

ESSAYS ON LIBERTY

VOLUME VI



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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.

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Inflation Is a Burglar by Samuel B. Pettengill
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The Growth Objective from *The Guaranty Survey*
The Corruption of Union Leadership
by Sylvester Petro
A Child's Diary by Rose Grieco
The Catastrophe of Confusion by E. Merrill Root

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WOULD YOU HAVE SIGNED IT?

by Ralph Bradford



It became the literary fashion thirty years or so ago, and continues to be the vogue in some quarters, to demote, if not to defame, that group of men who are generally designated as the Founding Fathers of this Republic.

The framers of the Constitution were given their full and bitter share of obloquy; but the signers of the Declaration of Independence seemed to be special targets for detraction. Idol smashing was the order of the day. Certain types of writer, politician, and public speaker took delight in uncovering and proclaiming feet of clay. No niche was sacred.

John Hancock—he of the big, bold signature which, as legend has it, he boasted could be read by King George without glasses? A lot of baloney! Hancock was simply a rich smuggler who had it in for the British.

Samuel Adams, of the eloquent speech and provocative letters? Just a broken-down Boston agitator who couldn't even afford the trip to Philadelphia or a new suit to wear until his friends passed the hat for him.

Benjamin Franklin, wise counselor and witty commen-

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tator? Just a dabbler in pseudoscience; a successful printer with an unsavory youth; a shrewd old publicist with an eye to the main chance.

Thomas Jefferson, statesman, philosopher, architect, musician? Stuff! He was a rich young aristocrat with a dilettante's relish for the excitements of public life.

John Adams, fearless champion of unpopular causes? Pah! An ambitious Massachusetts lawyer who had recently defended the British soldiers in the Boston Massacre case and who had now switched to the other side.

Their Motives Maligned

And so on and on and on. Beginning around 1920, and continuing even to the present, it has been open season on the signers. What were their motives? What personal advantages did they seek? What selfish interests did they serve? Hardly anyone of them was spared derogatory questions, innuendoes, accusations.

It was even pointed out that some of the signers had come into the Congress after action had been taken on the Declaration; and it was implied that there was something strange, and possibly reprehensible, about their desire to affix their signatures *ex post facto*!

Some writers with the iconoclastic urge made much of the fact that among the fifty-six signers there were twenty-two lawyers, ten merchants, and fourteen wealthy land owners; and one such writer was almost tearfully indignant because the great Document bore no signature of either a laboring man or a dirt farmer. The implica-

tion seemed to be that there was something a little questionable about all those well-to-do landed proprietors, businessmen, and professional people getting together and cooking up a revolution.

This attitude, of course, ignored the fact that Lexington and Concord were already household words throughout the Colonies, that Bunker Hill had been fought, that Charlestown and Falmouth had been burned, that Boston had been besieged—in short, that the Revolution was in full and lusty progress!

There is less of that sort of sniping now, but it is still to be heard, especially among those who find the Constitution archaic and the Declaration outmoded because the principles asserted in those documents come between them and their plans for collectivization by force.

Well, to all such—to all who jeer or scoff or belittle—I have one short, hard question: Would *you* have signed it?

History Book Impressions

Let us think a little about the circumstances.

Most of us have a kind of copperplate impression of what went on in Philadelphia that summer of 1776. It centers in a tableau-like picture of the signing. Certain old history book illustrations form the basis of that impression.

A group of bewigged and clubbed-haired gentlemen in knee breeches, silk stockings, buckle shoes, baggy coats, and outsize waistcoats sit around a large room in comfortable chairs. They have been discussing the ills that

the American Colonies have suffered at the hands of the British Crown. They have also been discussing what to do about the Revolution which, contrary to the present-day misconception held by many, was not started as a result of their action but was already under way.

Nearly forty years later, when John Adams was eighty years old, he was to write that even the war with Britain was "no part of the Revolution." And he added: "The Revolution was in the minds and hearts of the people, and this was effected from 1760 to 1775, in the course of fifteen years, before a drop of blood was shed at Lexington."

It is possible that Adams, in retrospect, misjudged the minds and hearts of the people during that fifteen year period. What they really wanted, probably, was simply to be let alone. Maybe he endowed them with the sentiments of his own stout heart and flaming spirit. At any rate, it is clear that the representatives of those people, in Congress assembled, were reluctantly revolutionary and not by any means strong for independence. Most of the delegates believed it was their duty to work for "the restoration of union and harmony between Great Britain and the Colonies"—a harmony that was, by the greater number of them, "most ardently desired."

And so there had been a succession of "humble petitions" to the Crown, with protestations of loyalty and desire for accommodation. There had even been an "address to the British People." The Adamses, John and Sam, and some others, had protested that all such gestures were in vain—and so it had proved. The humble

petitions had been answered by the dispatch of more warships and troops; the appeal to the British people had been answered not at all.

By the spring of 1776 the hope of peaceful reconciliation had grown very dim indeed. A few stout loyalists like John Dickinson still believed the miracle would be wrought; but their ranks were thinning. Independence was in the air.

Finally, goaded by the Adams cousins and others, the Congress got around to facing the question of independence officially. At first there was opposition even to considering it. Many of the delegates still looked upon themselves as British subjects, loyal to the Crown. They were deeply shocked at the thought of separation from the Mother Country. A few—a very few—were never reconciled to the change. Most, however, recognized at last that the move was inevitable.

On June 7, Richard Henry Lee introduced a resolution. It contained only 47 words, but like Mercutio's wound, it was enough—enough to create a new nation; enough to change the course of British history; enough to throw the Congress into a prolonged and bitter debate.

At last it was decided to postpone final decision for three weeks, until July 1. Meantime it was agreed by all that a drafted Declaration of Independence should be prepared so that, if the vote went that way, Congress would not have to throw something together at the last minute.

So they appointed a committee—Jefferson, Franklin, Sherman, Livingston, and John Adams. The committee,

in turn, delegated the actual writing to a subcommittee consisting of Adams and Jefferson. Because Jefferson had already demonstrated his skill as a writer, and possibly because Adams was anxious for reasons of unity to show deference to the Virginia delegation, Adams insisted that the young Virginian do the drafting. He said, in effect, "Jefferson, you do it."

