Chief of Research at General Motors.

can kill you and your family with it. But you can pick the lubricant for it. What would you recommend if you were picking the poorest thing in the world to lubricate it with? What would you specify?"

We all thought about it, and finally picked a material called monochlormethyl ether, which is practically the same as is used to put you to sleep when you are going to have a surgical operation. It is so thin it has no viscosity at all. You can pour it on your hand and blow on it and it is all gone. You couldn't pour it in a warm machine as a liquid. It would evaporate at once. So we took the cap off the ether can, soldered a tube on it, ran the tube over to the bearing machine, and sealed it into the oil hole. Then we put a warm towel around the can and the vapors went through the tube to the bearing. Since there was no liquid in the bearing, it must run absolutely dry.

We had made bets on how long it would last—how much pressure it would take. One man had nerve enough to guess 150 pounds. That was the highest. We started to load up the machine very gently and carefully, and to make a long story short, we ran out of weights at 30,000 pounds. Everybody was amazed; they said, "It can't be." But we tried it over and over again, and we got some more weights. I think it stuck up around 36,000 pounds—five or six times the load of the best oil.

We brought the oil engineers in and showed it to them. They said, "The only thing that makes us sore is that we didn't do it. This is our business, not yours."

"But," I said, "you couldn't have done it. You have

graded oils for so long on their viscosity that you would have fired anybody who proposed using something like this that didn't have any viscosity feel to it."

Well, that was the beginning of the so-called extreme pressure lubrication which came just about the time we were developing the hypoid gears, and you couldn't have run hypoid gears if it hadn't been for these lubricants. There are many things that you couldn't do today if it weren't for these lubricants.

Now what did we do? All that had been done in lubricating oils before that was to test the affinity of one molecule of oil for another. This is called viscosity. When you put pressure on them, you found that you pushed them apart and you had no lubrication. But the oils with no viscosity at all formed a chemical bond more like the nap on plush, and this took much more pressure to break through than did the viscosity film. It completely changed the concept of what you could do with lubricating oils.

THE GRADUATED GADINKUS TAX

by *F. A. Harper*



IT WAS New Year's Day and Alonzo Brown had a headache. Not because he had imbibed too much, for he was a teetotaler. His head ached because he was making out his federal income tax return. The further he figured, the more he fumed.

Alonzo's final calculations showed:

Adjusted gross income	\$300,000
Tax bill	194,804
Left for himself	\$105,196

Belinda, his wife, tried to console him by pointing out that \$105,196 was no mean income, even if he had worked long and arduous hours. He agreed with this, but his ire was generated by the fact that he was going to have to pay the government \$194,804—"for doing *nothing*," as he expressed it.

Belinda tried to console him further by observing that he did get something for the \$194,804. "You got all those services people get from their government," she said.

Dr. Harper is a member of the staff of the Foundation for Economic Education.

“True enough,” Alonzo replied. “We do get services from the government, even though we differ in what services we want and how much we are willing to pay for each of them. But aside from that, one gets these services whether his tax is \$194,804 or \$1,000 or nothing. In fact, some persons who pay no tax at all get food and other things that the rest of us have to buy for ourselves.”

Alonzo’s business is the making and selling of gadinkuses. A gadinkus is a hypothetical gadget Alonzo discovered after ten years of intensive study and experimentation. Nobody else knows how to make it.

The raw materials Alonzo uses to make the gadinkus are air, water from the brook that runs through his property, and heat from the sun’s rays. He does all the work himself.

The Market Price

In the first year of operation Alonzo had sold gadinkuses at \$10.00 each. Let us say that you had been his first customer.

“How can you in good conscience charge me \$10.00 for something made from materials that are God-given and free?” you had asked.

“I’m not charging you anything for the materials,” Alonzo had replied. “If all you want is some of these materials, just step outside and take all you want for free. What I’m charging for is my time in making the gadinkus, plus some return for the ten years of work discovering how to make something consumers want.

Plumbers, you know, are now getting nearly \$4.00 an hour around here.”

“I am setting my price by guess,” Alonzo had continued. “I want to work steadily all year producing gadinkuses. If I have any left unsold at the end of the year, I’ll know my price was too high and that consumers wouldn’t pay this price for as many as I could produce. If, on the other hand, buyers queue up at my shop, I’ll know the price was set too low.”

By the strangest chance, Alonzo happened to have hit exactly the free-market price for gadinkuses. In that year he produced 30,000 of them. Everybody wanting one for \$10.00 or more was able to buy one. The last gadinkus was sold just before Alonzo closed his shop on December 31 to go home for his New Year’s Eve dinner with his wife and two children.

Pricing According to Cost

It was the next day that he made out his income tax return and had his headache.

The more he thought about it, the more the meaning of this tax system began to form in his mind. He began to see clearly a new picture of how it affected him and his business.

Beginning on January 2 of the new year, he sold gadinkuses at \$10.00 as before. Then at about 10:00 a.m. on January 5 he raised the price to \$12.50 each. A lady buyer protested the new price, saying: “I just saw you sell one at \$10.00 to the lady who bought one before I did!”

"But it cost me more to produce yours than it did hers," Alonzo replied. "And I'm going to try to price gadinkuses so that my customers throughout the year will each pay the same price after taking account of changing costs. What consumers will pay, rather than precisely the cost, finally rules the market, of course. But unless a producer covers his costs, he can't stay in business long. And anyhow, it seems to me that the fair thing for me to do is to price them to my various customers equally in proportion to the costs. That sort of 'equality' seems just, and I'm willing to help put it into practice in economic affairs."

"But," the lady replied, "your costs haven't gone up at all. Your materials are still free, and it didn't take you a bit longer to make the gadinkus I want to buy than it did the one you sold to the other lady. Why, then, the jump in price?"

"But my time costs more now than it did then," he countered.

"Why?" she persisted. "In both instances it was all your own time. You can't just suddenly say your time is worth that much more."

"It's not me saying it," Alonzo replied. "The government says so."

"How? You work for yourself and not for the government. They don't set your wage."

"I worked fully for myself from the beginning of the year till now," he replied. "But I am not allowed to do so any more. Beginning now I am forced to work one-fifth of my time for the government. You see, from the

first of the year till now my income was not taxed. Now it has reached a point where the government begins to take 20 cents out of every additional dollar I get. That is why I must charge you \$12.50 in order to continue to have \$10.00 left after the 20 per cent tax. If I were to charge you only \$10.00, I would be selling it to you cheaper than to those who had bought earlier—much cheaper relative to costs of producing them.”

Being unable to refute the fact, and being a willing buyer even at that price, the lady took it. She would have liked, of course, to have been able to get it for \$10.00, just as the lady who had gotten one earlier for \$10.00 would have liked to have gotten it as low as possible.

Then on January 15 at about 11:00 a.m. the price took another jump. This time it went up to \$13.51, as required to cover the new tax rate of 26 per cent applying to additional dollars of income, leaving him his \$10.00 net after the tax. And he had to go through an explanation of taxes and prices all over again.

Graduated Price Increases

Again and again during the year Alonzo had to raise the price for the same reason—to \$17.54 on February 6, to \$26.32 on March 24, to \$40.00 on June 8, and to \$90.90 by the end of the year. And there were many other intermediate increases.

Most buyers probably never did understand how taxes had caused the prices to advance. They just assumed it

was a personal "monopoly" grab by Alonzo. But no matter how they looked at it, those who bought gadinkuses did so because they were willing to pay the price rather than to go without. Others went without, of course, because as the price rose it became too expensive for them—just as a price of \$10.00 or \$5.00 or even \$1.00 would be too high for some.

The demand for gadinkuses was such that—no matter what the price—about the same number of dollars would be spent on them by all people, or \$300,000 combined, during the year. So as the price went up during the year, a corresponding number of buyers became discouraged from buying. Finally, at the end of the year, Alonzo was selling only about one-ninth as many gadinkuses in a day as he was at the beginning of the year. As sales fell off, Alonzo had more and more leisure time—time to sit on the seashore, or to enjoy other pursuits of his choice.

Near the end of the year a lady asked him why he hadn't kept his price at \$10.00 throughout the year, whereby all the gadinkuses he could produce by working full time during the year would be bought. "Look at all the additional people who could then have gadinkuses to enjoy," she said, "but must now go without."

Alonzo replied that out of each \$10.00 received at the end of the year he would be allowed to keep only \$1.10 after taxes, as pay for his time. And he couldn't see why his time at the end of the year was worth any less than at the beginning of the year—still making the same product that people still wanted as much as ever.

"I look at it this way," said Alonzo. "If eight-ninths

of the pay for my time is going to be taken from me, I prefer to sit on the seashore or do something else. Why should I work nine times as long to get a dollar at the end of each year as at the beginning of the year? That doesn't make any sense to me, especially when the government takes some of these taxes to pay people not to produce things the rest of us want and are willing to pay for. I'll forego \$1.10 and have the leisure rather than to produce gadinkuses and provide \$8.90 in taxes to be used to induce someone else not to produce something I would like to buy."

"After all," Alonzo continued, "I don't see that it is my responsibility alone to solve this problem. Go speak to the others who want gadinkuses. I would gladly produce for them if we were allowed to do business directly with one another without this penalty. Have them help me solve it."

Well, they haven't solved it yet, and consumers are still going without gadinkuses they want and could have.

FEDERAL TAX RATES

Married Couple with Two Children, 1955

Income before tax (adjusted gross income)	Tax on another dollar of income
\$ 2,672	20¢
12,000	26
30,000	43
70,000	62
132,000	75
300,000	89

OUR PRINCIPLES OF FREEDOM MUST STAND

by E. Smythe Gambrell



FOR 300 YEARS the American people have cherished the spiritual concept that the rights of man to freedom are personal to him from the Creator, not from the State. It was written in our Declaration of Independence. This concept, to the extent that we have followed it, has guided us not only to a life of human dignity, but to material abundance.

The great truths of humanity do not spring newborn to each new generation. They emerge from long experience. They are the gathered wisdom of the ages. They are renewed in times of conflict and danger. In this sense, the current challenge to our political institutions may prove to be a kind of blessing in disguise. If the times in which we are now living do not bring a further understanding of the great traditions of our civilization and a deeper desire to affirm them, we are not worthy of our heritage.

Mr. Gambrell, of Atlanta, Georgia, was President of the American Bar Association during 1955-1956. This article is based upon his address before the Georgia Bar Association, December 8, 1955, in Atlanta.

The American creed is premised upon a simple belief: that each human being is a creature of God and endowed by him with the dignity of individuality. Each must be free to shape his own integrity and to seek his own destiny. It follows that he may not be treated as a statistic on an economic or sociological chart. Respecting this right of the individual man to realize his own potential, we have pledged ourselves in the most solemn compacts of government to allow to our fellows the greatest freedom of choice possible in the exigencies of living together.

Home Rule

Where choice must be limited to preserve the freedom of others, we have sought to assure that each shall have the greatest possible voice in making the collective decisions that will control his life, by keeping the powers of government as close as circumstances will permit to those subjected to the power. We have chosen to erect the structures of government in the belief that no national government should do what the states can do, that no state should do what the local government can do, and that no government should do what a man can do for himself. The movement for home rule for municipalities, the concern for states' rights, and the demand for limitations of the federal treaty power, all are variations on this persistent theme—that government should not be removed from the hands of the governed, that choices which must be made collectively and not individually

should be made by the smallest feasible group according to its own needs.

It is almost trite to observe once more that these principles were enshrined in the Constitution by the wise men who gathered to lay the foundations for the government under which freedom has flourished and our people have prospered. The central government was to be entrusted with limited and specifically delegated powers. Only those matters that required uniform treatment, only those problems that demanded a national solution, were delivered up to the centralized power.

The great catalog of human liberties contained in the first ten amendments to the Constitution endeavored to transmute the dignity of man into a living reality. In the turmoil of our time several of these inalienable rights have been brought to the forefront of our national conscience. Freedom of speech and of the press, the right to assemble peaceably and the privilege against self-incrimination have all found their staunch and vocal advocates. We have heard much of the first eight amendments; but in the clamor of controversy over these, our people seem to have suffered from a mass amnesia concerning the ninth and tenth amendments.

Tax Abuses

A power most frequently and most flagrantly abused in the circumvention of the limitations on the federal government is the power of taxation. Only by the most elaborate and disingenuous pretense can we maintain

that many so-called taxes have any relation to supplying revenues for the legitimate operations of government. Still our courts have replied that if an exaction appears on its face to be a tax, we must close our eyes to its motive. To me, the gravest of the threats to American ideals is presented by the inordinate and pervasive power of the purse, the power of bounty, the power to spend. Tax collections far exceed the legitimate costs of operating the federal government within its delegated bounds.

Government by largesse has begotten a centralized authority of monstrous proportions, and it has at the same time broken down the fundamental design within that central government for forestalling the corruption of absolute power. The doctrine of separation of powers, the system of checks and balances, teaches that neither the legislature nor the executive should be servile to the other. It was our plan that the legislative branch, representative of and responsive to the popular will, would formulate policies which the executive would put into effect. But through the power of patronage, the plums of public works, and the bounties of benevolent paternalism, the legislature has been brought to heel. Too often the executive has determined the national policy, and at best the legislature has become a censor of his programs, and at worst, a rubber stamp. Ironic though it may be, the powers by which the administrator has brought down the legislator were conferred by that same legislator.

At the same time, the powers constitutionally reserved to the states have been gradually usurped through this power to disburse, through what are euphemistically

referred to as "grants-in-aid." Under more than 40 separate programs, the governments of the states have been offered the bounty of the Federal Treasury in return for the surrender of their constitutional rights to provide for the interests of their people.

Violation of State Sovereignty

It is an affront to the dignity of the states, and in contempt of the principles of the federal system, to assume the states to be incompetent to handle their own affairs. And the notion that the central government is somehow providing aid when it drains the sources of tax revenue and doles out a minor share to the states upon bureaucratic conditions is a mischievous fiction. A government is not a productive enterprise—it does not create wealth, it does not contribute to the sum total of economic goods. If there is a single well to fill a community's needs for water, the man who drains it dry and then distributes the water to his fellows upon conditions he chooses to lay down is not providing aid to his neighbors. Recognizing this simple truth, the Legislature of the State of Indiana in 1947 resolved:

We have decided that there is no such thing as federal aid. We know that there is no wealth to tax that is not already within the boundaries of the 48 states. So we propose henceforth to tax ourselves and take care of ourselves. We are fed up with subsidies, doles, and paternalism.

Ideally, each person, or more accurately each family, should control the spending of what it has earned. In

the long run, no one else can comprehend as well the family's needs and aspirations, and no one can see to it that the fruits of their labor are put to better use. Responsibility for earning begets responsibility in spending. The further the power to spend is removed from the person whose toil and sweat created the power, the greater the likelihood of economic waste, to the detriment of our common standard of living and to the benefit of no one.

The concentration of vast wealth in the hands of a remote and centralized government penalizes thrift and encourages waste. The money is there to be spent, the thinking runs, and unless we get our share, someone else will. A community which would reject out of hand a proposal that a public building should be financed by voluntary contributions or by a tax laid by the townspeople upon themselves will nevertheless clamor for federal funds for the purpose. It is difficult to respect money that has come from someone else's pocket.

Uncharted Frontiers

Today there are still uncharted frontiers—physical, spiritual, and intellectual—standing as our constant challenge. We may well lose our will and our ability to cope with these challenges if we develop and accept the habit of being satisfied with the meager crumbs of material security which some form of benevolent government would dole out to us. To the extent that we permit ourselves to be so dependent upon government that we can

no longer think or achieve on our own—dependent on government for those things which traditionally we have provided for ourselves—we defeat the very meaning of democracy and permit government to rule rather than to serve the individual. By every step we take toward making the government caretaker of our lives, we move toward making it our master.

Let us not fall into the error of thinking that the outcome of the struggle between communism and freedom will be determined by military and economic power alone. The greater war is the war of ideas, a spiritual war of moral and religious values. In this war we must deal with the minds and hearts of men and women and demonstrate to them the blessings and satisfactions that come from freedom. They must learn that man is not a slave of the State and that the State is his servant.

Education Is Key to Freedom

Liberal education is the keystone of freedom. The search for truth is, as it has always been, the noblest experience of the human spirit. We are false to ourselves and to our best instincts if we turn our backs on truth or close our eyes when it beckons.

But the recent White House Conference on Education troubles me. Well intentioned, no doubt, it poses a serious threat to democracy and freedom. Although we may have great respect and genuine affection for the present occupant of the White House, we should remember that changes do take place; and we should ponder well the

lessons to be learned from Hitler's complete domination of the German people through the perversion of education.

History teaches that liberties are seldom lost in a frontal attack leveled against them. The threat lies not in open challenge, but in apathy and complacency. Unused, our great freedoms may atrophy and weaken, and their enemies, through cunning propaganda and small but constant steps, may overtake us unaware. We should not be so much concerned, then, about the danger to those liberties for which the defense has already been rallied. But there are other principles, no less basic to our form of government, which have been largely ignored.

Man's Right to Choose

We have submitted more and more in recent years to governmental control of the pursuit of our livelihoods. We look more and more to government to satisfy our every want and need. And we are relinquishing the precious right of a man to make those choices which, if he is to be a man, he must make for himself. The right of man to be let alone has been relegated to a lower order in the scale of our common values. But it is a fundamental article of our national faith that we shall not destroy the ancient landmarks in our effort to accommodate the demands for government authority to cope with modern needs. Our principles of freedom must stand as fixed and immovable monuments above the ebb and flow of the currents of change. Paramount and above all other

considerations, we must channel the flow of progress within the order and limits of the law; the bulwark of the rule of law must hold firm.

I do not mean to paint the picture too darkly. The people of America still enjoy a degree of liberty unsurpassed among the nations of the world, and they share a material abundance unknown to the past. There are signs of a returning sense of responsibility and of a renewed respect for principle in the federal administration and among the leaders of both great political parties.

But we can glean small comfort when we recall how easily and how quickly the basic propositions of government gave way in the recent past. The teachings of experience are plain. Our hopes are futile if we entrust our liberties to the written word alone; the Constitution alone is not our salvation. Nor can the courts forever stem the tide. It has fallen to the lawyers, trained in the traditions of government of law and imbued with its spirit, to preserve for all the world the light of human liberty, set with such shining promise by our forebears. We must not only reaffirm our faith in the social and moral order which has made us a great nation, but we must go out and implement that faith with action. As Thomas Paine said: "Those who expect to reap the blessings of freedom must, like men, undergo the fatigue of supporting it."

UNEMPLOYMENT BY LEGAL DECREE

by Bettina Bien



LAST year, when Congress was debating the question of a new minimum wage law, labor unions were strong in their praise of such a bill. When the new minimum of \$1.00 an hour for workers in "covered" industries became effective on March first of this year, they patted themselves on the back for their part in its passage. At the same time, they promised their members to work for broader coverage at a still higher rate. A minimum wage law, they would have us believe, is the open sesame to the utopia of higher living standards for everyone, particularly for the poor. But is it?

Our first federal minimum wage law was enacted in 1938—the so-called Fair Labor Standards Act. Its principal objective was to foster "the minimum standards of living necessary for health, efficiency and well-being of workers." Our relationship with Puerto Rico then was such that the Act applied there also. Yet the Act led to such confusion and distress among Puerto Rican workers that they were later exempted from the 25¢ minimum

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wage which had been set nationally. Why? If the purpose of the law was to improve living standards, why discriminate against workers who were obviously much lower paid than those on the continent?

Although Puerto Rico has since gained a large measure of self-government, some of its laws still originate in Washington. This was true of the recent provision for a minimum wage of \$1.00 per hour. Therefore, Congress discussed its likely consequences in Puerto Rico. A detail of congressmen visited the island to investigate. There was concern that the law, if applied in Puerto Rico, would lead to increased unemployment there.¹ In this connection, Director Joseph Monserrat, of the New York Office of the Puerto Rican Department of Labor, warned that the flat 25¢ minimum wage rate enacted in 1938 "did create unemployment."

The version of the law finally approved by the Puerto Rican House of Representatives raised the legal minimum wage for the island's garment workers from 70¢ an hour to \$1.00. David Dubinsky, president of the International Ladies Garment Workers Union, was interested in this development; for his union had organized one group of the island's garment workers, the brassiere makers. Their

¹ According to one estimate, unemployment in Puerto Rico amounts to about 16 per cent of the working force. Perhaps the legal minimum wage is already too high for the market. Compare, for instance, the estimated percentages of unemployed in the U. S. labor force during the Great Depression.

1930 — 7.8%	1933 — 25.1%	1936 — 14.5%
1931 — 16.3	1934 — 20.2	1937 — 12.0
1932 — 24.9	1935 — 18.4	1938 — 18.8

pay then averaged about 80¢ an hour. Mr. Dubinsky feared that the \$1.00 minimum wage, if it were enforced, would mean unemployment for many of the members of his union in Puerto Rico. According to newspaper reports of a meeting of the ILGWU last May he charged that Puerto Rican legislators were trying to "play a trick on us by giving us for political reasons a high minimum in brassieres and later blaming it on Dubinsky and the ILGWU that the workers are starving and have no work."

Apparently, Mr. Dubinsky was not alone in recognizing the potential threat inherent in a legal minimum wage set higher than the market could afford. The Governor of Puerto Rico, Luis Muñoz Marin, later reported to the ILGWU that the island's Legislature had decided to exclude brassiere makers from the new legal minimum wage.

Priced Out of the Market

These men, who feared the effects of a legal minimum wage set higher than the Puerto Rican economy warranted, were recognizing a simple economic principle. Goods or services, priced higher than demand justifies, will not find a buyer on a free market. Any retail merchant knows the truth of this statement. Experience with agricultural price supports should have taught our government officials by now the inexorability with which this principle operates. The theory applies in the same way, whether one is dealing with the price of wheat, cotton, butter, or an hour of a man's labor. If the seller

will not, or cannot because the law forbids it, adjust his price in accordance with the demand, he faces the prospect of "unemployment" for his wheat, cotton, butter, or labor.

A seller is entitled to the price a consumer is willing to pay for what he offers. A worker, who is the seller of his own labor, is entitled to the wage an employer is willing to pay. For practical reasons, the employer is usually guided, in deciding how much he can pay, by his estimate of the price consumers will pay for the worker's product. The market price of the worker's contribution will vary with the constantly changing structure of the market. Consequently, any attempt to set the rate by law will sooner or later lead to discrepancies in the pricing system and to distortion of the pattern of production.

A legal minimum wage rate set lower than the market rate has no significance, aside from the expense of legislating and setting up a bureaucracy for its "enforcement."

Hurting the Weak

If a minimum wage rate is set higher than the market rate, it hurts the very persons it is designed to help—the lowest producers, and hence the lowest earners. The first to be fired, when a new minimum wage rate is set, are those who cannot contribute enough to the market to cover the cost of their wage. No employer can afford to retain such employees for long, lest his expenses exceed his intake, forcing him out of business. If the law causes an entrepreneur to close his doors, not only the poorest

earners but also all other workers in the enterprise lose their jobs. The whole economy is poorer, as well, for there is less production offered on the market.

A minimum wage rate which coincides exactly with the market rate does neither "good" nor "harm," so long as the market rate remains the same. But changes are constantly taking place in this world of acting human beings. It is inevitable, therefore, that the wage the market determines must sooner or later depart from a wage set by law, even if the two should happen to coincide temporarily. The legally determined wage, then, will be either below the market, and hence meaningless, or above the market, and hence a cause of unemployment.

Good Intentions Are No Excuse

When the men are dissatisfied with the workings of the market, they sometimes pass laws to try to change the way it functions. Their best intentioned legislation, however, may prove harmful to the very individuals they want to help.

Modern politicians, who try to legislate high wages, should realize that such laws help cause unemployment among the workers "covered." It is a basic economic truth that goods or services priced higher than the market warrants must inevitably remain unemployed. Both Mr. Dubinsky and the Puerto Rican legislators, in opposing the increased minimum wage rate for the island's brassiere makers, were acknowledging a fundamental economic truth.

SOME MISTAKES OF MARX

by William Henry Chamberlin



“THE EVIL that men do lives after them.” This maxim applies with singular force to the work of Karl Marx. The life of this apostle of socialism, communism, and class war was spent, for the most part, in obscure and sometimes squalid poverty. Marx was unable to make even a humble living as a writer and journalist; he had no other trade or profession. He would probably have had to go on poor relief, in his time less generous in England than it is now, if it had not been for handouts from his disciple and collaborator, Friedrich Engels, who enjoyed the advantage of having a successful capitalist father.

Marx's record of political achievement at the time of his death seemed quite sterile. Because, in a moment of bravado, he renounced Prussian citizenship, he was unable to go to Germany or take any intimate part in the German socialist movement. He played no role in English politics.

To put it mildly, Marx was not a mellow or lovable character. His habits of excommunicating from the social-

Mr. Chamberlin, author of the definitive two-volume history of the Russian Revolution and numerous other books and articles on world affairs, is uniquely qualified to discuss Marxian errors by having lived and traveled where such mistakes are most obvious.

ist movement everyone who disagreed with him kept his circle of friends very limited.

There is an abundance of historical evidence for Max Eastman's caustic profile of Marx in *Reflections on the Failure of Socialism*:

If he ever performed a generous act, it is not to be found in the record. He was a totally undisciplined, vain, slovenly, and egotistical spoiled child. He was ready at the drop of a hat with spiteful hate. He could be devious, disloyal, snobbish, anti-Semitic, anti-Negro. He was by habit a sponge, an intriguer, a tyrannical bigot who would rather wreck his party than see it succeed under another leader.

But if there were few mourners, literally or figuratively, at the grave of Marx the man, the idea of Marxism, the vision of a world in which the proletariat, oppressed by capitalism, was to become the architect of new millennial order, marched from success to success.

Experiment in Russia

Before World War I Marx was revered as the founding father of the socialist parties which had sprung up in most European countries. Because a Russian genius of revolutionary action, Vladimir Ilyitch Lenin, swallowed Marx's ideas whole without conscious reservation, Marxism became the creed of the new communist regime in Russia.

This regime, which has never wavered in its belief that someday its power will encompass the entire world, represents a revolt against all the values of Western civiliza-

tion, against religion and the moral law, against civil and personal liberties, against the right to own property, which is one of the first and most indispensable of human liberties. After World War II communism, the offspring of Marxist teaching, extended its dominion over China, over the countries of Eastern Europe, so that today it has been imposed as a dogmatic faith on more than one-third of the population of the world.

And the influence of Marx is by no means restricted to nations under communist rule. The appeal of Marxian ideas to European socialists, to the half-baked intellectuals of newly emancipated countries in Asia has been considerable. And, although the number of persons who can honestly claim to have read through with comprehension the dry and abstruse *Capital* must be small, the simplified version of Marxist theory presented in *The Communist Manifesto* and elsewhere possesses strong psychological appeal.

Myth of Infallibility

Marx professed to know all the answers, to offer a complete explanation of human activity on the basis of historic materialism. In the Marxian scheme there is a hero, the proletariat, a villain, the bourgeoisie; and the hero is represented as a certain ultimate winner. There is a vision of revolutionary victory that will transform the conditions of human existence and usher in a millennium, of the nature of which, to be sure, Marx offers few and vague hints. To trusting minds which accept Marx's

premises and assumptions without question there comes an intoxicating sense of being in step with history, of professing a creed that is based on infallible science.

But it is just this myth of infallibility that is the Achilles' Heel of Marx as a thinker, of Marxism as a system. An examination of the works of Marx and his collaborator Engels reveals ten big mistakes, of which some are so fundamental that they completely discredit, as a preview of the future, the whole superstructure of faith in capitalist misery and doom, and socialist prosperity and triumph, which Marx laboriously reared on a foundation of Hegelian metaphysics and minute research in government reports on the seamy sides of early British capitalism. These mistakes are as follows:

(1) *The doom of capitalism is assured because under its operation the rich will become richer and fewer; the poor will become poorer and more numerous.* To quote one of the more striking rhetorical passages in *Capital*:

While there is a progressive diminution in the number of the capitalist magnates, there occurs a corresponding increase in the mass of poverty, oppression, enslavement, degeneration and exploitation. But at the same time there is a steady intensification of the wrath of the working class—a class which grows ever more numerous and is disciplined, unified and organized by the very mechanism of the capitalist method of production. Capitalist monopoly becomes a fetter upon the method of production which has flourished with it and under it. The centralization of the means of production and the socialization of labor reach a point where they prove incompatible with their capitalist husk. This bursts asunder.

The knell of capitalist private property sounds. The expropriators are expropriated.

These are resounding words, but utterly empty words, in view of the fact that social and economic development in capitalist countries has proceeded along a precisely opposite direction from the one predicted by Marx. What was in Marx's time a social pyramid has become more like a cube. The capitalist system has brought to the working class not increasing "oppression, enslavement, degeneration and exploitation," but an increasing share of new inventions and comforts that did not even exist for the wealthy a hundred years ago: automobiles, radios, television sets, washing machines, as well as money in the bank, stocks, and bonds.

(2) *Socialism can only come about when capitalism has exhausted its possibilities of development.* Or, as Marx puts it in his *Critique of Political Economy*:

No form of society declines before it has developed all the forces of production in accordance with its own stage of development.

But, of the three countries which, according to Marx, were ripest for the transition to socialism, as most industrially developed, the United States is still, by and large, the freest economically.

The larger free part of Germany, after the terrific shock of the war, has achieved a remarkable recovery by shedding Nazi and Allied controls and resorting to old-fashioned individualistic incentives. Great Britain has settled for a kind of socialistic New Deal, without vio-

lence or outright expropriation and well short of Marx's "dictatorship of the proletariat."

On the other hand, the countries where violent revolutions were carried out in the name of Marx, the Soviet Union and China, were, on Marx's own theory, completely unripe for socialism. Capitalism was in a fairly early stage of development in Russia. Much of China lived in precapitalist conditions. Experience has shown that, in precise contradiction of Marxist dogma, capitalism is harder to overthrow as it strikes deeper roots and shows what it can accomplish. A plausible case can be made out for the proposition that, although political and economic change would have come to Russia, there would have been no communist revolution if World War I had been avoided and Stolypin's policy of breaking up the old peasant communes and giving the peasant more sense of individual property had developed long enough to yield results.

(3) *The "dictatorship of the proletariat" is a just and feasible form of government.* This is based on two false assumptions: that the "proletariat," or industrial working class, has some kind of divine right to rule and that governing power can be directly exercised by this group of the population. Both are wrong. Marx never clearly explained why the proletariat, for which he foresaw increasing poverty and degradation, would be qualified to rule. And Soviet experience and Red Chinese experience offer the clearest proofs that dictatorships of the proletariat, in theory, become ruthless dictatorship over the

proletariat, in practice. Absolute power in communist states is exercised not by workers in factories, but by bureaucrats, of whom some have never done any manual work; others have long ceased to do any.

(4) *Under socialism the state will "wither away."* This grows out of Marx's belief that the State is an instrument for the suppression of one class by another. In the classless society of socialism, therefore, there will be no need for the State.

Events have played havoc with this theory. Nowhere is the State more powerful, more arbitrary, more of a universal policeman, snooper, and interventionist than in the Soviet Union. Yet it is here that the new regime has abolished private property in means of production, thereby, according to Marx, inaugurating a classless society. One is left to choose between two alternative conclusions. Either the Marxist theory of the State as an instrument of class rule is a humbug or the kind of class rule that prevails in the Soviet Union must be uncommonly crude and ruthless.

(5) *Capitalism (in the nineteenth century) has exhausted its productive possibilities.* This flat statement is made by Marx's *alter ego*, Engels, in his *Anti-Duehring*, written before the internal-combustion engine, X-rays, aviation, synthetic chemistry, and a host of other enormously important additions to the productive process, brought into existence by the stimulus of capitalism.