But Jefferson was not the sole author. Both Adams and Franklin made important suggestions, and Jefferson altered his copy to meet their ideas. But the essential drafting job, the language and spirit of the thing, are his.

Finally, on Tuesday, July 2, the Lee Resolution was passed and the next step was to adopt the Declaration. It, too, was debated. Certain changes were made; things were eliminated; things were added, as was to have been expected. At last it came to the question on July 4, and the Declaration of Independence was adopted.

And then—so goes our impressionistic picture of the event—the delegates filed sedately up to the front table and affixed their several signatures. And that was that.

Actually, it didn't happen that way at all. The copy in use by the Chairman and Secretary during the debate was so scratched out and interlined that it would never do as a public document. It had to be printed in its final form and signed later. But we cling to our picture of the scene.

It is a kind of historic set-piece, a well-worn tableau. There is little reality in it. Indeed, to give some of the iconoclasts their due, it was partly in an effort to impart a more lively feel of reality to this scene that they began

to "humanize" the principal actors in it. It was characteristic of the spirit of the twenties and thirties, however, that the only way these realists could think of to humanize the signers was to subject them to a process of denigration.

A much simpler and far more dramatic means was at their hand, if they had only possessed the imagination to see it. The musty little tableau could have been brought startlingly alive. All its apparent drabness and seeming placidity could have been illuminated with a shattering light of hard reality. The reality was this:

If the Revolution failed, as there was at that time good reason to believe it might, every one of those men was putting his name to something much more than a rhetorical declaration of political principles.

He was signing his own death warrant!

Does that make the picture a little less drab? Do those solemn-faced men in the funny garments and queer haircuts look a bit less funny now?

Does old Doctor Franklin, who was getting quite paunchy and bald and who peered at the world through queer-shaped lenses of his own devising—does he look a little different in this sharp white light of danger?

Legend has it that someone of the signers remarked that from now on there must be no dissension; that they must all hang together—and that Franklin replied jokingly, "Yes—or we shall all hang separately."

Jokingly? I doubt it. Franklin was a realist. Simply and bluntly, he was stating what might very well happen to every one of them.

In their world, revolution was a risky business, and still is. Among some of the Latin peoples, revolution seems at times to be merely a dramatic technique to effect a change of administration. Not so with the Anglo-Saxons. You'd better think not just twice but several times before you set out to overthrow one of their governments by force. You may turn out to be a hero if you succeed, but you'd better succeed—for if you fail, you may very well be judged a traitor; and treason is punishable by death.

British ministries of that day were not notably compassionate toward persons who sought to disrupt their empire. From their point of view, and from that of the average Englishman of 1776, that group of men in Philadelphia were the opposite of patriots. They were traitors to the Crown, and if caught would be dealt with accordingly.

In the light of that situation, what shall we say of the "political opportunism" of John Adams? What shall we say of the thirty-three-year-old Jefferson who knew full well that he was not making an idle gesture when, with the others, he pledged his life, his fortune, and his sacred honor? And what now of the late-comers—the ones who were not in the Congress when the vote was taken, who didn't *have* to sign it, but who wanted their names to stand beside the others? Or, let's put it another way for emphasis:

Would *you* have signed it? Would *I* have signed it?

While we ponder those questions, let's ask ourselves a few others.

Time for Introspection

When there was corruption in our local government—at the City Hall or in the County Court House—did we speak out against it, you and I? Or did we decide that it was a political question, and that it would be bad business for us to meddle with it?

When the federal millions began to be distributed to states and communities, did we protest, you and I—or did we figure that such action would make us unpopular with the politicians and others who were profiting from the handouts? And is it possible that we even figured we might profit, ourselves, from the federal largess?

When our city government decided to go after federal money for some project that was of concern only to our community—a project that ought to have been paid for locally since it was purely for local use and benefit—did we lift our voices against it, or did we “go along”?

When the congressman from your district was campaigning on the promise to work for drastic reduction in the size and power of the federal bureaucracy; when he demanded a return to solvency in our national finances; when he stood for a balanced budget; when he refused to cater to one or more of the pressure groups in your area, but pledged himself to serve the interests of the whole country—in all this, did you support him? Or if your congressman stood for the opposite principles—did you oppose him? And in either case, did you let your support or your opposition be known? Or did you keep discreetly still because you feared your action might of-

fend some noisy leftist politician or some articulate "liberal" group, and thus be "bad for business"?

If your answer or mine is that we did not let our voices be heard or our influence felt on such issues because we were afraid of possible business reprisals—then what do you think our attitude would have been toward signing a document that could have cost us, not just some business, not just the good or bad will of a greater or fewer number of people— but *our lives*?

What kind of men were the signers? Did they have their peculiarities, their foibles, their jealousies, their vanities, their selfish interests? Of course they did—and so do all men. But that is not the point of importance. The thing to remember is that when the chips were down, they were men!

The piece of paper they had signed was not a thing a signer could squirm out of or explain away later. It was not a vague and general statement of political and social principles. It left no doubt as to its meaning. It did not hint or imply or evade or mince words. In bold phrases it recited the political and economic sins of the King of England, and it declared that the Colonies were free from the rule of the British government. In the eyes of that government, such statements were treasonable; and treason was punishable by death.

When a man put his name to that Document, it could have meant, and there was a very good chance that it would mean, not merely the loss of his business and his property, but his life.

Would *you* have signed it?

FREEDOM AND THE PURPOSE OF LIFE

by *Oscar W. Cooley*



"THE DECISIVE element in the predicament of Western man in our period is his loss of the dimension of depth," wrote Paul Tillich in the *Saturday Evening Post* of June 14. This means, said Tillich, "that man has lost an answer to the questions: What is the meaning of life? Where do we come from; where do we go to? What shall we do; what should we become in the short stretch between birth and death?"

Not only has modern man no answers to these questions but, said the Harvard divine, he does not even ask them! He is too busy trying to control nature. His life is in the horizontal dimension. Size and number, not depth, preoccupy him.