(6) *All ideas, all forms of intellectual and artistic expression are a mere reflection of the material interests of*

the class in power. This conception is expressed repeatedly in Marx's writings, notably in *German Ideology*, where he writes: "The class which has the dominant *material* power in society is at the same time the dominant *spiritual* power. . . . The dominant ideas are nothing but the ideal expression of material conditions." One of the few wisecracks associated with the name of Marx is that the Church of England would rather give up all its Thirty-Nine Articles of Faith, rather than one thirty-ninth of its possessions.

The historical record shows that this interpretation of human conduct is crudely one-sided and inaccurate. Men die far more often for ideas than for material interests. The communist victory in Russia was not due to the fact that material conditions for the masses became better after the Bolshevik Revolution. This was emphatically not the case. What did happen was that the organized, disciplined, communist minority acquired an iron grip on the masses by its double weapon of propaganda and terror, kept passions of class hatred and class envy at the boiling point, whipped laggards into line by ruthless regimentation, and thereby preserved their regime through years of civil war and famine. Sometimes the materialistic interpretation of history becomes sheer absurdity, as in the case of a Moscow musical announcer, whom I once heard offer the following bit:

We will now hear Glinka's overture, "Ruslan and Ludmilla." This is a cheerful, buoyant piece of work, because when it was written Russian trade capitalism was expanding and conquering markets in the Near East.

It would seem that, in order to carry any semblance of plausibility, this should have been accompanied by proof that Glinka owned stock in the expanding companies—a highly improbable contingency, if one considers the economic status of Russian musicians.

(7) *Production depends on class antagonism.* To quote Marx, in *The Poverty of Philosophy*:

From the very moment in which civilization begins, production begins to be based on the antagonism of orders, of states, of classes, and finally on the antagonism between capital and labor. No antagonism, no progress. This is the law which civilization has followed down to our own day.

Like many of Marx's "laws," this is a mere unsupported assertion of a pedantic dogma. No proof is adduced. The greatest human constructive achievements, the cathedrals of the Middle Ages, the great dams and skyscrapers of modern times, are the fruit of cooperation, not of antagonism.

(8) *Nationalism is a negligible force.* Marx and Engels lived in an age of rising national consciousness. Conflicting nationalism was the strongest force that let loose World War I. Yet in all their writings the attitude toward nationalism is one of contemptuous deprecation. As Isaiah Berlin, a fairly sympathetic biographer, writes (*Karl Marx*, p. 188):

He consistently underestimated the force of rising nationalism; his hatred of all separatism, as of all institutions founded on some purely traditional or emotional basis, blinded him to their actual influence.

(9) *War is a product of capitalism.* This idea has found some acceptance outside the ranks of the Marxist faithful. The temptation to seek an oversimplified scapegoat for war is strong. But while, theoretically, such Marxian motives as struggle for trade, colonies, and commercial spheres of influence, might lead to war, there is no serious historical evidence that any major conflict was ever touched off by such considerations. There were differences of economic interest between the industrializing North and the mainly agricultural South before the Civil War. But these could easily have been compromised. What made the fratricidal conflict "irrepressible," in Seward's phrase, were the two big political and moral issues: secession and slavery.

World War I was purely political in origin. There was the clash between Slav nationalism and Austro-Hungarian desire to hold together a multinational empire. A system of tight and almost automatic alliances turned what might have been an Austrian punitive expedition against Serbia into a general war.

World War II was the handiwork not of any magnates of capitalism, but of a plebeian dictator, Adolf Hitler, pursuing aspirations of conquest and military glory that far antedate the modern capitalist system. The three countries that were best prepared for war were the communist dictatorship in the Soviet Union, the Nazi dictatorship in Germany, the authoritarian military regime in Japan. Capitalism makes for free trade, free markets, limited governmental power, and peace. And the prin-

cial war threat today comes from the expansionist urge of communist imperialism.

(10) *The worker is cheated because the employer, instead of paying him the full value of his work, holds out on him profit, interest, and rent.* Or, as Marx himself states, his theory of "surplus value" (*Capital*, Modern Library edition, p. 585):

All surplus value, whatever particular form (profit, interest, or rent) it may subsequently crystalize into, is in substance the materialization of unpaid labor. The secret of the self-expansion of capital resolves itself into having the disposal of a definite quantity of other people's unpaid labor.

It requires little reflection or research to realize that "surplus value," like many other Marxian catch phrases, is a myth. How, under any economic system—capitalist, fascist, socialist, communist—could industry expand and provide more goods and more jobs for more people if capital were not withheld from immediate payment to finance future construction? Perhaps the best refutation of Marx's rabble-rousing myth that surplus value is a peculiar dirty trick of capitalists, practiced against workers, is that the extraction of what might be called surplus value is practiced on a gigantic scale in the Soviet Union through the medium of a sales or turnover tax that often exceeds 100 per cent.

It is amazing that, with such a demonstrable record of failure to understand either the world in which he was living or the direction in which that world was going, Marx should be hailed as an unerring prophet. The truth

is that there is nothing remotely scientific about Marx's socialism. He started with a set of dogmatic a priori assumptions and then scratched around in the British Museum for facts that would seem to bear out these assumptions. Like the Emperor in the fairy tale, Marxism, for all its ponderous appearances, really has no clothes on when examined in light of realities, in Marx's time and in our own. His supposedly infallible system of interpreting history and life is riddled with mistakes, of which the foregoing ten are only the most obvious and the most glaring.

FLIES IN THE SUGAR BOWL

by Paul L. Poirot



IN STRICT confidence, many an American farmer will tell you he doesn't really believe in all these government farm support programs; he'd rather stand on his own two feet and compete in a free market. But then he'll go on to explain that one of the big reasons why he has to have some government aid is because nonagricultural businesses enjoy tariff protection. And a great many American voters act as if they see logic and justice in such a claim.

But an American grower of sugar cane or sugar beets can't very well use such an argument, for he farms behind a substantial wall of tariff protection, or what amounts to the same thing in the form of quota restrictions against imports of sugar.

It's quite an ancient wall that protects domestic producers of sugar—about as old as the United States. When this nation was young, the wall was primarily a mechanism for collecting revenue—on sugar as on many other imported items.

In those days, maple trees provided much of the domestically produced sugar, accounting for up to 40 mil-

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lion pounds a year as recently as a century ago. Thereafter, competition from cane and beet sugar plus more favorable employment opportunities elsewhere, gradually took the joy out of the "sugar bush" business until it has virtually disappeared.

While the maple sugar industry was dying, domestic production of sugar cane and beets increased, though not as fast as the population and its growing appetite for sugar.

Import Duties and Export Bounties

In the latter part of the nineteenth century, a number of European governments—aiming to encourage and protect their domestic sugar industries—imposed heavy import duties and paid substantial bounties on exports of sugar. This could have meant quite a break for American consumers—a foreign-subsidized supply of sugar—except that American sugar growers were politically powerful enough to obtain a similar tariff-plus-bounty arrangement in this nation under the McKinley Bill of 1890. From then on, with minor exceptions, the governmental policy relative to sugar has been to protect domestic producers rather than to raise revenue.

For several years prior to World War I, from a fifth to a fourth of the sugar requirements of the United States were satisfied through the "protected" domestic sources. More than three-fourths of the supply in that period came over a tariff wall amounting to nearly 2 cents a pound.

Interference with ocean shipping during World War I

threatened imports of sugar to the United States. Even though the government lowered the tariff wall during the war, sugar was comparatively scarce, and consumers resorted to the old trick of offering more money for the precious sweetener. This might have resulted in substantially increased domestic sugar production, except that the government further intervened with ceiling prices; and potential sugar producers promptly turned to other crops from which they could still reap the consequences of wartime inflation. During the war years of most urgent demand in the United States, domestic production of sugar was a less reliable source of supply than were imports.

When sugar price ceilings were lifted following the war, the price jumped temporarily in 1920 to 22.5 cents a pound. At such prices, the pent-up demand was soon saturated; supplies increased as growers all over the world switched back to sugar production, and by the end of 1921 the price of raw Cuban sugar at New York had fallen as low as 1.82 cents a pound. This, of course, was quite a blow to sugar growers in the United States. But with tariff protection, and some price recovery, they struggled through until the depression when, in 1932, the price of raw sugar fell to less than a penny a pound.

The government intervened in behalf of domestic sugar growers with the Jones-Costigan Act in 1934. This Act enabled the government of the United States to do to American consumers what German U-Boats had threatened during the war: cut off or cut down on imports of sugar. One of the arguments for such action by our own

government was that it would help develop and protect a domestic sugar industry. In a roundabout way, that could have been what the Kaiser had in mind for us, too, though our government officials seem to have missed the point until 1934. By World War II, however, we'd forgotten the point again. Ceiling prices were reimposed on sugar, thus discouraging domestic production at the very time when foreign supplies were most likely to be cut off. We'd built up a peacetime industry, presumably as a defense measure, only to destroy it by price control while the crisis of war was upon us. As in World War I, domestic production again proved to be a less dependable source of supply than were imports of sugar.

The Jones-Costigan Act

If taxation without representation were as keenly resented today as at the time of the Boston Tea Party, the inland waters of the United States would be saturated with sugar. The tribute on tea levied by old King George against the colonists was a minor item in contrast to the cost of government intervention which American consumers have been paying on sugar, particularly since the passage of the Jones-Costigan Act. By means of import quotas, tariffs, and sugar processing taxes, the price of sugar in the United States has been boosted above world market levels, involving extra cost to consumers of nearly \$6 billion since 1934.

In these days of \$65 billion to \$70 billion federal budgets, an item so inconspicuous as a sugar tax of roughly

3 cents a pound no longer incites Americans to rebellion. Housewives count the calories rather than the cost—and continue to pay more than 50 per cent above the world market price for sugar. Admittedly, this is a tiny extra cost when measured by the lump or teaspoon; yet it runs to something like \$10.00 a year for a typical family.

And for what? For growers of sugar cane and sugar beets who claim hardship and a need for federal aid if some other occupation seems more attractive than theirs in peacetime—who wave the flags of national defense when the world is at peaceful trade—yet turn as quickly as any other patriotic citizen to a more remunerative occupation, if they can find it, when war is declared!

Tariff-Protected Farmers

Before anyone concludes that this is a specific condemnation of the behavior of the sugar growers of the United States, let's return to the opening point. The point was that tariffs and import quotas and other restraints upon trade are not confined to items of industrial production. Farmers, various professional groups, laborers, and others too have had experience behind tariff walls. But the sugar tariffs and quotas did not save the maple sugar industry, nor have they spelled unmitigated prosperity for sugar cane and sugar beet growers who still compete against one another until the least efficient are obliged to seek other employment. And the same holds for every other "protected" industry or occupation in any nation where individuals are still free to switch from one

job or business to another. The political barriers to foreign trade merely mean that American consumers are forced to pay more for the goods or services involved than would be the case in a free market.

The more than 50 per cent premium over world market prices for sugar is funneled through the federal government to help pay the administrative costs of such intervention, to maintain a domestic industry larger than a free market would sustain, and to subsidize the favored few foreign producers who hold quota licenses.

A further point of this story about sugar is that farm price supports cannot be justified by the argument that industry has its tariffs and that labor is organized. The competition behind tariff walls is just as keen as without such barriers. All American consumers, not farmers alone, pay the costs of such intervention. As for the excuse that labor is organized, Dr. Harper has shown in the March 1956 *Freeman*—"Why Wages Rise"—that there is no causal relation between union membership and the level of wage rates. And even if there were, a man can quit farming and join a union if he likes.

Sugar cane and beet growers, as well as American consumers of sugar, sometime should realize that the government really hasn't any magic power to improve upon or even come close to matching the unhampered competitive market device for the maximum service of the peaceful interests of everyone concerned.

DESPOTISM IN DEMOCRATIC NATIONS

by *Alexis De Tocqueville*



I HAD remarked during my stay in the United States, that a democratic state of society, similar to that of the Americans, might offer singular facilities for the establishment of despotism; and I perceived, upon my return to Europe, how much use had already been made by most of our rulers, of the notions, the sentiments, and the wants engendered by this same social condition, for the purpose of extending the circle of their power. This led me to think that the nations of Christendom would perhaps eventually undergo some sort of oppression like that which hung over several of the nations of the ancient world.

A more accurate examination of the subject, and five

In his foreword to the 1956 paperbacked edition of *The Road to Serfdom* (University of Chicago Press) Friedrich A. Hayek quotes briefly from *Democracy in America*, Part II, Book IV, Chapter VI, and suggests that the chapter be read "in order to realize with what acute insight De Tocqueville was able to foresee [in 1835] the psychological effects of the modern welfare state."

The portion of the chapter here reproduced is from the Henry Reeve translation published by Saunders and Otley, London, in 1840.

years of further meditations, have not diminished my apprehensions, but they have changed the object of them.

No sovereign ever lived in former ages so absolute or so powerful as to undertake to administer by his own agency, and without the assistance of intermediate powers, all the parts of a great empire: none ever attempted to subject all his subjects indiscriminately to strict uniformity of regulation, and personally to tutor and direct every member of the community. The notion of such an undertaking never occurred to the human mind; and if any man had conceived it, the want of information, the imperfection of the administrative system, and above all, the natural obstacles caused by the inequality of conditions, would speedily have checked the execution of so vast a design.

The Limited Tyranny of Rome

When the Roman emperors were at the height of their power, the different nations of the empire still preserved manners and customs of great diversity; although they were subject to the same monarch, most of the provinces were separately administered; they abounded in powerful and active municipalities; and although the whole government of the empire was centered in the hands of the emperor alone, and he always remained, upon occasions, the supreme arbiter in all matters, yet the details of social life and private occupations lay for the most part beyond his control. The emperors possessed, it is true, an immense and unchecked power, which allowed them to

gratify all their whimsical tastes, and to employ for that purpose the whole strength of the State. They frequently abused that power arbitrarily to deprive their subjects of property or of life: their tyranny was extremely onerous to the few, but it did not reach the greater number; it was fixed to some few main objects, and neglected the rest; it was violent, but its range was limited.

But it would seem that if despotism were to be established amongst the democratic nations of our days, it might assume a different character; it would be more extensive and more mild; it would degrade men without tormenting them. I do not question that, in an age of instruction and equality like our own, sovereigns might more easily succeed in collecting all political power into their own hands, and might interfere more habitually and decidedly within the circle of private interests, than any sovereign of antiquity could ever do. But this same principle of equality which facilitates despotism, tempers its rigour. We have seen how the manners of society become more humane and gentle in proportion as men become more equal and alike. When no member of the community has much power or much wealth, tyranny is, as it were, without opportunities and a field of action. As all fortunes are scanty, the passions of men are naturally circumscribed—their imagination limited, their pleasures simple. This universal moderation moderates the sovereign himself, and checks within certain limits the inordinate stretch of his desires.

Independently of these reasons drawn from the nature of the state of society itself, I might add many others

arising from causes beyond my subject; but I shall keep within the limits I have laid down to myself.

Democratic governments may become violent and even cruel at certain periods of extreme effervescence or of great danger; but these crises will be rare and brief. When I consider the petty passions of our contemporaries, the mildness of their manners, the extent of their education, the purity of their religion, the gentleness of their morality, their regular and industrious habits, and the restraint which they almost all observe in their vices no less than in their virtues, I have no fear that they will meet with tyrants in their rulers, but rather guardians.

A New Kind of Oppression

I think then that the species of oppression by which democratic nations are menaced is unlike anything which ever before existed in the world: our contemporaries will find no prototype of it in their memories. I am trying myself to choose an expression which will accurately convey the whole of the idea I have formed of it, but in vain; the old words despotism and tyranny are inappropriate: the thing itself is new; and since I cannot name it, I must attempt to define it.

I seek to trace the novel features under which despotism may appear in the world. The first thing that strikes the observation is an innumerable multitude of men all equal and alike, incessantly endeavouring to procure the petty and paltry pleasures with which they glut their lives. Each of them, living apart, is as a stranger to the

fate of all the rest—his children and his private friends constitute to him the whole of mankind; as for the rest of his fellow-citizens, he is close to them, but he sees them not;—he touches them, but he feels them not; he exists but in himself and for himself alone; and if his kindred still remain to him, he may be said at any rate to have lost his country.

Perpetual Childhood

Above this race of men stands an immense and tutelary power, which takes upon itself alone to secure their gratifications, and to watch over their fate. That power is absolute, minute, regular, provident, and mild. It would be like the authority of a parent, if, like that authority, its object was to prepare men for manhood; but it seeks on the contrary to keep them in perpetual childhood: it is well content that the people should rejoice, provided they think of nothing but rejoicing. For their happiness such a government willingly labours, but it chooses to be the sole agent and the only arbiter of that happiness: it provides for their security, foresees and supplies their necessities, facilitates their pleasures, manages their principal concerns, directs their industry, regulates the descent of property, and subdivides their inheritances—what remains, but to spare them all the care of thinking and all the trouble of living?

Thus it every day renders the exercise of the free agency of man less useful and less frequent; it circumscribes the will within a narrower range, and gradually

robs a man of all the uses of himself. The principle of equality has prepared men for these things: it has pre-disposed men to endure them, and oftentimes to look on them as benefits.

After having thus successively taken each member of the community in its powerful grasp, and fashioned them at will, the supreme power then extends its arm over the whole community. It covers the surface of society with a net-work of small complicated rules, minute and uniform, through which the most original minds and the most energetic characters cannot penetrate, to rise above the crowd. The will of man is not shattered, but softened, bent, and guided: men are seldom forced by it to act, but they are constantly restrained from acting: such a power does not destroy, but it prevents existence; it does not tyrannize, but it compresses, enervates, extinguishes, and stupefies a people, till each nation is reduced to be nothing better than a flock of timid and industrious animals, of which the government is the shepherd.

Slavery in the Name of Freedom

I have always thought that servitude of the regular, quiet, and gentle kind which I have just described, might be combined more easily than is commonly believed with some of the outward forms of freedom; and that it might even establish itself under the wing of the sovereignty of the people.

Our contemporaries are constantly excited by two conflicting passions; they want to be led, and they wish to

remain free: as they cannot destroy either one or the other of these contrary propensities, they strive to satisfy them both at once. They devise a sole, tutelary, and all-powerful form of government, but elected by the people. They combine the principle of centralization and that of popular sovereignty; this gives them a respite: they console themselves for being in tutelage by the reflection that they have chosen their own guardians. Every man allows himself to be put in leading-strings, because he sees that it is not a person or a class of persons, but the people at large that holds the end of his chain.

By this system the people shake off their state of dependence just long enough to select their master, and then relapse into it again. A great many persons at the present day are quite contented with this sort of compromise between administrative despotism and the sovereignty of the people; and they think they have done enough for the protection of individual freedom when they have surrendered it to the power of the nation at large. This does not satisfy me: the nature of him I am to obey signifies less to me than the fact of extorted obedience.

I do not however deny that a constitution of this kind appears to me to be infinitely preferable to one, which, after having concentrated all the powers of government, should vest them in the hands of an irresponsible person or body of persons. Of all the forms which democratic despotism could assume, the latter would assuredly be the worst.

When the sovereign is elective, or narrowly watched

by a legislature which is really elective and independent, the oppression which he exercises over individuals is sometimes greater, but it is always less degrading; because every man, when he is oppressed and disarmed, may still imagine, that whilst he yields obedience it is to himself he yields it, and that it is to one of his own inclinations that all the rest give way. In like manner I can understand that when the sovereign represents the nation, and is dependent upon the people, the rights and the power of which every citizen is deprived, not only serve the head of the State, but the State itself; and that private persons derive some return from the sacrifice of their independence which they have made to the public. To create a representation of the people in a very centralized country is, therefore, to diminish the evil which extreme centralization may produce, but not to get rid of it.

Subjection in Minor Affairs

I admit that by this means room is left for the intervention of individuals in the more important affairs; but it is not the less suppressed in the smaller and more private ones. It must not be forgotten that it is especially dangerous to enslave men in the minor details of life. For my own part, I should be inclined to think freedom less necessary in great things than in little ones, if it were possible to be secure of the one without possessing the other.

Subjection in minor affairs breaks out every day, and

is felt by the whole community indiscriminately. It does not drive men to resistance, but it crosses them at every turn, till they are led to surrender the exercise of their will. Thus their spirit is gradually broken and their character enervated; whereas that obedience, which is exacted on a few important but rare occasions, only exhibits servitude at certain intervals, and throws the burden of it upon a small number of men. It is vain to summon a people, which has been rendered so dependent on the central power, to choose from time to time the representatives of that power; this rare and brief exercise of their free choice, however important it may be, will not prevent them from gradually losing the faculties of thinking, feeling, and acting for themselves, and thus gradually falling below the level of humanity.

I add that they will soon become incapable of exercising the great and only privilege which remains to them. The democratic nations which have introduced freedom into their political constitution, at the very time when they were augmenting the despotism of their administrative constitution, have been led into strange paradoxes. To manage these minor affairs in which good sense is all that is wanted, the people are held to be unequal to the task; but when the government of the country is at stake, the people are invested with immense powers; they are alternately made the playthings of their ruler, and his masters—more than kings, and less than men. . . .

THE VOLUNTARY BASIS OF TRADE UNIONISM

by Samuel Gompers



GUIDED by voluntary principles our Federation has grown from a weakling into the strongest, best organized labor movement of all the world.

So long as we have held fast to voluntary principles and have been actuated and inspired by the spirit of service, we have sustained our forward progress and we have made our labor movement something to be respected and accorded a place in the councils of our Republic. Where we have blundered into trying to force a policy or a decision, even though wise and right, we have impeded, if not interrupted, the realization of our aims.

No lasting gain has ever come from compulsion. If we seek to force, we but tear apart that which, united, is invincible. There is no way whereby our labor movement may be assured sustained progress in determining its policies and its plans other than sincere democratic deliberation until a unanimous decision is reached. This

Mr. Gompers, president of the American Federation of Labor from 1886 to 1924, included these remarks in his final presidential address to the AFL Convention, El Paso, Texas, 1924.

may seem a cumbrous, slow method to the impatient, but the impatient are more concerned for immediate triumph than for the education of constructive development.

As I review the events of my sixty years of contact with the labor movement and as I survey the problems of today and study the opportunities of the future, I want to say to you, men and women of the American labor movement, do not reject the cornerstone upon which labor's structure has been builded—but base your all upon voluntary principles and illumine your every problem by consecrated devotion to that highest of all purposes—human well-being in the fullest, widest, deepest sense.

We have tried and proved these principles in economic, political, social, and international relations. They have been tried and not found wanting. Where we have tried other ways, we have failed.

PEACE AND WORLD GOVERNMENT

by *Edmund A. Opitz*



WARS aren't what they used to be. Men went off to the Spanish-American War with all the excitement of camp-fire boys on a picnic. Some of them got hurt, of course, and a number succumbed to various diseases. But, as wars go, the Spanish affair was just barely big enough for heroes. One of the heroes of the fracas in Cuba was Theodore Roosevelt, who spoke deprecatingly about the venture. "It was not much of a war," he said, "but it was the best we could do at the time." Such levity was not entirely out of keeping with the temper of the period, but that was three big wars ago. Now, after the experience of the past half century, it is unnatural to jest about war. The next world war which looms on the horizon holds out the prospect of unrelieved horror; little heroism, no glory. Hence the urgency behind our search for any device which gives promise of staving off the impending catastrophe.

World government is one such device, and it has captured the imagination of many intelligent and dedicated

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people. There are different schemes of world government, but they are alike in advocating a world military police. This gendarmerie is to have a monopoly of the world's military weapons to enforce the universal peace which the world government is established to maintain.

There are many questions of a practical nature that come to mind, such as the basis of national representation in a world government, the kind of charter a world police will operate under, and so on. But these are not basic questions. The basic question is the idea of a world police force itself and the global government which it implies. Is international war due to the absence of a supranational political government which comprehends all nations; and is a world police the kind of device we can rely on to achieve peace?

A Doubtful Companion

Proponents of world government often compare their plan to the process by which the original thirteen colonies formed the United States of America under a federal government. If the colonies could federate, so runs the argument, why can't the nations of the world? There are two answers to this argument: one specific, one general.

John Jay provided the specific answer to this question in the second Federalist Paper by saying, in effect, that the thirteen colonies were already one nation *de facto*, so why not make them one nation *de jure*? "America was not composed," he writes, "of detached and distant ter-

ritories . . . one connected, fertile, widespreading country was the portion of our western sons of liberty. . . . Providence has been pleased to give this one connected country to one united people—a people descended from the same ancestors, speaking the same language, professing the same religion, attached to the same principles of government, very similar in their manners and customs, and who, by their joint counsels, arms, and efforts, fighting side by side throughout a long and bloody war, have nobly established general liberty and independence. This country and this people seem to have been made for each other. . . . To all general purposes we have uniformly been one people; each individual citizen everywhere enjoying the same national rights, privileges, and protection. As a nation, we have made treaties and entered into various compacts and conventions with foreign states.”

Different Conditions

Not even the most enthusiastic world federalist could maintain that the above description of the condition of the colonies applies even remotely to the nations of the world. These are distant from one another, with widely different languages, customs, and religions; full of ancestral antagonisms and often actively hostile. They are not naturally one people as the colonists were one people.

The general argument for world government uses the logic of simple arithmetic: If a local police force is a feasible arrangement to deter individuals from disrupt-

ing the peace of the local community, why not a world police to deter nations from disrupting the peace of the world community? The first step in answering this question must refer to the facts mentioned above, which point to the conclusion that world government is impossible for geographic and ethnic reasons. "Maybe it's impossible," comes the rebuttal, "but that does not prove it is illogical." How does one answer the person whose "logic" is undismayed by the impossible? Consider an analogy from engineering, the case of a suspension bridge. In a giant bridge, something like 90 per cent of the strength of the materials is used to bear the weight of the bridge, and only about 10 per cent is used to bear the weight of the traffic. It is in the order of nature that there is no more than 100 per cent of anything, and with the structural materials now available there is a limit to the length of a suspension bridge. It is somewhat under one mile. One may speak of "a two-mile suspension bridge" but it refers to no reality other than black marks on paper or vibrations in the atmosphere. "World government" is in the same category and for much the same reason.

Natural Limitations

The point may be driven home by the oyster, whose powers of multiplication are such, we are told, that if all the progeny of a single pair lived and bred for one year there'd be a mass of oysters larger than the earth. It is neither the oyster's logic nor lack of it that prevents this from happening, but the realities of the oyster's environ-

ment. In a brilliant essay on "The Size of Living Things," biologist Julian Huxley tells us that "size, which we are apt to take for granted, is one of the most serious problems with which evolving life has had to cope." We are not overwhelmed by oysters or other things because Nature employs the "feed back" principle; it maintains an ecological balance with its built-in governors.

Man is not his own law; he is a creature of limited possibilities. Neither he nor his societies can escape the limitations reality imposes on everything. From the fact that a thousand-foot suspension bridge is an easy feat of engineering there is no logical way to draw the inference that a thousand-mile bridge is possible. Similarly, the fantasm of world government has no logical connection with either the theory or the fact of local government.

Policing the World

But this is not to dispose of the possibility of a world police authorized by a coalition of nations. This is more than a possibility, as witness Korea, but is it one that recommends itself to thoughtful people? Some doubts come to mind.

The projected world military police force—unless it frightens everyone into submission, in which case it will be the most extensive tyranny in history—will conduct military operations. It is possible to gain a hollow semantic victory for "peace" by labeling war a police action, as was the case with the episode in Korea. But

the peace men want is not merely the absence of war—much less is it the “peace” gained by the cheap expedient of calling war by another name. Peace is the enjoyment, by persons in society, of the full exercise of their faculties within the limits set by the equal rights of others.

This condition is easy enough to visualize, as an ideal; it is impossible or next to impossible to achieve in practice—for this reason: Man has predatory impulses, and in some men these impulses predominate. Peaceable men desire to exercise their faculties and enjoy the fruits of their labor, but predatory men want to enjoy the same fruits. There is a conflict here, which well-disposed men seek to resolve in their favor by setting up a police force to protect the peaceful business of society against predators. In order that this constabulary may do its job, it is given a social grant of power to curb predation.

Who Will Police the Constabulary?

So far this is very simple. But the next question has never been answered satisfactorily: Who will police the constabulary? In other words, what is to be done when predatory men gain control of the constabulary, or when predatory impulses begin to crop out in its personnel? There is no weapon devised for defensive purposes which cannot be used for aggression. Likewise, a police force and an army: organized for defense, either may be used offensively.

This problem of defensive force turning aggressive has not yet been solved on a small scale where the con-

stable is your next door neighbor and thus pretty much under the collective thumb. How much more complicated is a world constabulary, even in conception! Imagine all the weapons of the world melted down and reforged into a gigantic gun capable of blowing us all to smithereens. Who will aim this gun? Who will pull the trigger? It is just conceivable that an American and a Russian might not find it easy to come to any agreement on either of these questions. But it is inconceivable that the very existence of such a weapon would not touch off a struggle to gain control over it. Whatever the label pinned on this struggle, it will actually be world war—which points up the dilemma facing any effort to gather up a monopoly of world force in advance of any effective public opinion as to the manner in which this force shall be used.

It will be answered that there is just such an effective public opinion in the almost unanimous desire of the world's people for peace, but this answer has to be qualified in important respects. Peace is a by-product of other conditions; and while many people say they want peace, few know or want the things that make for peace. Moreover, the peace each man or nation wants is peace on his own terms; what looks like peace to Smith does not look like peace to Voronsky. Public opinion on behalf of peace is either nonexistent or too feeble. Where it does muster some strength it almost always relies on wrong means.

How else can we account for this century's deep involvement in senseless war while all the while it pro-

claims its dedication to peace? Some wars in history have had at least the surface appearance of rationality; the results could be measured by additional territory, slaves, gold, and the like. War is one instrumentality for the attainment of such ends; not the best one perhaps, but neither is it an entirely incongruous one. But to invoke world war as a means of achieving brotherhood, eliminating aggressor nations, and establishing perpetual peace is little short of insane! World Wars I and II produced their evil results utterly heedless of the grandiose official and popular declarations of why these wars were fought.

Both wars received official and popular endorsement as crusades to stamp out "aggressor nations." But the military action in neither case had the precision which marks a successful police action. Each was characterized by the brutal, senseless, and purposeless force that marks a natural cataclysm like an earthquake. In short, these wars are symptomatic of social ills which lie beneath the surface. They indicate that western society is in various stages of disintegration as its main ideas lose their power over men's minds.

Political Solution Improbable

The League of Nations was a reaction to World War I, as the United Nations was a reaction to World War II. Both organizations were based on a faith in large-scale political action which is entirely unwarranted by experience. "An assemblage of states will no more produce a universal moral order than a lot of lobsters thrown into

a pound will produce a republic of lobsters," William Aylott Orton tells us in his book, *The Liberal Tradition* (pp. 238-239). He continues.

If you pretend that such ethical values as peace, freedom, justice are going to be secured by an international assemblage of bombing planes: then you merely multiply the occasion on which physical force may be plausibly invoked, and invite a perpetuation of that political chicanery of which, this past quarter century, all decent men have had a bellyful. The relation of political realities to ethical values is not one of means to ends. To suppose that the tangible aims and purposes of the great powers will be subordinated to ideal ends by the creation of an international assembly that they themselves will convoke and control is naive in the extreme.

Internal Cohesion Needed

This problem is too deeply rooted to be affected, let alone cured, by the application of external political panaceas. Modern societies lack cohesion. The natural ties that bind men in community have weakened, and the resulting damage cannot be repaired by external patching. A barrel is held together by hoops around the outside; but conceivably the staves could also be held in place by interior lines of force. Only something analogous to these internal fasteners can hold society together; lacking these, society has nothing comparable to barrel hoops to hold itself together. The problem would be serious even if things were static; but they are not. If an irresistible force is exploding inside the barrel, no

strengthening of the hoops around the outside will prevent the staves from flying apart.