This can be seen in the routine of people's lives. We all live by schedule, and it is a schedule of activity; there is no place in it for thought. Like water striders on the surface of a pool, we skitter about in the horizontal plane. Lacking a philosophy of life, we just exist from day to day. Life to us is a mere spending of time, and our ambition is to spend it comfortably.

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Now when people lack a theory of life—of why they are here, what they should strive to do, and what they should try to become—when the present is all, the future nothing, they have no reason to prize freedom, for freedom is simply an atmosphere in which it is possible for an individual to make his future better than his past. If he does not envision or believe in a better future—if he is not conscious of having a destination, freedom is of little importance to him.

It is a matter of public knowledge, says Tillich, that “everyone in our social structure is managed.” Even those who think they are managers know that they in turn are managed, he says. We live under a sort of regimentation by consent.

It is reported that American GI's, taken prisoner in Korea, knew so little about the philosophy of life in a free country that they could not explain to their captors what the American dream is or how it differs from communism.

Well, what *are* we here for? This basic question—which Tillich calls the religious question—is seldom discussed. It is almost never raised in our schools. Only the unusual lad springs it on his philosophy professor, and is fortunate if he gets a satisfying answer.

Perhaps a final answer is not to be expected. The greatness of certain questions lies in the fact that they cannot be answered. Let us consider an exploratory answer and see what consequence it might have.

The athlete seeks development of physique. He strives to build his muscles and to improve his coordination.

His thought is always on the future. He wants to play a better game, to improve both his individual skill and his team-play, which he finds inseparable. Thus his life has an absorbing object, and it is a matter of observation that youths put forth enormous effort in pursuit of this object.

Improvement in All Respects

Now let this object be broadened from the merely physical to the intellectual and spiritual spheres. Let the youth take upon himself, making it his central aim of life, to improve himself in *all* respects—physical, intellectual, moral, and spiritual—to the utmost of his capacity. Let him become a truly all-round “athlete,” and for life.

In short, let the answer to the religious question be simply this: We are here to grow, to develop, to live more worthily day by day, according to our best lights and insofar as our knowledge and ability make this possible.

Assuming that there is behind the universe a Creator with a plan, could it be the Creator’s intent that men deteriorate and that human character retrogress? If so, the plan has gone awry. Not only the biological evolution of man but reason itself refutes the suggestion, for what object could even the inscrutable mind of the Creator have in making a being only to have him unmake himself?

On the other hand, could it be the Creator’s intent

that man remain changeless, neither progressing nor retrogressing? Study of the world of nature reveals change going on everywhere and unceasingly, and at least some, perhaps all, of this change is from the lower to the higher. In a universe characterized by progress, would the Creator have made man, his only thinking creature, static? Again, both observation and reason answer no.

This leaves but one alternative, namely, that the Creator intends that man shall change for the better. And since the Creator has made man, as well as all else that composes the universe, and hence is vastly more powerful than man and can unmake him at will, it follows that man does well to follow this intent of the Creator and to make it an aim of his life to become a better man.

This conclusion is reinforced by the fact that man is capable of development; he has demonstrated this. Men have become vastly better men. Others have become worse. Either result is possible. The fact that a man may either develop or deteriorate impresses upon us the need of constantly pushing forward if only to keep from going backward.

If this answer is accepted, the desirability, not to say the necessity, of individual freedom becomes manifest, for a man cannot improve himself to the utmost unless he has the freedom to do so. Within the bounds of respect for the private property of others, he must have the freedom to move to any point on the earth's surface, or indeed to other worlds, in order that he may make use of the most productive resources as well as the richest cultural opportunities. He must be free to offer his own

services or any of his own property in exchange for the goods or services of others with whom mutually acceptable prices can be negotiated. He must be free to search the universe for truth and to speak and publish as he sees fit. He must be free to worship his own God, or not to worship at all if that be his desire. He must be free to collaborate with his fellows in doing any or all of these things, or in doing anything at all which does not directly interfere with the exercise of the same freedoms by any other human being. Then and only then will he be able to pursue his accepted aim of life.

Indeed, is not freedom necessary to pursue any worthy aim of life? Regimented, a person can do little except obey. And is obedience—except to God—a worthy aim of life?

Libertarians complain that modern men are blind to the precious nature of freedom. Perhaps their eyes would be opened if each could be led to ask and answer for himself the great question of life: "What am I here for?"

THE PROPHET, DE TOCQUEVILLE

by William Henry Chamberlin



ONE of the surest tests of a great book is durability. A commentary on the life and institutions and national character of America in the time of Andrew Jackson that still remains fresh and vivid and lifelike marks the author as an observer and writer of rare talent. It is never an easy task to sift the wheat from the chaff, the important from the trivial, the permanent from the transient in a manner calculated to satisfy the judgment of posterity.

But when a foreign observer in the United States a century and a quarter ago not only presents a singularly discerning analysis of the early American Republic, with its virtues and faults, its strength and weakness, but also writes with almost uncanny prescience of many social and political developments that became clear only in the twentieth century, long after he was dead, he deserves to be regarded as something more than a gifted observer. He deserves the title of prophet, and his book is one of

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the absolutely indispensable classics in the field of political science.

The man in question is Alexis de Tocqueville; the book is *Democracy in America*, de Tocqueville's record of the impressions which he gained from a tour of America in the early eighteen thirties. His primary concern in America was to study the working of what was then considered to be a new and revolutionary conception of government "of the people, by the people, for the people," without a monarchy, an hereditary aristocracy, an established church. De Tocqueville approached this study with admirable open-mindedness and freedom from doctrinaire prejudice. As a young man he forecast his own career in these words:

"I do not know any way of life more honorable or more attractive than to write with such honesty about the great truths that one's name becomes known to the civilized world."

He lived up so well to this ideal in his writing that his *Democracy in America*, along with his other works, *The Old Regime and the French Revolution* and his observations in England and Ireland, remain as an impressive monument to his memory. He was entirely without the superciliousness of some European visitors who could see nothing in America but rough frontier manners, such as the common habit of spitting tobacco juice in all directions.