Our society is in the grip of just such a centrifugal force, and although it appears benign, it is actually tearing society apart. Unless it can be annulled, the erection of a world-wide political mechanism to prevent society from committing suicide will be as futile as trying to heat a room by holding a match under a thermometer.

“All men desire peace,” remarked Thomas a Kempis, “but not many desire the things that make for peace.” Unless men know what things make for peace, they cannot desire them. Without this knowledge they may unwittingly start off on a course of action whose first steps seem innocent enough but whose last step is war. Almost no one intends the last step, but it is difficult to avoid this end if one takes the first steps toward it.

Imperfect Men Still Seek Peace

There is a core of natural pugnacity in all of us, more than likely, and some of us are more adequately supplied than others. So there are going to be brawls and minor riots—which we can pretty well take in our stride. Even a riot involving scores of men, bad as it may be, is a far cry from war, which is a carefully calculated conflict between groups of specially trained men. This kind of conflict requires rationalization, exhortation, and pressure. Occasionally there is moral justification for such a conflict in the matter of defense. When this is the case, the individual does not need someone else to volunteer

his life and property for him; he is competent to decide for himself.

In most persons, the desire for peace overrides natural belligerency. So much is this the case that the continuous war we are engaged in must be sold to us as a means of attaining universal peace. How does it happen that even as we declare for peace we prepare for war? To the extent that our aversion to war is genuine—and this is largely the case—it becomes obvious that the war we don't want is an unforeseen consequence of our efforts to get something else. If we analyze our predicament further, we can detect a similarity of principle between the operations of the Welfare State or other varieties of collectivism, and the operational imperatives of a nation at war. We would do well to examine the inference which may be drawn from this observation: that the first steps to war are taken when society adopts a mischievous domestic policy.

The Purpose of War

The purpose of war, according to Clausewitz, is to impose your will on the enemy, or prevent him from imposing his will on you. In a Welfare State, or under full-blown socialism, the mass of men are guided, regulated, directed, and controlled by those wielding political power. On principle, the wills of a large segment of the nation are bent to conform to the master plan imposed on them by those who believe themselves competent to plan the lives of others. When this occurs in a society as

a permanent peacetime policy, that society has taken the first steps of a course whose last step is war. The principle of socialism or the Welfare State has in it, inevitably, the germs of war.

Conscription for military service is but the more immediate application to military purposes of the control of individuals which is inherent in socialist policy. Some socialists oppose conscription but endorse its logical counterparts; conscription follows theoretically from the rest of their beliefs. These people object to the use of a lot of force on foreigners; they advocate the use of a little force on domestics. But if you start doing the latter, there is no stopping place short of the former.

War Stems from Political Intervention

Control merely for the sake of control soon loses its zest. The popularity of socialistic and Welfare State schemes is due to the use of control for the redistribution of goods. Goods can be had by production, trade, or gifts. But other peoples' goods can also be had as a result of political privilege. All varieties of collectivism traffic in political privilege. So do other societies, but not on principle, and therein lies a major difference.

If the producers of a nation are to be exploited on principle by the political class, it follows that the political class can better its circumstances if it has more producers and more territory to exploit. It gets more producers and more territory by conquest. Thus, the first steps to war are taken in the setting up of a system of

political privilege as a means of acquiring other men's goods. When men rely on political privilege to acquire economic goods, they have already embraced the near end of a principle whose far end is war.

If we don't like the last step, we shouldn't take the first. In the matter of modern war, the first step is the acceptance by almost all men everywhere, of the false assumption that political committees are competent to run peoples' lives. The first steps to peace are in the direction of a voluntary society in which each person is free to direct his own energy so long as he allows the same right to others. There is no utopia in this direction, but in striving for a voluntary society we may at least avoid such debacles as now plague our world.

Unnecessary or Unworkable

Hence, our dilemma. If we can revolutionize opinion about social organization so that we rid ourselves of arbitrary political interventions in economic and social life, we won't need a world police; if we can't change opinion in this area in favor of a strictly limited government, a world police would either be helpless to prevent war or would itself be the worst tyranny history has known.

Ideas have only one source: the free mind. They develop and spread as interpersonal communication between individuals is facilitated. No social force is so powerful as the healthy contagion of ideas. For good or ill, they will have their way in time against any obstacle.

The only lasting antidote to war consists of extending limited government ideas to the nations of the world; and the first step is for these ideas to capture the minds and loyalties of men. Not only other men, but us. Even in the United States, wrong ideas about social organization have allowed our several governments at different levels to get out of hand. Desire for a world government stems from the same errors which have pushed us off base domestically. There is no recovery save in a changed climate of opinion—no short cut to peace. A world society, in contrast to a supergovernment, is a worth-while objective; but there is no way to attain it except as ideas of personal liberty gain ground and push government into the limited role of curbing aggression.

THE PLAGUE WE SPREAD



DOCTORS have come around to the idea that often the best way to heal an injury is to get the patient on his own two feet under his own power and let nature do the job. American foreign policy planners ought to take a good look at the theory. Coddling the patient certainly hasn't worked out for them.

Great Britain has just wangled a \$1,300,000,000 loan from the International Monetary Fund, which gets most of its capital from the United States. Also, the British are about to get \$81,600,000 more from Uncle Sam in interest they won't have to pay on wartime loans. All this is supposed to help pull Britain out of a very real economic disaster brought on by the Anglo-French adventure in Egypt.

No one in his right senses wants to see Britain collapse. Whatever must be done to bring our traditional Allies back to national strength should be done. It should mean something, however, that American dollars have been pouring into the British Isles to "shore up" the British economy ever since World War II—and Britain has grown progressively weaker. Not so many years ago, a little thing like the "Suez war" would scarcely have been noticed in the British exchequer. Evidently, permit-

An editorial from the *Indianapolis Star*, December 15, 1956.

ting the British government to make indirect withholding levies on the wages of American workers has not cured what ails our friends.

The thing we have overlooked is that national strength creates wealth in any country, but in no country can outside wealth create national strength. Our foreign aid dollars have shielded weakness until the weakness has become almost permanent in many countries. We kept picking up the tabs for socialistic experiments in Great Britain. We paid the bills for British preparedness while the British, not needing to worry about where the money was coming from, went about nationalizing industries, providing cradle-to-grave "social security" and generally moving toward collectivism. We never gave them a chance to get a good look at the results. Our dollars made it seem that everything was just dandy.

It was the same, and it is still the same, in more than a score of other countries. Fatheaded leaders have taken their peoples far down the withering road of socialism, and the people can't see the failure of their systems because they are propped up by American dollars. They can't see their own economic disease because its symptoms are hidden behind an American checkbook.

Germany's complete recovery from what seemed like total destruction in World War II is no accident. The Germans had their fill of socialistic measures under Hitler. When he was gone, they set to work on the capitalistic pattern, with private initiative and enterprise as their themes. They had the biggest job of reconstruction to do, and because it was so enormous, they chose the

most efficient way to do the job. Today their economy is the strongest in Europe. That, too, ought to mean something.

What it means is that the rotten systems of Europe will continue to breed economic and social disease until the peoples of Europe can get a clear look at their own weaknesses. They will never do it until American dollars quit making unworkable systems look as though they're working. It's long past time to put the patient on his feet, so he may know that only his own strength will cure him.

Uncle Sam's continued handouts to smugly bedridden nations can only mean complete paralysis in the end.

FORGOTTEN COMMANDMENT

by Charles Hull Wolfe



DURING the 1930's, certain American intellectuals spear-headed what might be called an ethical uprising in the social realm. They called for government intervention to benefit the less fortunate members of society, giving impoverished persons and groups the practical help of subsidies, price supports, and other monetary payments.

The idea, as everyone knows, proved immensely popular. Earnest political officials saw in it a chance to extend their sphere of usefulness: now government, instead of merely restraining evil-doing, actually could do good. Many social scientists and other kind-hearted citizens likewise approved, thinking: "What a fine thing it is that Washington is helping the needy!" And those who received the aid—farmers, the elderly, the unemployed, citizens of "poor" states, and so on—saw the tangible benefits to themselves.

Considering these pressures, the growth and persistence of the large-scale practice of distributing subsidies is quite understandable. But, I believe—despite the widespread acceptance of this system—that the entire prac-

Mr. Wolfe was a member of the staff of the Foundation for Economic Education when this article was published in August 1956.

tice would be opposed by tremendous numbers of our people, even by many now receiving substantial government payments, *if they understood what is really going on, including secondary consequences*. We have looked only at the immediate effects of a policy, or the effects on only a certain group, and failed to examine the long-term effects, not merely on one, but on all groups.

Of course, we see that various segments of the population have special economic needs. We also see that the federal government has, or can get into its possession, the vast funds which can meet those needs. But we stop there, when we should go on and ask: "Where does the government get this money?"

The Magic Money Machine

It's quite possible that some citizens don't know. But even those of us who do are tempted at times to look at our federal government and imagine we see a fabulous, gold-plated Magic Money Machine. We are tempted to believe, somehow, that if only our legislators will work hard enough turning the crank, this magic machine will produce all the wealth needed by every impoverished group in our society.

And a great many persons are busy encouraging us in this illusion. Our politicians promise ever-larger bounties from the magic machine: bigger dams, better roads, better schools, more federal housing projects, higher parity prices. Many of our professors tell us this is social progress and social justice. And many of our journalists in-

scribe headlines announcing every new proof of federal generosity.

It certainly would seem that the Magic Money Machine is the wonder of the age.

Yet, we can search Washington, D. C., from the sub-cellar of the White House to the top of the Capitol Dome, and we will not find a Magic Money Machine. It does not exist. Of course, the government can always print more money—it can always dilute the currency. But there is no federally-owned gold mine in the nation's capital. Neither the President nor the congressmen nor anyone else in Washington has any self-replenishing treasure house from which wealth can be taken and distributed to the people.

Where Does the Money Come From?

Where, then, does our federal government get the billions upon billions which it doles out in subsidies each year? It's obvious enough. From the people, from taxing everyone actively engaged in producing wealth. Government has no wealth of its own which it could give to you or me or anyone else. Every time the government *gives* to one man, it has to *take* from another. Every time someone gets something for nothing, someone has to give something, and get nothing. Government can pay Paul only by first robbing Peter.

Now I have just used a strong word—"robbing." I said, in effect, that our government is robbing one citizen in order to give to another. This is a well-considered con-

viction. And yet, it is perhaps too harsh an indictment.

For one thing, I believe most of those involved (the subsidy-seekers and the government officials) don't know that they're stealing. It's not intentional theft. Also, it is apparent that the government practice of taking from some in order to give to others is perfectly legal. Even if it is unconstitutional, government passes the laws enabling it to do this taking; so, legally, it cannot be called stealing.

But the moral law and the man-made law are sometimes two entirely different things, and in the end, man-made law has wisdom and validity only to the extent that it coincides with moral law.

The Moral Law

So let us evaluate our practice of taxing-some-to-subsidize-others in terms of the moral law which says, "Thou shalt not steal."

Now, most of us are used to thinking of stealing as occurring unexpectedly, and either secretly or by means of violence; and we ordinarily think of this stealing being done by an obviously unsavory character, and for an unmistakably selfish end—his own self-aggrandizement. But I think you will agree that we can eliminate every single one of those conditions, and still have stealing. The dictionaries agree that two elements—and only two elements—are always present in theft: the element of *taking* (that is, getting without permission) and the fact of *ownership* (that the thing taken belonged to another).

In terms of this basic definition, our government's tax-and-subsidize program *is* stealing—if (and this is an important “if”)—if you actually own the fruits of your own labors, and if you do not want government to take them from you in order to give them to others. All we have to find out is whether you really own what you earn, and whether you would voluntarily let government take what you own and distribute it to other persons.

Do You Own What You Earn?

First, do you own what you earn? Do you own the fruits of your own labors? This is a big question, and I can only touch on it here. But I will take the time to say that this question is pretty close to the heart of the gigantic struggle of freedom versus slavery which is now engulfing the world.

On one side is the socialist, the communist, the totalitarian position. It says: “No, no man owns the fruits of his own labors. Society owns them, and it is the business of government to distribute them.”

In the center is the “moderate collectivist” or “middle-of-the-road” position: “A man should be allowed to keep *part* of what he earns. The rest belongs to society, to be collected and distributed by government.” But this is only an evasion of the point. When you say, “A man can be *allowed* to keep part of his income,” you are virtually admitting that government owns all of it, and that government alone, by its own generous discretion, decides that some part of it may be kept.

On the other hand, the voice of freedom asserts, "Man inherently, under the divine or natural laws, does own the fruits of his labors." This ownership hinges on the simple fact that man has a God-given right to life; and the right to life is meaningless unless there is the right to sustain and protect that life. If a man is denied the right to keep what he earns, to retain the fruit of his labor or his property, he loses control of the only means whereby he can sustain his human life!

This, incidentally, is a premise on which this country was founded. Throughout history, nations had been built on the assumption that the State was supreme, the people subordinate—and that the State had prior claims on every man's income. But the American Revolution (which was primarily an ideological revolution) overthrew these tyrannical assumptions; and the Declaration of Independence and the Constitution implied that the individual is supreme, the State subordinate—and that the function of government is to protect a man's life, liberty, and property, not to take them away.

What Would You Give Government?

Assuming that you should own what you earn, then the question arises: Would you voluntarily give to government any amount of your income that it wanted, even though you knew it was going to be used for the sole purpose of subsidizing others? This is not a question of charity—how charitable you want to be—but a question of whether you would voluntarily give up the right

to determine how your income, above and beyond your immediate basic needs, is going to be spent. It is a question of whether you think you should relinquish that right to certain other persons called "government," or whether you should determine the spending of your own earnings—how much for your family, how much for various benevolent purposes, and so on.

I am not asking whether you would be willing to pay for a basic protective service which government renders for you at your request. I am talking about an additional tax, on top of that, which is not for you at all, but for somebody else.

We might call one part of our present tax the *basic* tax; the additional part, a *subsidy* tax—a tax we pay in order to subsidize others. I say that even though we pay the basic tax reluctantly, most of us pay it pretty much voluntarily. That is, we know we ourselves want a certain service from government, and we know it has to be paid for. But I believe many of us—if asked—would *not* be willing to pay an additional tax for the sole purpose of transferring our wealth to someone else.

Suppose that only the basic minimum tax were compulsory in this country and that there were no subsidy tax. And let us say that the Governor of Tennessee had come to you and asked you to put up some money to help build the TVA dam. Not a loan—an outright gift.

You know, of course, that the dam is primarily for the benefit of the people of the Tennessee Valley. You also should know that if you give the Tennessee Governor money one year, he'll be back for more the next; and

he and his successors in office will keep on coming back till the day you die.

Furthermore, if you give a single dime for the TVA dam, the word will spread like wildfire that you have subsidized something in Tennessee; and the governors of the other 47 states will be after you faster than you can say, "My poor aching wallet." And so will you be approached by everyone else who thinks it might be nice to have a subsidy—to get something for nothing.

The wheat farmer, the corn farmer, the peanut farmer, the unemployed, the unemployable, the elderly, the veterans, all who want improved roads and hospitals and schools and dams and harbors and irrigation projects and the thousand-and-one other things that occupational and geographic groups in towns and cities and states can ask for—by the hundreds they'll come—knocking at your door, writing you, phoning you. They'll never let up. Their imagination and persistence will prove unlimited.

Knowing full well that this is the pattern—would you voluntarily, on your own initiative, help to subsidize the TVA dam, or any other project seeking government aid?

Before you say yes, let me state that the situation I have just portrayed is literally what *did* happen to our United States congressmen during the past 20 years. A few congressmen, urged on by certain pressures, put through a subsidy for one group, who promptly concluded it was something government *owed* them, and have literally demanded it ever since.

Other groups, seeing the pleasures of "something for nothing," shouted, "Me too!" After all, they reasoned,

“You are the government—you’ve got to be impartial! You gave to Tennessee—why not to me?” And the subsidy-seekers have been swarming around the nation’s capital ever since. Almost every year they take a bigger cut out of your and my earnings.