De Tocqueville was discerning and generous in recognizing the positive benefits that flowed from the scheme of government devised by the Founding Fathers: the re-

spect for law because of the prevalence of self-government, the absence of arrogant display by officialdom, the immensely productive energy that comes from individual self-reliance, the absence of the burdens of militarism. This mirror of the past America may be in some respects an unconscious criticism of the America of 1958, with its vast bureaucracy, heavy taxation, increasing arrogation of power by the federal authority, and growing remoteness of the governing process from the people.

"The European," writes this French observer, "generally submits to a public officer because he represents a superior force, but to an American he represents a right. In America it may be said that no one renders obedience to man, but to justice and law."

Reliance on one's individual exertion, a reproach in the eyes of many who look on themselves as advanced social thinkers in our time, is the object of de Tocqueville's repeated praise:

"The citizen of the United States is taught from his earliest infancy to rely upon his own exertions in order to resist the evils and the difficulties of life; he looks upon social authority with an eye of mistrust and anxiety, and he only claims its assistance when he is quite unable to shift without it. . . . When a private individual meditates an undertaking, however directly connected it may be with the welfare of society, he never thinks of soliciting the cooperation of the government, but he publishes his plan, offers to execute it himself, courts the assistance of other individuals, and struggles manfully against all obstacles. Undoubtedly he is often less successful than the

State might have been in his position; but in the end *the sum of these private undertakings far exceeds all that the government could have done.*" (Italics supplied)

Conservatism in America

De Tocqueville notes that America had come much closer than Europe in giving its people a sense of conservatism in the most effective way: by creating conditions where they had something to conserve. So he tells of meeting a fellow Frenchman, who had been "a great leveler and an ardent demagogue forty years ago," who had then emigrated to the United States and prospered as a planter. De Tocqueville, in view of his host's background was somewhat surprised to hear him "discuss the rights of property as an economist or landowner might have done; he spoke of the necessary gradations which fortune establishes among men."

This countryman of de Tocqueville is certainly not the only European radical whose views were changed by the influence of individual opportunity in the United States. De Tocqueville draws this interesting general conclusion:

"In America those complaints against property in general which are so frequent in Europe are never heard, because in America there are no paupers; and as everyone has property of his own to defend, everyone recognizes the principle upon which he holds it."

De Tocqueville was quick to recognize the advantages which accrued to America from its isolated geographical

position and from its adherence to Washington's wise injunction to shun participation in the quarrels of Europe. In one of his most prescient passages he writes:

"The Americans have no neighbors, and consequently they have no great wars, or financial crises, or inroads, or conquest to dread; they require neither great taxes, nor great armies, nor great generals; and they have nothing to fear from a scourge which is more formidable to republics than all these evils combined, namely military glory. . . . The Union is as happy and free as a small people, and as glorious and strong as a great nation."

Democracy in America is not an unqualified eulogy. He notes three serious defects: conformity, mediocrity, materialism.

"It seems, at first sight, as if all the minds of the Americans were formed upon one model, so accurately do they correspond in their manner of judging.

"In few civilized nations of our time have great artists, fine poets, or celebrated writers been more rare than in the United States If the observer only singles out the learned, he will be astonished to find how rare they are; but if he counts the ignorant, the American people will appear to be the most enlightened community in the world. The whole population is situated between these two extremes. . . . The spirit of gain is always on the stretch, and the human mind, constantly diverted from the pleasures of imagination and the labors of the intellect, is there swayed by no impulse but the pursuit of wealth."

And one of the unmistakable purple passages of the

book gives this picture of the American who is never content with what he has, who is constantly on the move for new opportunities:

"In the United States a man builds a house to spend his later years in it, and he sells it before the roof is on. He plants a garden, and lets it just as the trees begin to bear. He brings a field into tillage and leaves other men to gather the crops. He embraces a profession and gives it up. He settles in a place, which he soon leaves, to carry his changeable longings elsewhere . . . Death at last overtakes him, but it is before he is weary of his bootless chase of that complete felicity which is always on the wing."

De Tocqueville finds a democracy likely to be incompetent in the conduct of foreign affairs; perhaps many present-day Americans would agree with him. His observation on this point is as follows:

"Foreign politics demand scarcely any of those qualities which a democracy possesses; and they require, on the contrary, the perfect use of almost all those faculties in which it is deficient. . . . A democracy is unable to regulate the details of an important undertaking, to persevere in a design, and to work out its execution in the presence of serious obstacles. It cannot combine its measures with secrecy, and it will not await their consequences with patience."

In almost all his observations on the American past de Tocqueville shows himself a shrewd, perceptive observer and his impressions furnish a mirror in which Americans today may view their country and themselves.

One fears that in the matter of individual self-reliance and distrust of government aid there has been a considerable falling off. And the former safety of geographical isolation has been seriously undermined by unwise policies and also by the impersonal march of science, which has automatically reduced very much the security which America enjoyed when it could only be approached by a boat, when airplanes and ballistic missiles were scarcely dreamed of.

Dangers of Democracy Foreseen

But the French political scientist displays remarkable capacity not only to observe the present, but to divine the future. He visited an America that had no national debt, to speak of, no military establishment of any consequence, no welfare-state institutions, and no income tax. But he foresaw the danger that under democracy there might be a trend for the relatively poor majority to employ universal suffrage as a means of siphoning into their own pockets more and more of the income and property of the well-to-do minority. He forecast this probability almost as clearly as if he had before him a 1958 income-tax blank:

"Wherever the poor direct public affairs and dispose of the natural resources, it appears certain that, as they profit by the expenditure of the State, they are apt to augment that expenditure.

"I conclude, therefore, that the democratic government of the Americans is not a cheap government, as is some-

times asserted; and I have no hesitation in predicting that, if the people of the United States is ever involved in serious difficulties, its taxation will speedily be increased to the rate of that which prevails in the great part of the aristocracies and monarchies of Europe."