And who determines how the loot is divided? We like to imagine it is some cool deliberative body—“government” in the abstract, dispensing “economic justice” according to the dictates of impersonal science and impartial wisdom. But what is *actually* going on? Pressure groups are fighting like cats and dogs to see who can get the biggest shares of the something-for-nothing money. And congressmen are perpetually making deals with each other—“You vote for my subsidy and I’ll vote for yours.”

Now this is what we bargained for when we started this subsidy business. Increasingly, everybody is subsidizing everybody—and government, rather than the individual citizens, is determining how individual earnings are spent. The whole problem was implied the very first time we let government step in and take wealth from one in order to give to another. So I ask you, “Voluntarily, on your own initiative, if you were acting as government, would you have started this subsidy operation with a contribution from your own income?”

If you say, “No, I would not”—and if you have already agreed with me that you own the fruits of your own labors—then I think you are concurring with me that the subsidy program is virtually a form of stealing. Unintentional? Perhaps. Legal? Yes, though actually unconsti-

tutional. But still it would seem to me, by the judgment of moral law, inherently an act of theft.

Government Camouflage

Why, then, is it not more commonly recognized as that? Largely, I think, because the mechanics of government tend to camouflage what is going on. Government processes are so automatic, so mechanical, so impersonal, that it is easy to lose sight of what is actually happening.

The whole picture would become startlingly clear if we would remove the mask of government procedures, and reduce the situation to its basic human elements. Let's take the farmer who demands a subsidy. Ostensibly, he asks it of government; but actually, he requests it of his fellow citizens. He is virtually saying to them, "I insist that you pay me more than the free market price for what I raise. I demand that you pay me more than you would voluntarily."

If the farmer said that to each of his customers in person, they'd just laugh at him. So the farmer asks government to provide a subsidy. Instead of collecting that subsidy through taxes, what if the government said to each farmer, "You go and collect this subsidy yourself. We will assign a policeman to each farmer, and you can go door to door all over the United States, and demand your price support in person. If anyone refuses to give you his share, the officer may arrest that person and take him to jail."

Even if the government subsidized the farmer during

this tedious collection process—and paid all his traveling expenses—how many farmers do you suppose would be willing to accept price supports under such conditions? Why, it would be too humiliating, too degrading to go about begging or bludgeoning one's fellow citizens. Any normally self-respecting farmer would refuse to do it. He would see for himself that he was engaged in an act of theft, and would turn from it with loathing.

Morals and Economics

“All right,” someone says, “I’m beginning to see your point. Reduced to its basic moral and human elements, this subsidy business might be called stealing. But even though it is morally regrettable, is it not economically advisable? Don’t you agree that from the viewpoint of practical economics, it makes more wealth available?”

That’s a good question. But the answer is that the subsidy system is not economically advisable. There is a most interesting and significant correlation between morals and economics. What is morally sound tends to be economically sound, and vice versa; and this applies very pointedly to government subsidies. For the people as a whole, the subsidy system does not increase wealth, but only transfers it, and in the process greatly reduces it, and takes away precious freedoms.

If the subsidy system is wrong, then how can it be stopped? The answer is simple. We can solve this problem by recognizing that just one thing makes it possible: government intervention, the present misguided notion

that government should dispense economic privilege. Left to their own devices, our people would never think of taking from one another in such fashion. Even if a neighbor offered to steal for him, no honest man would accept a gift of stolen goods. And if such wholesale thefts were attempted without State sanction, the police and courts would halt it faster than you can yell, "Stop, thief!"

We find the answer close to home—in the kind of political instrument conceived by our own Founding Fathers. We find it in the spirit of limited government crystallized in the Declaration and formalized in the Constitution. Under this system, the political mechanism has no power to bestow favors on any class or section—rich or poor, business or labor, city or farm, North or South. It has no authority to take from one to give to another, no authorization to interfere with the normal functioning of the free market. In this sort of society, charity is voluntary, and can be both individual and institutional; but theft in all forms is absolutely illegal. The commandment, "Thou shalt not steal," is remembered and obeyed.

A FAIR WAGE

by C. W. Anderson



“WE MUST recognize that every employee is entitled to a fair wage.” So concluded the speaker, a respected manufacturer and civic leader, elaborating on the development of industrial statesmanship at a typical gathering of American businessmen. Audience reaction indicated full approval of this, the voice of “enlightened” management!

While applauding the urge for more statesman-like industrial management, let us examine the implications of this particular declaration: a right to a fair wage.

Suppose, for instance, that a man is employed to produce ordinary aluminum measuring cups. Working with only such hand tools as a hammer and cutting shears, he is able to cut and form two cups an hour—16 in an 8-hour day; and these hardly the streamlined models which grace a modern kitchen.

A block away, a man using a press, dies, and other mass production equipment turns out high quality aluminum measuring cups at a rate of 320 a day. What is a “fair wage” in each of these plants? Is it the same for Mr. Anderson is Manager of the Employers’ Association of Milwaukee.

the man who forms cups with hand tools as for the man who mass produces them at twenty times the first man's rate?

If the advocate of "fair wages" begins with the assumption that a dollar an hour is a fair wage for the man using hand tools, it is clear that each cup must sell for no less than 50 cents—just to cover labor costs. But charging any such price for handmade cups obviously is out of the question if superior cups from the nearby competing plant are offered, shall we say, at 15 cents each.

If the consumers' choice is to be a determinant of the price of cups, then it appears that this hand craftsman—for the job he is doing—may not be able to earn more than a few cents an hour. Were he to insist on more from his employer, he'd obviously price himself out of that job. This, of course, would leave him the alternative of seeking employment elsewhere; possibly at the more highly mechanized plant in the next block.

That All May Be Free

Within an economy of open competition, it seems reasonable that any person should be free to choose from among various available employment opportunities. But if all interested parties—including employers and consumers—are to be equally free to choose, then it is clear that the employee may not arbitrarily set his own "fair wage," and demand a job at that rate. Nor can an employer arbitrarily maintain for an appreciable time a

“fair wage” that is much higher or lower than is indicated by the competitive situation. If he tries to pay more than is justified by the productivity of his men, he must face bankruptcy. And if he pays much below the prevailing level in that area, his workmen will quit.

If freedom of choice is to be respected, then the only fair wage is one determined by the purely voluntary process of competitive bargaining in a free market.

One may deplore the plight of the poor fellow in the unmechanized plant: how will he use his skills? Indeed, it is unfortunate if he lacks the modern equipment to make his efforts most productive. But to suggest that he should receive more than is reflected in the price consumers will voluntarily pay for cups is to reject the ideal of competitive private enterprise, and to accept Marxian philosophy. That would be saying in effect that *need*, and not productivity, determines wages; and that once a person starts work at a certain job, he has a vested interest in that job and a right to receive more than he can earn in it. We may decry the decisions of consumers in the market place if they reject the high-priced product of the hand-skilled employee, but the only substitute arrangement is to deny the consumer's right of choice—by law, forcing him or some other taxpayer to subsidize the particular craftsman.

Flexibility Required

So a “fair wage” is not something static which anyone can pick out of the air or arbitrarily define. It is not a

fixed amount for every employee, but a figure that varies with each person and situation. The physical strength and technical skill of the employee may be highly important factors; but from this simple illustration it is clear that neither these, nor the man's *needs*, can be the sole determinants of wages. The most important single factor is productivity which proceeds from investment in tools. When this truth is recognized, it wholly displaces the fallacious idea of a right to a "fair wage."

Understanding of this economic fact would be an important step in the development of industrial statesmanship.

OF BREAD AND CIRCUSES

by Ben Moreell



ROME was eight and a half centuries old when the poet, Juvenal, penned his famous tirade against his degenerate countrymen. About 100 A.D. he wrote: "Now that no one buys our votes, the public has long since cast off its cares; the people that once bestowed commands, consulships, legions and all else, now meddles no more and longs eagerly for just two things, bread and circuses."¹ Forty years later, the Roman historian, Fronto, echoed the charge in more prosaic language: "The Roman people is absorbed by two things above all others, its food supplies and its shows."²

Here was a once-proud people, whose government had been their servant, who had finally succumbed to the blandishments of clever political adventurers. They had gradually relinquished their sovereignty to government administrators to whom they had granted absolute powers, in return for food and entertainment. And the sur-

¹ Carcopino. *Daily Life in Roman Times*. New Haven, Yale University Press, 1940. p. 202.

² *Ibid.*

Admiral Moreell is Chairman of the Board, Jones & Laughlin Steel Corporation. This essay is from an address of October 5, 1955, to the National Association of Purchasing Agents at Houston.

prising thing about this insidious progression is that, at the time, few realized that they were witnessing the slow destruction of a people by a corruption that would eventually transmute a nation of self-reliant, courageous, sovereign individuals into a mob, dependent upon their government for the means of sustaining life.

“We Never Had It So Good”

There are no precise records that describe the feelings of those for whom the poet, Juvenal, felt such scorn. But using the clues we have, and judging by our own experience, we can make a good guess as to what the prevailing sentiments of the Roman populace were. If we were able to take a poll of public opinion of first and second century Rome, the overwhelming response would probably have been—“We never had it so good.” Those who lived on “public assistance” and in subsidized rent-free or low-rent dwellings would certainly have assured us that now, at last, they had “security.” Those in the rapidly expanding bureaucracy—one of the most efficient civil services the world has ever seen—would have told us that now government had a “conscience” and was using its vast resources to guarantee the “welfare” of all of its citizens; that the civil service gave them job security and retirement benefits; and that the best job was a government job! Progressive members of the business community would have said that business had never been so good, that the government was their largest customer, which assured them a dependable market, and

that the government was inflating currency at about 2 per cent a year, which instilled confidence and gave everyone a sense of well-being and prosperity.

And no doubt the farmers were well pleased, too. They supplied the grain, the pork, and the olive oil, at or above parity prices, for the government's doles.

The government had a continuous program of large-scale public works which were said to stimulate the economy, provide jobs, and promote the general welfare, and which appealed to the national pride.

The high tax rates required by the subsidies discouraged the entrepreneur with risk capital which, in turn, favored the well-established, complacently prosperous businessman. It appears that there was no serious objection to this by any of the groups affected. An economic historian, writing of business conditions at this period, says, "The chief object of economic activity was to assure the individual, or his family, a placid and inactive life on a safe, if moderate, income. . . . There were no technical improvements in industry after the early part of the second century." There was no incentive to venture. Inventions began to dry up because no one could reasonably expect to make a profit out of them.

Rome was sacked by Alaric and his Goths in 410 A.D. But long before the barbarian invasions, Rome was a hollow shell of the once noble Republic. Its real grandeur was gone and its people were demoralized. Most of the old forms and institutions remained. But a people whose horizons were limited by bread and circuses had

destroyed the spirit while paying lip service to the letter of their once hallowed traditions.

The fall of Rome affords a pertinent illustration of the observation by the late President Lowell of Harvard University that "no society is ever murdered—it commits suicide."

Symbols of Moral Decay

I do not imply that bread and circuses are evil things in themselves. Man needs material sustenance and he needs recreation. These needs are so basic that they come within the purview of every religion. In every religion there is a harvest festival of thanksgiving for good crops. And as for recreation, we need only recall that our word "holiday" was originally "holy day," a day of religious observance. In fact, the circuses and games of old Rome were religious in origin. The evil was not in bread and circuses, per se, but in the willingness of the people to sell their rights as free men for full bellies and the excitement of the games which would serve to distract them from the other human hungers which bread and circuses can never appease. The moral decay of the people was not caused by the doles and the games. These merely provided a measure of their degradation. Things that were originally good had become perverted and, as Shakespeare reminds us, "Lilies that fester smell far worse than weeds."

More than fifty years ago, the great historian of Rome, Theodore Mommsen, came to our country on a visit. At

a reception in his honor, someone asked him, "Mr. Mommsen, what do you think of our country?" The great scholar replied, "With two thousand years of European experience before your eyes, you have repeated every one of Europe's mistakes. I have no further interest in you."

One wonders what Mommsen would say today in the light of the increasingly rapid destruction of our traditional values during the past 25 years.

Many of our people have been converted to the idea that liberty has been tried and found wanting, just as many believe that Christianity has been tried and found wanting. They do not know that what has been found wanting is not the true values of liberty and religion but only perversions, worthless counterfeits. So when we urge upon them those true values, they shy away. They have been fooled before, so they want to try something which they think is "new."

Departure from Traditional Values

How far have we departed from our traditional values? There is no mystery here. It is well known that the basic policies of the two major political parties with respect to the intrusion of the State into the economic and social lives of the people differ only in degree and method. There is no discernible difference in fundamental principle. Prominent political figures of both parties pay lip service to the letter of our Declaration of Independence and Constitution, while they violate the spirit.

The proponents of an all-powerful centralized government have erected a bureaucratic colossus which imposes upon our people controls, regimentation, punitive taxation, and subsidies to pressure groups, thus paralleling the "organized mendicancy, subvention, bureaucracy, and centralization" which played so great a part in the downfall of Rome!

We are demoralized by an indecent competition. Each one denounces government handouts and privileges *for the other fellow*—but maintains that *his* special privilege is for the "general welfare." The slogan of many of us seems to be, "Beat the other fellow to the draw"—i.e., "draw out of the public treasury more than you put in, before someone else gets it."

I am no prophet of inevitable doom. On the contrary, I am sounding an alarm that disaster lies ahead unless present danger signals are heeded.

Proposed Correctives

What specific steps should we take? I believe that neither I nor anyone else, no matter how exalted his position, can determine for 165 million people their day-to-day economic and social decisions concerning such matters as wages, prices, production, associations, and others. So I propose that these decisions, and the problems connected therewith, be returned to the people themselves. This could be done in four steps, as follows:

First—Let us stop this headlong rush toward collectivism. Let there be no more special privileges for employ-

ers, employees, farmers, businessmen, or any other groups. This is the easiest step of all. We need only refrain from passing more socialistic laws.

Second—Let us undertake at once an orderly demobilization of many of the existing powers of government by the progressive repeal of those socialistic laws which we already have. This will be a very difficult step because every pressure group in the nation will fight to retain its subsidies, monopoly privileges, and protection. But if freedom is to live, all special privileges must go!

Third—Of the powers that remain in government, let us return as many as possible to the states. For on the local level, the people will be able to apply more critical scrutiny to the acts of their government agents.

Fourth—Above all, let us resolve that never again will we yield to the seduction of the government panderer who comes among us offering “bread and circuses,” paid for with our own money, in return for our sovereign rights!

A CASE OF CORRUPTION

by Frank Chodorov



DIONYSIUS, the storied tyrant of Syracuse, was a consummate financier. His gift stood him in good stead on the day he found himself in bankrupt condition, having borrowed from the citizenry more than he could repay. He might have increased taxes and satisfied his creditors with their own money, but he did not because, presumably, his levies had reached the point of diminishing returns; an increase could have discouraged production, or caused a flight of capital, and thus dried up the source of his income. That would not do. And yet, the debts had to be met, because repudiation would have blemished his reputation and impaired the national credit; no one would have lent him a plugged Syracusan dime thereafter.

In this predicament, Dionysius worked out a scheme that has come to the rescue of national profligacy ever since. He called in all the coin of his realm, known as drachmas, restamped them so that each drachma became two, and, after paying off his debts with the revalued money, returned to the owners many more drachmas

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than they had been obliged to turn in. No doubt the Syracusans were delighted by the operation; their advances to the tyrant were paid up in full and their non-monetary assets had suddenly doubled in price. He was probably praised for this financial feat.

Improved Techniques

In twenty-two centuries men do a lot of thinking and out of this cerebration come new ways of doing old things. Like Dionysius, latter-day politicians—that is, that segment of the population to whom the behavior of the rest is entrusted—sometimes find themselves without the wherewithal needed to defray the costs of glorious adventures and, having stretched taxation to the breaking point, resort to borrowing. They convince the citizens that not only will their savings be spent in ways that will redound to their benefit, but that they will be rewarded for their faith with annual increment. To back up the latter claim, the lenders receive imposingly printed receipts for the amounts loaned, bearing a solemn promise that the holder will receive interest payments at regular intervals. Now, in one way or another, these receipts become monetized, and Society is deluged with new coin of the realm, even as were the Syracusans when their drachmas were restamped. Everybody is “enriched.” This modern financial wizardry is a vast improvement on Dionysius’ method in that it is more devious.