The most remarkable demonstration of the author's prophetic gift is in regard to the twentieth century predominance, in world affairs, of the United States and Russia. At the time when *Democracy in America* was written, Russia was only one of several European great powers and the United States counted for very little in European power calculations. Yet de Tocqueville confidently offered this preview of a situation that actually came to pass more than a century later:

"There are at the present time two great nations in the world which seem to tend toward the same end, although they started from different points. I allude to the Russians and the Americans. . . . All other nations seem to have nearly reached their natural limits; but these are still in the act of growth. All the others are stopped, or continue to advance with extreme difficulty; these are proceeding with ease and celerity along a path to which the human eye can assign no term. . . .

"The Anglo-American relies upon personal interest to accomplish his ends, and gives free scope to the unguided exertions and common sense of the citizens. The Russian centers all the authority of society in a single arm. The principal instrument of the former is freedom; of the latter, servitude. Their starting points are different and their courses are not the same; yet each of them

seems to be marked out by the will of Heaven to sway the destinies of half the globe."

Tyranny of the Majority

Despite his own aristocratic origin, de Tocqueville was clear-sighted enough to recognize that the Old Regime in France, and in Europe, was finished. He was also prescient enough to anticipate that democracy, without checks and balances, could degenerate into an absolutism more appalling than the old-fashioned monarchy. One finds in his work remarkable premonitions of communism and of fascism, of ruthless tyranny exercised in the name of a cowed, drugged, propagandized majority. Some of his writing on this subject has a very real and eloquent message for our time; de Tocqueville, who defies precise classification as a conservative or a liberal, can more accurately be described as a libertarian individualist:

"Unlimited power is in itself a bad and dangerous thing; human beings are not competent to exercise it with discretion, and God alone can be omnipotent, because his wisdom and justice are always equal to his power. But no power upon earth is so worthy of honor for itself, or of reverential obedience to the rights which it represents, that I would consent to admit its uncontrolled and all-predominant authority.

"In my opinion the main evil of the present democratic institutions of the United States does not arise, as is often asserted in Europe, from their weakness, but

from their overpowering strength; and I am not so much alarmed at the excessive liberty which reigns in that country as at the very inadequate securities which exist against tyranny."

He then asks to whom an individual, if wronged in the United States, can apply for redress, when public opinion, the legislature, the executive are all subject to the will of the majority, and even the judges in some states are elected by the majority. What he is seeking is some means of forestalling or at least mitigating the possible tyranny of the majority.

There is a vision of fascism and communism, with their massacres and proscriptions, in his only too well justified prediction that, should absolute power be re-established in Europe, "it would assume a new form and appear under features unknown to our forefathers." Formerly, religion, sense of honor, family pride, provincial prejudices, custom, and public opinion limited the power of kings and placed a restraint on their authority. Now these restraining influences are weakened or destroyed and he fears a return to "those hideous eras of Roman oppression when the manners of the people were corrupted, their traditions obliterated, their habits destroyed, their opinions shaken, and freedom, expelled from the laws, could find no refuge in the land."

In other words, the unlimited tyranny of a Stalin or a Hitler.

Perhaps the finest performance of de Tocqueville as prophet is this superb vision of the ultimate logical result of the Welfare State:

"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 were 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 labors. But it chooses to be the sole agent and only arbiter of that happiness. It provides for their security, foresees and supplies their necessities, 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 . . . ?*

"The will of men 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, *until each nation is reduced to be nothing better than a flock of timid and industrious animals, of which the government is the shepherd.*" (Italics supplied)

Here is Alexis de Tocqueville at his best, the searching and brilliant observer of his own century and the inspired prophet of many of the problems, perils, and pitfalls of the still unborn twentieth century.

THE SEARCH FOR AN ECHO

by Leonard E. Read



Tell me today what the philosopher thinks, the university professor expounds, the schoolmaster teaches, the scholar publishes in his treatises and textbooks, and I shall prophesy the conduct of individuals, the ethics of businessmen, the schemes of political leaders, the plans of economists, the pleadings of lawyers, the decisions of judges, the legislation of lawmakers, the treaties of diplomats, and the decisions of state a generation hence.

AUTHOR UNKNOWN

“YOUR educational work at FEE is sound enough and I concede its necessity in normal times. But, it’s too slow under present conditions. I want action, and quick. Time is running out. My efforts and money from now on will be devoted to putting the *right* men in public office.”

The above summarizes a substantial, and perhaps even a growing sentiment. It stems from impatience. The interventionists, it is observed, have “leaders” galore in the political arena. Why, inquire many anti-interventionists, should we tarry any longer? Why not find ourselves

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some political leaders who will represent our points of view? Plans are then proposed for the organization of citizens down to the precinct level, and likely personalities are sought among renowned generals, businessmen, academicians, and others who have, in their own specialized fields, arrived at acknowledged leadership. It is assumed that the nation will be saved should they be elected to public office.

If this were the road out of the socialistic wilderness and if these miracle persons were to be found, all of us might consider joining the political actionist parade. To take this route, however, is of no more avail than looking for the pot of gold at the end of the rainbow.

The reason that the interventionists have so many "leaders" is only because there is throughout our land a very substantial body of *influential*, interventionist opinion. The ones out front and who are popularly appraised as leaders are, in fact, not the real leaders. They are but echoes of the underlying opinion, and an echo implies an antecedent sound. They did not create the situation in which they find themselves; they are but the products or manifestations of the status quo. They, like actors in a play, merely move out front by reason of the fact that they can better articulate and dramatize the prevailing interventionist thought than can others. The real leaders of interventionism or any other movement, like playwrights, lie more under the surface, are a quieter breed, and not nearly as observable popularly.

Anti-interventionists lack "leaders" because there does not exist an influential libertarian opinion substantial

enough to create the desired political response. What I wish to suggest here is the futility of attempting to build on a foundation that does not exist. One might as well look for an abundance of flowers where there has been a scarcity of seeds or listen for many echoes where there have been but few prior sounds. The out-front folks in political parties are but a thermometer—indicators of the political temperature. Change the temperature and there will be a change in what's out front—*naturally and spontaneously*. The only purpose in keeping an eye on the thermometer is to know what the temperature is. If the underlying influential opinion—the temperature—is interventionist, we'll have interventionists in public office regardless of the party labels they may choose for their adornment and public appeal.