Evidently, Dionysius had not thought of this receipt

business; for if he had, he would never have found himself in the aforesaid predicament. He would never have been faced with bankruptcy. For, among its other advantages, this modern receipt bears a maturity date, usually falling in the next generation, to the relief of the immediate borrower; furthermore, through refinancing and funding methods this date acquires the unique capacity of extending itself into eternity, so that the loan need never be repaid. On the other hand, the lender or his offspring can always be sure of receiving interest, since as a taxpayer he provides the funds.

We have no doubt that Dionysius' ministers fortified him with a learned dissertation on the virtues of his re-stamping scheme. His modern counterpart not only has ministers to advise him but also professors of economics to explain to the public how inflation improves abundance in their pantries.

A Panoply of Rectitude

In every age political power has lent itself to purposes that are uneconomic and antisocial; it has never hesitated to purchase support with confiscated property. For the ancients it may be said that they conducted the business in a forthright manner, unadorned with moralism; the Caesars did not invoke an ideology to cover up the real objective of "bread and games." Today, political preferment and the augmentation of political power is accomplished in the same way—with subsidies of all sorts, paid for by taxpayers—but the business is conducted

under a panoply of rectitude. Our politicians do not purchase votes, they advocate "social" programs. It comes to the same thing.

History is replete with illustrative matter, and the temptation is strong to adduce examples showing that only in forms and details have the confiscatory practices of political power undergone change. But, considering the character of authority, what else can it do? Political power is not a factor in production; it cannot contribute a single loaf of bread or pair of shoes to the market place; the things that satisfy human desires result from the application of labor to raw materials, and in that process political power is out of its element. The best it can do to promote production is to maintain a climate of tranquility. When it undertakes to intervene in the market place, it is equipped for nothing else than taking what it finds. The more it takes, the less there is for Society to get along on, and the depletion causes an attitude of dependence on the confiscatory power. This attitude is enhanced when selected groups become beneficiaries of the confiscation; they are then beholden to political power for their welfare, and support and adulation of the benefactor is a natural reaction. Political power thrives on confiscation.

How Things Have Changed

A comparison between the early American political establishment and the present one brings out the point. When in 1789 the economy of the country was largely

agricultural and its total wealth was measured in millions, the scope of political authority was sharply delimited. Its interventions increased in number and in extent as the productive energy of the people expanded, and now that the wealth of the nation is measured in many billions, the hand of authority is felt in every private endeavor. Its interventionary powers are made possible by its appropriation of one-third of all that is produced.

When the nature of political power is put under the microscope of analysis, its incorrigible penchant for predation becomes understandable. For then one sees that political power is not "in the nature of things," but in the nature of man. It is not, like the force of gravity, self-operating and inexorable, but is an expedient devised by man to facilitate his urge for acquiring satisfactions with the least expenditure of labor. In essence, political power is the physical power, or the threat of it, that one man or a group of men may bring to bear on other men to effect behavior. It may originate in a body of social sanctions, but it is hardly political power until these sanctions are implemented with a police force. In any case, it is exercised by human beings, and therefore must be related to the all-pervasive law of human action, the drive to get the most for the least.

Since all human beings are dominated by this inner drive, political power is always subject to competition, and one-man domination of the group is possible only when the group is small enough for one man to intimidate. In a real sense, there cannot be an absolute monarch of a nation; political power must have a base broad

enough to support the pinnacle, and rulership which seems to be identified with one man's will is in fact exercised by an oligarchy or a bureaucracy. Political power must have allies, men who support it because it is to their interest to support it. William of Normandy consolidated his conquest of England by dividing its land among his favorites, so that they could live well on the produce of vassals and serfs. For a similar reason modern politicians have granted special privileges. In all cases the beneficiaries of political power have been won over to its support.

Monarch Needs Support

It is this need of a broad base that accounts for the predatory practices of political institutions. The crown rests uneasily on the royal brow until it is held firmly in position by the loyalty of subjects who partake or hope to partake of the substantial privileges at his disposal; and an elected official likewise needs the votes or campaign contributions of constituents who expect to profit by his elevation to power. What manner of fare can he possibly spread before them? Only what he can extract from the larder of production. He has nothing else.

The advent of popular suffrage did not change the nature of political power nor affect its practices. The doctrine on which suffrage rests is that sovereignty—which is protocol for power—resides in the voters, as a permanent possession, and that they merely loan it for a time to their selected rulers. Upon analysis, the doctrine boils down to

the idea that each voter holds in his hands on election day a small piece of the power that once centered in a king. But, even as the king thought of power in terms of his prerogatives and perquisites, so is the voter, in casting his ballot, influenced by his material condition or expectation of improvement. He assumes that his personal economy is tied in with the political power of distribution, not with his own productive capacity, and the assumption seems valid enough when he observes that some of his fellow voters do well at the public trough. Yet, his minuscule piece of power is by itself unable to push him into a favorable position, especially as it is in competition with millions of others of like value. It is necessary for him to add his vote to many others so that the combined total will achieve the sovereign divinity of fifty-one per cent. Thus comes the pressure group system of utilizing political power for acquiring pecuniary advantages.

The Urge for Power

But, what is the profit in rulership? What does the wielder of political power—also a human—hope to gain from the bargain he makes with those who put the scepter in his hands? That depends on the values of the individual politician, but taking the breed as a whole into consideration, the desires that drive them to seek office are exactly those that motivated Charlemagne: the perquisites and prerogatives attendant thereto. What else can one derive from political labors? Putting aside the perquisites, including the crude bribe and the more so-

phisticated and legal methods of participating directly or indirectly in the economic advantages he grants his favorites, he measures his gain in the satisfaction of a desire that is often stronger than the yearning for creature comforts.

Just as some people find more pleasure in music than in food, more satisfaction in climbing a high mountain than in luxurious living, so do others find their *summum bonum* in the pomp and circumstance of political life or in the sense of self-importance that the exercise of power stimulates. It is an ego-profit that one derives from the making and administration of rules that others must obey, and with many of us this is of inestimable value. Otherwise, how account for the unseemly strife for office that men with pretensions to character engage in? "Long live the king" is the upholstery of the throne.

So, the predatory political institution that emerges when Society reaches the capitalistic stage is compounded of vanity and cupidity.

The Case for Private Property

But, there must be some means of restraining Cain from going after Abel's hide and property, lest human life go the way of the dinosaur. There cannot be a Society until there is a market place, and there cannot be a market place until security of possession is assured. Without that assurance the individual will not strive to improve his circumstances, and production will drop to the level of mere subsistence; man will be little better than an

animal, a status against which his primordial compulsions revolt. It is for that reason that he sets up a machinery for the protection of life and property, even against himself, a machinery to which he gives the name of government.

“To secure these (inalienable) rights (to life, liberty, and the pursuit of happiness),” says the best phrasing of the subject, “governments are instituted among men.” It follows that if there were some way of securing these rights without government, men would not institute it. And it also follows that when government employs its monopoly of coercion for purposes which violate these rights, it ceases to be government. It is some other kind of concern, even as a merchantman that turns to piracy cannot be classified as a merchantman. When the committee in charge of the power of compulsion uses it to confiscate property, it cannot lay claim to the name of government. It is a power-fed corruption.

TO FIND THE WAY OUT

by *Hanford Henderson*



SEED time and harvest have followed in their appointed season, and Mother Earth has been as steady going as any conservative could wish. She has been a good neighbor. In the country we count it neighborly to mind your own business and to lend a hand when it is asked for. Mother Earth, for some quite unknown reason, sends weeds and boll weevil and some other pests, requiring the police power of suppression; but she never plays the sorry trick of sending you crops that you have not asked for and do not want. She is not in the least paternalistic, and not only allows but requires that you shall choose your own crops.

These homely facts are not at all novel, but they seem worth reciting because they bear such eloquent and unimpeachable testimony to the fact that whatever else it may be, the present world trouble is fundamentally man-made, and as such is both curable and preventable. If, then, we can discover the way into the trouble, we shall surely be able to find the way out.

Mr. Henderson (1861-1941), teacher and lecturer, also wrote a number of books on education and morals. This essay is condensed from the article "Hands Off" in *The North American Review*, December 1924.

The whole cause of the present world trouble is the growing tendency to substitute mass action, directed from without, for wholesome individual action, necessarily directed from within. The way out of the trouble is the rehabilitation of individual effort, and the minimizing of mass action. That, it seems to me, is the whole matter in a nutshell.

The world is full of problems, but most of them are man-made, and essentially unimportant. They do not belong to the eternal verities; many of them are petty side issues and not even en route to the great achievement. There is only one major problem in the whole world, and that is the salvation of the individual soul.

Self-Development Is Our Job

Our own personal problem is quite the same as that of every other sane, red-blooded, earnest man or woman in the whole wide world. It is to make ourselves as big and fine and useful and human as we possibly can and, were we so fortunate as to have well-born sons and daughters, to help them to be bigger and finer and more useful and more human than we are. It is a much less spectacular job than the artificial problems of government, dynasty, empire, ecclesiasticism, trade unionism, socialism, communism, commercial supremacy, dictatorship, and all the other aggressive mass movements; but it is the one real and important problem whose solution will bring peace and tranquility and worth to a world now very much distraught.

I am surrounded by a multitude of men and women pathetically eager to save the world, but strangely unwilling to submit to the austere self-discipline of saving themselves. They forget that a fountain cannot rise above its source.

As soon as you begin to organize men into masses, and to treat them as masses, with motive and compulsion applied from the outside, you are letting yourself in for any amount of very grave trouble. The social machinery looms larger than the purpose for which it was created. The one supreme purpose—individual human advancement—is quite ignored, and man loses his quality and distinction. Many years ago, Emerson remarked that “men are so prone to mistake the means for the end that even natural history has its pedants who mistake classification for knowledge.” That, in our opinion, is precisely what has happened to the sorely-troubled world of today. It has fastened its attention upon the machinery of life, has ignored the one supreme human purpose for which all machinery exists, and now, in the resulting chaos, is amazed to find that the machinery fails to function.

Excellence for Its Own Sake

Let us be still more specific and say that the supreme purpose in any rational life is the unfolding and perfecting of the human spirit. That purpose is the basis and goal of all true government, true religion, true education, true science, true art. Everything that furthers this supreme purpose is progress; everything that retards or de-

feats it is unqualified disaster. And the one method by which this human distinction may be gained is disinterestedness, a love of excellence quite without regard to the loaves and fishes. This quality cannot be manifested by any group, however large and vociferous, unless it is first achieved by the component units. It is an individual virtue, the fruit of individual effort, and may not be evoked by the pressure of either statute or arms.

In the orgy of blood and violence through which Europe has been passing, and through which certain unhappy portions are still passing, it may safely be said that the perfecting of the human spirit was and is the very last thing considered. The oldest and richest empires in Europe are starving and bankrupt. They cry despairingly for outside help. But no League of Nations, no special form of government, no social theory, no nationalistic frenzy, no eleemosynary enterprise on our part, can bring prosperity out of such deep, fundamental chaos. We can help these stricken people temporarily, by tiding them over to the next harvest; but it is a mistaken philanthropy to do this twice, for no permanent remedy can come from the outside. It must come from within, and must take the form of that spiritual redemption which results from wholesome, unimpeded self-activity.

Each Must Save His Own Soul

No man can save another man. Neither can the State save a man; nor the Church; nor social theory; nor labor organization; nor vocational bloc; nor charity society.

Every man must save his own soul; if necessary with fear and trembling, but at any rate through his own work. It is an austere business, but that is precisely the task asked of us all—the redemption of individual human souls through individual effort, and the consequent inescapable redemption of society.

The present world disaster is the direct and inevitable result of excessive and malevolent mass action. An individual sometimes runs amuck, but the number is never great enough at any one time to constitute a social menace; and it is the primal though too much neglected duty of the State to see that he does not do it a second time. But a single ruler, or a group of men, or even a small clique in an otherwise respectable group, if given the power of compelling mass action, can make a whole nation run amuck and can create the havoc of a world war. Obsessed by the idea that force is a legitimate means, and that world dominion is a legitimate end, mass action is capable of unparalleled evil.

Tyranny of Mass Action

It requires no intricate analysis of our profound world trouble to discover the way in. It is by the tyranny of mass action, the imposing of an alien will upon others. The way out of the trouble is a simple reversal of the way in. It is to cut down just so far as possible, to cut to the very bone, all mass action involving compulsion; that is, to minimize to the utmost the function of the State, and in every legitimate way to encourage and

stimulate all wholesome, self-directed individual effort.

We ask of the State and Society only one thing—a fair field and no favors. This does not mean the raw anarchism of the tramp and hoodlum, for such anarchism would have no government whatever; but it does unequivocally mean a strict limiting of the functions of government, a strict cutting out of all paternalistic activities, and the unfaltering insistence that government shall really perform its basic and fundamental duty, the protection of the individual citizen from violence and interference.

Strictly Limited Government

It is our own mature, leisurely conviction that that form of government is most truly American, is most truly the best, which most completely protects its citizens from violence and injustice of every sort, both at home and abroad, while taking the least possible part in their daily individual lives and imposing the smallest burden of taxation consistent with such protection. It is a man's own job to feed himself, to amuse himself, to look after his own family—in the end, to save his own soul. When the State attempts these tasks, it not only does them very badly and expensively, but it does them by neglecting its own proper job. Worst of all, the paternalistic State robs the individual of that character and self-development which would have been his as the result of sturdy, manly self-activity. It is a great moral disservice to do for either children or adults the things that they ought self-

reliantly to do for themselves. In both cases the result is weakness.

The revolutionary doctrine that by creating through force a certain form of paternalistic government and a given type of society you can act effectively upon the individual, and in the end produce quite admirable persons, finds no support either in theory or practice. It ignores the fundamental fact that education is essentially an inner process, an affair of the spirit. All our social experience goes to prove that in family life, in school, in church, in the world generally, even in our reformatories and penal institutions, there is but one redemptive agent, and that is genuine self-activity.

We all know the vital difference between those two verbs, to teach and to learn. You may teach away until you are really quite blue in the face, and little good come of it. But once let a boy want to know, and he will learn faster than the most clever master can teach him. The State that substitutes State-directed activity for self-directed activity is a wretchedly poor schoolmaster, and can produce nothing admirable either in the way of individual character or collective achievement. Excellence is not evoked in any such fashion.

Mass Action Is War

The great war bears tragic witness to the complete failure of mass action. It is quite futile to urge that it was not mass action itself, but the abuse of mass action that got us into our present grave trouble. For as a

matter of fact mass action always shows this marked tendency to abuse—through the imposition of your will upon mine, or of mine upon yours—and the childish argument that the imposition was for the supposed good of the victim does not at all save the case.

We do not know of any human institution to which power may safely be entrusted. We delegate a certain protective authority to the State, but as we love liberty we surround every such delegation with urgent safeguards. Even such ideal institutions as the Church and the School and the Family have shown an astonishing capacity for tyranny, and it has been necessary to curtail their power by strict laws. On all sides experience shows the exercise of power leading in the end to the abuse of power. And not only is this abuse a matter of world-wide and all-time experience, but it seems to us unavoidable; for there are few forms of mass action which can go very far without grossly violating individual rights. "The greatest good of the greatest number" is not a moral argument, and in the end realizes the greatest good of nobody. To be morally sound and acceptable, the action must be right from beginning to end, and that includes both the goal and the method.

Tolerable Injustices Multiply

There is such abundant good in our daily lives, and such bubbling happiness, especially for those of us who live in the country, that most of us suffer the minor injustices of the hour without too noisy grumbling. The

trouble is that these injustices tend to grow in both number and dimension, and to engender a certain callousness to injustice which robs us of spiritual insight and healthy-mindedness. The tragedy of perverted mass action is not alone the material violence, but even more the spiritual confusion which leads to crooked thinking. Many of these encroachments upon personal liberty are undoubtedly well meant, but the demoralizing effect is just as reprehensible as if they were badly meant. And it may never be safely forgotten that these insidious encroachments facilitate additional encroachments.