If the underlying influential opinion—the temperature—is libertarian, we'll have spokesmen for libertarianism in public office. Nor will all the king's horses and all the king's men be able to alter the reading of the political thermometer one whit.

It's the influential opinion that counts, and nothing else. This is to be distinguished from "public opinion," there being no such thing. Every significant movement in history—good or bad—has resulted from *influential* ideas held by comparatively few persons.

Here, then, is the key question: What constitutes an *influential* opinion? In the context of moral, social, economic, and political philosophy, influential opinion stems from or rests upon (1) depth of understanding, (2) strength of conviction, and (3) the power of attractive

exposition. These are the ingredients of self-perfection as relating to a set of ideas. Persons who thus improve their understanding, dedication, and exposition are the leaders of men; the rest of us are followers, including the out-front political personalities.

To illustrate: How many persons today, or even in his own time of the early seventeenth century, ever heard of Hugo Grotius? Few, indeed, then or now! Yet, here is what the eminent historian, Andrew Dickson White, in the year 1910, wrote of this exceptionally important unknown:

“Into the very midst of all this welter of evil, at a point in time to all appearance hopeless, at a point in space apparently defenseless, in a nation of which every man, woman, and child was under sentence of death from its sovereign, was born a man who wrought as no other has ever done for a redemption of civilization from the main cause of all that misery; who thought out for Europe the precepts of right reason in international law; who made them heard; who gave a noble change to the course of human affairs; whose thoughts, reasonings, suggestions, and appeals produced an environment in which came an evolution of humanity that still continues.”

One man altered the ways of the world. He achieved a degree of perfection that caused others to follow his insights and understanding. He spawned ideas that politicians emphasized and glamorized for which they more than Grotius became widely known as “leaders.”

In this day of our need how are we to find ourselves a Grotius, a Sarpi, a Turgot, or a thousand and one others

who have quietly but brilliantly modified the world into better ways? Those of us who would have any part in working out this answer have no recourse except to strive for an increasing perfection of ourselves, that is, conscious personal efforts to become such helpful individuals. It isn't that you or I, specifically, will make the grade. It is that out of a fairly wide creative effort in which we participate some few will assuredly achieve the competence our time so sorely requires. This is the educational, not the political, way to mankind's improvement. True, it is slow in terms of one's life span, but it has the distinct advantage of being the single practical way there is. Let us try this way and witness its fruits!

If we continue to exclaim—"I want action. Time is running out"—and persist in the error of trying to reverse cause and effect, the political echo will continue to confirm, "Time is running out."

THE EARLY QuAKERS: AN EXPERIMENT IN FREEDOM

by Frederick Walker



THE POSSIBILITY that a minority will satisfactorily work out its own affairs, if allowed economic freedom, is seldom tested today; yet that is exactly what the early Quakers did in Great Britain. The Religious Society of Friends originally faced almost unanimous hostility from the ruling classes. The early Quakers were mercilessly persecuted by the established church and the Puritans. Many were imprisoned, and their property was seized or destroyed by the government because of their refusal to take oaths, their resistance to the imposition of tithes, and their insistence on freedom of worship.

Despite religious and social ostracism, and restraint and persecution by the State, the early Quakers went their quiet way and flourished. This was possible at the end of the seventeenth century in England because economic freedom prevailed in large areas of the national life. The industrial revolution had begun, and the world of commerce was expanding. Because of their refusal to take oaths, the Quakers were barred from government service, the learned professions, and the universities. Their peace

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testimony prohibited service in the army or navy. Trade and industry were open to them under conditions which were free; and the beneficial results of their economic lives are still felt in Great Britain.

The Quakers believed in a life unmolested, with a kind tolerance toward others. To this way of life their small minority dedicated themselves, and through energy, honesty, and native ability soon achieved a prosperity and influence far beyond the usual accomplishment of a numerically limited group. Drawn into a life of trade by the restrictions which barred them from other occupations, the early Quakers used to full advantage the free market of their day to contribute substantially to the commercial prosperity of Great Britain at the time of its greatest growth. Their history proves that, if economic freedom exists, any minority with energy, intelligence, and dedication can prosper despite well-organized and popular opposition.

Quakers are generally credited with the introduction of uniform pricing. Their one-price system, without discrimination according to the status or class of the buyer, won the confidence of the public, greatly speeded the processes of trade, and brought Quaker tradesmen a large portion of the retail business. They were respected for their honesty in all matters, including business transactions. Quakers who did not keep their word were the concern of their fellow religionists; they were quick to disown any impostors attempting to trade as Quakers.

Expanding trade practices soon led to participation in industry. They became leaders in iron manufacturing,

for it was a Quaker who devised the smelting of iron ore by coal instead of wood and made possible the expansion of the industry. Quaker pre-eminence in iron manufacturing continued until increasing use of iron in armaments barred their producing for that purpose. Quakers built the first iron bridge and financed the first railways. They were active in copper and lead mining and in brass manufacturing.

Far-flung operations were conducted by Quakers in diverse industries: weaving and textiles, shipping, pottery, pharmaceuticals, scientific instruments, and clock-making. Their widespread reputation for probity led many people to deposit their savings with them for safe-keeping at a time when banks were virtually nonexistent. This factor, along with the increasing need for banking facilities in their own business operations, brought Quakers into the banking business. During the eighteenth century, when Britain was the banking capital of the world, most of the major banks were Quaker founded and controlled. The history of Barclays, Lloyds, and other great institutions demonstrate Quaker banking enterprise.

A contemporary example of Quaker business operations is the British cocoa and chocolate industry dominated by the well-known firms of Cadbury, Fry, and Rowntree.

The early Quakers were predisposed by their philosophy and experience, not only to take advantage of the free market open to them, but also to oppose all trade restrictions. Special privileges and state prerogatives were

the possessions of their oppressors. The Quakers, as believers and practitioners in the spirit of freedom, would not seek special rights at the expense of others. The economic history of the early Quakers clearly demonstrates how the peaceful pursuit of personal interests in the free market harmonizes with and contributes to the national welfare. The primary concern of Quakers is voluntary action. Involuntary and coercive acts and restrictions by the State are resisted by them as antithetical to the spirit of Quakerism.

It is true that certain trade restrictions were practiced by the early Quakers, but these were voluntarily self-imposed and not matters of governmental interference. Their peace testimony kept them from armament manufacture; their growing concern over slavery removed them from connections with slave owning, slave dealing, and even the products of slave labor; they refrained from engaging in businesses which were questionable in the light of the principles of the Religious Society of Friends. Quaker records are filled with examples of people deliberately restricting their businesses because increasing prosperity interfered with spiritual objectives. Anyone who did not accept such procedures was free to withdraw from the Society of Friends and continue on his own.

In social actions the early Quakers also practiced freedom. The Society of Friends provided for poor, unfortunate, or sick members without recourse to the government for aid; supplied capital and counsel to help young members get started in business or trade; maintained schools and educational programs; established hospitals,

institutions for the mentally ill, and homes for the aged; and accomplished all of this by voluntary efforts and funds, not with money levied from the taxpayer nor by "social" legislation imposed by the State. Many of these efforts were pioneering ventures long afterwards copied, and then perverted by compulsion, in the name of the Welfare State.

Early Quaker history proves by all kinds of results that freedom is a very practical matter. A philosophy of freedom, an openness to innovation, a willingness to experiment, led them to outstanding achievements in economic life despite the smallness of their numbers and an unrelenting public hostility at the time of the foundation of their Society. They demonstrated to the world that, with a free market available, they were able to arrange and carry on their lives in a most substantial and satisfactory manner, even in the face of State and Church opposition which threw thousands of them into prison, caused innumerable deaths, and often brought economic ruin.

Above this unconscionable opposition the Quakers moved in their quiet ways until they commanded respect, prosperity, and the right to live unmolested. As a result of their inner dedication and their beliefs in freedom, concern for their fellow men, and the full use of the economic freedom available, they triumphed. Their record is a light to the inquiring spirit today when freedom everywhere is being threatened and enveloped. What the early Quakers did shows what can be done again if men will have faith in freedom and put it into practice.

FREE WILL AND THE MARKET PLACE

by Frank Chodorov



FREE WILL is the starting point of all ethical thinking and it plays an equally important part in the business of making a living. If man were not endowed with this capacity for making choices, he could not be held accountable for his behavior, any more than could a fish or a fowl—an amoral being, a thing without a sense of morals. So, if man were devoid of this capacity, his economics would be confined to grubbing along on whatever he found in nature. It is because man is capable of taking thought, of making evaluations and decisions in favor of this or that course, that we have a discipline called economics.

In making his ethical choices, man is guided by a code believed to have the sanction of God; and experience has shown that the good life to which his instinct impels him can be achieved only if he makes his decisions accordingly. The Ten Commandments have been called

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the Word of God; they can also be described as natural law, and natural law has been described as nature's way of applying means to ends. Thus, we say that nature in her inscrutable ways has determined that water shall always run down hill, never up; that is a natural law, we say, because it is without exception, inevitable, and self-enforcing. Therefore, when we decide to build ourselves a house, we set it at the bottom of the hill so as to avail ourselves of a supply of water. If we put the house at the top of the hill, nature will not cooperate in our obstinacy and we shall not have any water in the house; unless, of course, we discover and make use of some other natural law to overcome the force of gravity.

That is to say, nature is boss and we had better heed her teaching when we make decisions or we shall not achieve the ends we desire. But, her teaching is not freely given; we must apply ourselves diligently to a study of her ways to find out what they are. The prerequisite for a successful investigation is to admit that nature has the secret we are trying to uncover; if we begin by saying that in this or that field nature has no laws, that humans make their own way without reference to nature, we shall end up knowing nothing.

If, for instance, we discard the Ten Commandments, declaring them to be mere man-made conventions changeable at will, we end in chaos and disorder—evidence that we are on the wrong track. Likewise, if we declare that God in his infinite wisdom chose to disregard economics, that in ordering the world he overlooked the ways and means for man's making a living, that in

this particular field man has to work out his own formulae, we will end up with a poor living.

And that is exactly what has happened in the study of economics; many experts in this field are of the opinion that nature can tell us nothing about the business of making a living; it's all a matter of human manipulation. That is why economics is so often a meaningless hodgepodge of expediciencies, leading us to no understanding and no good end. I might add that the incongruities of ethical life, such as divorce, juvenile delinquency, international friction, and so on, are largely the result of the current conceit that there is no warrant for ethics in nature, no positive laws for moral behavior; but that is another subject.

The First Pioneer

I shall try to present some evidence that nature has her own rules and regulations in the field of economics, indicating that we had better apply ourselves to learning about them if we would avoid the obviously unsatisfactory results from relying on man's ingenuity. Come with me into the laboratory of experience, which is the source of much understanding.

Let us cast our mind's eye back to the time when there was no Madison, Wisconsin, or any other city west of the Alleghenies, when only the seed of a later social integration was planted here—when a lone frontiersman decided to settle on this spot of earth. The primary consideration which influenced his decision was the possibility of

making a living here. He selected what later became Madison because the land was fertile, water was plentiful, the forests abounded with wood for his comfort, meat for his sustenance, and hides for his raiment. This was the workshop from which he could expect good wages for his efforts. Without benefit of economic textbooks, he hit upon a couple of economic laws: (1) that production, or wealth, consists of useful things resulting from the application of human labor to natural resources; (2) that wages come from production.

These laws, these precepts of nature, are still in force and always will be despite the efforts of some "experts" to rescind them. Often the yearning for manna from heaven obscures the fact that only by the application of labor to raw materials can economic goods appear, but the yearning is so strong that men ask government to play God and reproduce the miracle of the wilderness.

Government, of course, can produce nothing, let alone a miracle; and when it presumes to drop manna on its chosen people, it simply takes what some produce and hands it over to others; its largess is never a free gift. And as for wages, they still come from production, even though there are sectarians who maintain that wages come from the safety vaults of a soulless boss. The consequences of disregarding these two dictates of nature are too well known to call for discussion.