There is but one defensible social ideal, and that is a world in which every individual is free to work out the inner impulses of the Spirit, without aggression on his part or interference on the part of others. A State which accomplished this simple, primal duty, the protection of all its citizens, would accomplish something greater than has yet been historically recorded, and something which no State, preoccupied with illegitimate and paternalistic activities, is ever likely to accomplish.

Cooperation Is Voluntary

But one must not confuse mass action with cooperation, for the two have nothing in common. Cooperation is not mass action; it is confederated individual action in which the impulse is voluntary and the direction is from within. Mass action, on the contrary, is a group activity in which the compulsion and purpose are imposed from without. Its agents are not free and their activity is not moral.

Many publicists have confounded mass action and cooperation. Impressed by the immense value of cooperation, and failing to see its inner and spiritual nature, they have sought through legislation to make it compulsory. But in such an enterprise, failure is inevitable. To be cooperation at all, it must be voluntary. Apply legal compulsion to cooperation, and the thing ceases to be; it becomes mere mass action, always inefficient, always materialistic, always tending to grave abuse.

However much you may want to, you cannot save society en masse. Salvation, as we can hardly repeat too often, is strictly an individual adventure. The one way to save society is to save individual men and women. When they are sound and forceful and enlightened, the society which they collectively form will inevitably be of the right sort.

A SEEMING PARADOX ABOUT INFLATION

by F. A. Harper



“You say that it is inflationary for the government to sell its bonds in order to finance a deficit in its budget. But I have also heard it said that it is inflationary when the government buys bonds. How can that be? How can both buying them and selling them be inflationary?”

THIS seeming paradox must be resolved if one is to understand how our present money system works and how inflation continues to erode the worth of our money and other savings.

In order to grasp the full picture, it might be well to start back a few notches in the history of money.

Many things have been used for money, including wampum, cattle (*pecus*, cattle; *pecuniary*, pertaining to money), and gold. But let's skip directly to gold.

In the beginning, gold metal itself was used for money. Whether as dust, nuggets, or minted into coin, it was traded for things in the market.

Dr. Harper is a member of the staff of the Foundation for Economic Education.

Then, later, the local goldsmith became the safekeeper for the gold, giving receipts redeemable in gold in return for the gold deposits made with him. These receipts, rather than the gold itself, then began to circulate as the money of trade.

Noting that not all depositors redeemed their receipts in gold at one time, the goldsmith began to write "extra receipts" as loans to persons who had no gold to deposit. For this he charged a fee. These persons could use these receipts for money—just like gold. How could it ever become known that no gold was there to redeem these extra receipts? If one or two persons should test the validity of their own receipts, the goldsmith would be able to meet their demands from the gold stock lying there unused, for which valid receipts had been issued.

This game of providing "extra receipts" had its limits, however. The goldsmith must be ready to meet whatever demands might be made for gold at any time. He must have this much actual gold in reserve, in relation to all outstanding claims. Thus arose the original "fractional reserve" plan, whereby the goldsmith set his own limit on "extra receipts" as a protection against peaks of claims for redemption in gold. If, for instance, he should assume that half the receipt holders might someday descend on him and ask for their gold, he would then need a 50 per cent reserve. But if he should assume that only one-fourth of them would do so, a 25 per cent reserve would suffice.

These "goldsmiths" eventually became "bankers," and more or less the same process continued. The "extra re-

ceipts," or "loans," gave the borrower a deposit claim on lawful money. Lawful money of an earlier day meant that it was redeemable in gold at a specified rate—for a long time at the rate of one ounce of gold for \$20.67 of these paper claims on gold.

The "goldsmith's panics" of old then became the "bank panics" of later days. In both instances these terms described a situation where the demands for gold exceeded the reserves available to meet them. There were "runs on banks," as people tried to get the gold they normally did not really want, but which suddenly gained appeal when they found that perhaps it couldn't be obtained on demand.

In 1913, the Federal Reserve System was established by law in the United States. Under this arrangement the twelve regional Federal Reserve Banks became the central depository for reserves of all commercial banks that became members of the System—representing, at the present time, about three-fourths of all bank deposits. Under this System, Congress sets broad limits of reserve requirements, and the Board of Governors of the Federal Reserve sets the specific requirements. At the present time the average reserve requirement is about one-eighth of total deposits in member banks.¹

With this background, we are now ready to unravel the seeming paradox about government bonds and inflation.

¹ The different reserve requirements for banks of different classes, and for demand deposits as against time deposits, are not separately identified in the over-all illustration.

Deficits and Inflation

Let us say that in a given year the federal government has a deficit of \$100. This is the amount of excess of its spending over its income from all forms of tax revenue. Being unable to pay out money it doesn't have, the additional \$100 must be obtained somewhere. The government must borrow what it has been unable to obtain in any other way, before it can pay all its bills.

So the government writes an IOU for \$100, for which it must find a buyer.

Perhaps you, as a private individual, buy the bond and pay for it from cash in your pocket or from your bank account. The government then has the \$100 to pay its unpaid \$100 bill. And you, as a consequence, have \$100 less to spend. There has been no inflation here, since the total of money has remained the same as before. The \$100 has changed hands—from you to the person who received it from the government in payment.

Suppose no individual or business outside the banks wants to buy that bond. The government may then turn it over to a commercial bank, which accepts the bond as evidence of a loan and enters a deposit of \$100 in the name of the government. The government can now draw a check against this deposit and pay its unpaid \$100 bill. When this course is followed, there has been created at once an additional \$100 of money which was not in existence before. There has been an inflation of \$100 at this point. It is like an expansion of credit-money through any other kind of bank loan, except that in this case the

borrower happens to be the government rather than a corporation or individual.

Pyramiding Inflation

Up to this point there has been an inflation of \$100, due to the government's borrowing the \$100 of newly-created credit from a bank.

Now let us assume that prior to this transaction commercial banks had already loaned up to the limit allowed by their reserves. In other words, their deposits—including all unpaid prior loans—were already eight times their reserves at the Federal Reserve Banks. No further expansion of deposits through further loans would have been permissible until more gold or other legal reserves had been sent to the Federal Reserve Banks. Buying the \$100 government bond and adding \$100 to its deposits would at once make the bank \$12.50 short of reserves.

But the shortage of reserves can easily be met, since the law provides that this very same government bond is as good as gold in meeting reserve requirements. So to square their reserve requirements, the bank would merely have to send a \$12.50 fractional bond to the Federal Reserve Bank, thus meeting the reserve requirement of one-eighth of the new deposit of \$100.

If there are no private borrowers wanting to borrow more funds on safe terms, the local bank would probably send only the \$12.50 and keep the remaining \$87.50 as an interest-bearing investment of its own. But if good potential borrowers are waiting to be served, the bank will

probably send the entire \$100 government bond to the FRB and increase its reserves by the full amount. Then it will be able to loan an additional \$700, and keep within the reserve requirements. In doing that, the increase of reserves of \$100 will meet the one-eighth reserve requirement for \$700, in addition to the \$100 loaned to the government in the beginning.

After this has taken place, we can see how the issuance of the single government bond to meet a federal deficit of \$100, creating an initial inflation of only \$100, subsequently grows into a total inflation of \$800. This process is sometimes called *monetizing the debt* because the increase in government debt has been turned into new money that can be carried around in our pockets. Or the process might be called *inflationary pyramiding of the federal deficit* because the effect is one of building an inflation pyramid upon a government deficit.

One phase of our seeming dilemma about government bonds and inflation has now been explained. And the conclusion is that selling government bonds to banks in order to finance a government deficit is, in fact, inflationary. It may even be violently inflationary, if the pyramiding effect which has been described is carried out in full.

How Buying Bonds Is Inflationary

Now comes the other side of the seeming paradox. Is it true that under present monetary management "it is inflationary when the government *buys* bonds"? For have we not just concluded that it is inflationary for the gov-

ernment to sell its bonds to banks in meeting a deficit?

Were the government itself—the United States Treasury—to buy back its own bonds, the process would be the reverse of what has just been described. If it were to rebuy bonds from individuals, it would cause neither inflation nor deflation because there would be only a shift of money from one individual to another; the government would have to collect \$100 from some taxpayer in order to get the \$100 with which to buy the bond from some other individual. But if the bonds were to be rebought from banks, it would be deflationary because there would have to be liquidation of outstanding credit in the process, reversing the inflationary credit expansion just described.

But it is not the buying of bonds by the government that is referred to under present monetary management. What is being referred to in this connection is not the rebuying of its own bonds by the government—by the United States Treasury. What is meant is the purchase of government bonds by the Federal Reserve Banks instead of by the government. These two, as buyers, are quite separate and distinct from one another, and the effects of the two are quite the opposite of one another so far as the effect on inflation is concerned.

When the Federal Reserve Banks buy a bond, it is similar to our earlier illustration where the local bank deposited a new \$100 government bond with the Federal Reserve Banks in order to replenish its reserve requirements. Then, as will be recalled, the sale of \$100 in bonds to the FRB paved the way for a large increase in new

money—pyramiding inflation. And it is the same when the Federal Reserve buys bonds in its open market operations. The only difference between the two is the matter of where the initiative lies in the transaction. In the first instance, the local bank took the initiative and sent the bond to the Federal Reserve as a sale in order to replenish and expand its reserves. In the latter instance, the Federal Reserve took the initiative and went into the open market to buy the bond. Let us say it was bought from this same bank. The effect on reserves is the same in both cases, no matter which way the transaction was initiated. In both instances, the reserve balance—the credit base—has been expanded by as much as eight times the amount of the bond deposited with the FRB.

The mere buying of the bond by the Federal Reserve in the open market was not, in a technical sense, inflation. For the act itself created no more active money. Rather, it should be called potential inflation. The reserve base is thereby increased so that there can be a subsequent increase of credit, and new money, by as much as eight times the amount of bond deposited.

For this broader credit to become inflation in fact, there must be persons who want to borrow and banks willing to lend them the expanded credit which has now become possible. Only then will there be loans—new money, inflation. The reason why the buying of government bonds in the open market by the Federal Reserve Bank is said to be inflationary is the assumption that credit will be expanded as a consequence. And normally that is a safe assumption.

Thus, as to the seeming paradox, it is true that selling government bonds and buying government bonds are both inflationary. The distinction which resolves the seeming paradox is the matter of *who* does the buying and *who* does the selling.

In summary, we might unravel the seeming paradox this way: When the government *sells* a bond to the banking system, it is inflationary. It may even be highly inflationary if that bond comes to rest in the Federal Reserve Banks to serve as reserves for additional credit expansion. And that is why we say that it is inflationary when the Federal Reserve Banks *buy* bonds in the open market. It is similarly inflationary whether the commercial banks take the initiative and send bonds to the Federal Reserve Banks to increase their reserves, or whether the FRB takes the initiative and enters the open market to buy the bonds. Both are highly inflationary.

WORLD INVISIBLE

by *Diogenes*



THERE are two kinds of truth. There is the truth about the world which is external to us, the world which we perceive through our senses, or our senses aided and extended by instruments; but there is another kind of truth, the truth about the world which is internal to us and which cannot be seen by the eye, heard by the ear, nor measured by instruments.

I see a man. With my physical senses I take him in, a solid, three-dimensional object. I note if he is small or large, tall or short; I note whether he is young or old; I note the color of his eyes and his hair; I note whether he is bearded, moustached, or clean-shaven. With my ears I hear his voice and assess its pitch and timber—and so on. But, when I have used my physical senses to the full, how much do I know of the man? I know nothing except some physical facts about his body; but of the real man behind that body—the compound of emotion, thought, experience, memory, and the rest—I know nothing.

Diogenes is the pseudonym for a regular contributor to the British weekly, *Time & Tide*, this article being from the issue of October 6, 1956.

And now suppose that (without killing the poor fellow, of course) I were able so to operate upon him that I could see his brain, his heart, his internal organs. From seeing them, I might learn something of how the machine works. I might see the heart pumping blood through the veins, or watch the operations of the digestive organs and the organs of elimination—but again I should know nothing of the man himself.

Suppose, further, that I could take segments of his flesh and of his organs and his brain and submit them to microscopic and chemical analysis. I might learn a good deal about the materials which go to make up the human body, but I should be as far away as ever from knowing anything about “the invisible man,” of whom the body is only one—and that a temporary—manifestation.

Yet, knowing this truth about a human being, we do not apply it to the world without, to the physical universe. We assume that if we could push the boundaries of knowledge of that universe sufficiently far back, we should find the answer to what Maeterlinck called “The Great Secret.” We think that we should find the why and wherefore of things, that we should understand the meaning of life.

The Spirit of Things

The thought of earlier ages did not entertain this delusion; it knew that man was more than his physical apparatus. It thought of him as a spirit of which the body was but the instrument. It saw the universe not as God,

but as the garment of God. Man was the microcosm, of which the universe was the macrocosm, but they came from the same Hand and it was reasonable to suppose that they were constructed on similar principles. If there was "an invisible man" behind the visible man, it was reasonable to suppose that behind the visible world there was an invisible one.

But since the time of Galileo, modern man has thought less and less in these terms. The whole emphasis of scientific inquiry has been on probing the material universe. Man has developed instruments of ever-greater precision, telescopes of ever-greater power of penetrating the skies, microscopes which probe ever-deeper into the infinitely little.

True it is that he has added immensely to his knowledge of the material universe. He has pushed far back into time and space the boundaries of the skies, opened up the sub-molecular world, measured, weighed, analyzed the different forms of matter. He has broken down the "particle" of my boyhood into the atom; he has even broken down the atom to its constituent neutrons and electrons.

Nor is it to be denied that much of the knowledge which science has discovered has been of great practical use. The constant probing of the physical body has revolutionized the art of surgery. The constant analyzing of various forms of matter has made available a vast range of medicines.

We can do all sorts of things with matter of which our fathers could not have dreamed. The impact of the in-

ventions made possible by scientific discovery has changed during my own lifetime the face of civilization—and the pace of change becomes ever swifter.

On the other hand, it must be admitted that increased knowledge of the material world has led to awful things and to still more dreadful possibilities. Gunpowder, high explosives, the cultivation of deadly germs for war purposes, the atom and the hydrogen bomb—these must be set against the many benefits that in a material sense science has brought to the world. If science has made possible more abundant material life, it has also made possible its universal destruction.

Basic Questions Still Unanswered

But the essential point is that, with all the answers to all the questions which science has rendered available, it has not answered the only questions which really matter, for its only concern has been with the external, material world. In my car I can travel fifteen times as fast as Plato could. In a plane I can travel perhaps a hundred and fifty times as fast as Aristotle ever did. But the same questions are there at the end of the journey.

In earlier ages men could hear the human voice only within a distance of a few score feet; now I can hear the voices of men from every part of the earth, but they tell me much less of what is to the point than the utterances of the wise of old. I may extend the duration of my life for perhaps a score of years longer than my forefathers could have hoped for—but will it equal theirs in quality?

Science may plan better cities and houses, but does it help one iota with the mansions of the soul?

When an individual man denies that he is more than flesh and blood, when he thinks of himself as being merely a highly developed form of animal life, when he denies the invisible man within, he sets strict bounds to the possibility of his own psychological and spiritual development. The materialist creates his own blind alley. So does a materialistic science. It is reaching the end of that blind alley today. As one bewildered scientist expressed it not long since, "We don't know where we are."

EDITOR'S NOTE: Diogenes well emphasizes the dead end of materialistic science—the sad fate of the individual who perceives only the external, material world. But that is hardly the end of the trouble, for the attitudes and actions of the materialist also affect others.

Anyone unconscious of the Invisible—oblivious to that creativity which is infinitely beyond self—is logically inclined to believe in his own omniscience. Thus self-enthroned, he may dream of a world perfected by casting others in his "omnipotent" little image—even to the point of compelling them to act and believe as he does. From such inability or unwillingness to contemplate the Invisible and to admit of reality beyond one's own sensory perceptions, may well stem the growth of authoritarianism. For if a person is aware of the mysteries enshrouding even himself, how could he possibly seek to control or forcibly direct the creative actions of others about whom he knows less?

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