Returning to our first pioneer, his initial wages are meager. That is because he is compelled by the condition of his existence to be a jack-of-all-trades, proficient in none. He produces little and therefore has little. But

he is not satisfied with his lot for, unlike the beasts in the forest or the fish in the sea, man is not content merely to exist.

And here we hit upon a natural law which plays a prime role in man's economic life: He is the insatiable animal, always dreaming of ways and means for improving his circumstances and widening his horizon. The cabin built by the pioneer to protect himself from the elements was castle enough in the beginning; but soon he begins to think of a floor covering, of pictures on the wall, of a lean-to, of a clavichord to brighten his evenings at home and, at long last, of hot-and-cold running water to relieve him of the laborious pumping. Were it not for man's insatiability, there would be no such study as economics.

A Neighbor Arrives

But the things the pioneer dreams about are unattainable as long as he is compelled to go it alone. Along comes a second pioneer, and his choice of a place to work is based on the same consideration that influenced his predecessor. What wages can he get out of the land? However, as between this location and others of equal natural quality, this one is more desirable because of the presence of a neighbor. This fact alone assures a greater income, because there are jobs that two men can perform more easily than can one man alone, and some jobs that one man simply cannot do. Their wages are mutually improved by cooperation. Each has more satisfactions.

Others come, and every accretion to the population raises the wage level of the community. In the building of homes, in fighting fires and other hazards, in satisfying the need of entertainment or in the search for spiritual solace, a dozen people working together can accomplish more than twelve times what each one, working alone, can do. Still, the wage level of the community is rather low, for it is limited by the fact that all the workers are engaged in the primary business of existence on a self-sustaining, jack-of-all-trades basis.

At some point in the development of the community it occurs to one of the pioneers that he has an aptitude for blacksmithing; and if all the others would turn over to him their chores in this line, he could become very proficient at it, far better than any of his neighbors. In order for him to ply this trade the others must agree to supply him with his needs. Since their skill at blacksmithing is deficient, and since the time and effort they put into it is at the expense of something they can do better, an agreement is not hard to reach. Thus comes the tailor, the carpenter, the teacher, and a number of other specialists, each relieving the farmers of jobs that interfere with their farming. Specialization increases the productivity of each; and where there was scarcity, there is now abundance.

The first condition necessary for specialization is population. The larger the population the greater the possibility of the specialization which makes for a rising wage level in the community. There is, however, another important condition necessary for this division of labor,

and that is the presence of capital. The pioneers have in their barns and pantries more than they need for their immediate sustenance, and are quite willing to invest this superfluity in other satisfactions. Their savings enable them to employ the services of specialists; and the more they make use of these services the more they can produce and save, thus to employ more specialists.

This matter of savings, or capital, may be defined as that part of production not immediately consumed, which is employed in aiding further production, so that more consumable goods may become available. In man's search for a more abundant life he has learned that he can improve his circumstances by producing more than he can presently consume and putting this excess into the production of greater satisfactions.

Man has always been a capitalist. In the beginning, he produced a wheel, something he could not eat or wear, but something that made his labors easier and more fruitful. His judgment told him what to do, and of his own free will he chose to do it. That makes him a capitalist, a maker and user of capital. The wheel, after many centuries, became a wagon, an automobile, a train, and an airplane—all aids in man's search for a better living. If man were not a capitalist, if he had chosen not to produce beyond requirements for immediate consumption—well, there would never have been what we call civilization.

However, a prerequisite for the appearance of capital is the assurance that the producer can retain for himself all he produces in the way of savings. If this excess of

production over consumption is regularly taken from him, by robbers or tax-collectors or the elements, the tendency is to produce no more than can be consumed immediately. In that case, capital tends to disappear; and with the disappearance of capital, production declines, and so does man's standard of living.

From this fact we can deduce another law of nature: that security in the possession and enjoyment of the fruit of one's labor is a necessary condition for capital accumulation. Putting it another way, where private property is abolished, capital tends to disappear and production comes tumbling after. This law explains why slaves are poor producers and why a society in which slavery is practiced is a poor society. It also gives the lie to the promise of socialism in all its forms; where private property is denied, there you will find austerity rather than a functioning exchange economy.

Specialization and Trade

The possibility of specialization as population increases is enhanced by another peculiarly human characteristic—the trading instinct. A trade is the giving up of something one has in order to acquire something one wants. The trader puts less worth on what he possesses than on what he desires. This is what we call evaluation.

It is not necessary here to go into the theory, or theories, of value except to point out that evaluation is a psychological process. It springs from the human capacity to judge the intensity of various desires. The fish-

erman has more fish than he cares to eat but would like to add potatoes to his menu; he puts a lower value on fish than on potatoes. The farmer is in the opposite position, his barn being full of potatoes and his plate devoid of fish. If an exchange can be effected, both will profit, both will acquire an added satisfaction. In every trade—provided neither force nor fraud is involved—seller and buyer both profit.

Only man is a trader. No other creature is capable of estimating the intensity of its desires and of giving up what it has in order to get something it wants. Man alone has the gift of free will. To be sure, he may go wrong in his estimates and may make a trade that is to his disadvantage. In his moral life, too, he may err. But, when he makes the wrong moral choice, we hold that he should suffer the consequences, and hope that he will learn from the unpleasant experience.

So it must be in his search for a more abundant life. If in his search for a good life the human must be allowed to make use of his free will, why should he not be accorded the same right in the search for a more abundant life? Many of the persons who would abolish free choice in the market place logically conclude that man is not endowed with free will, that free will is a fiction, that man is merely a product of his environment. This premise ineluctably leads them to the denial of the soul and, of course, the denial of God.

Those who rail against the market place as if it were a den of iniquity, or against its techniques as being founded in man's inhumanity, overlook the function of

the market place in bringing people into closer contact with one another. Remember, the market place makes specialization possible, but specialization makes men interdependent. The first pioneer somehow or other made his entire cabin; but his son, having accustomed himself to hiring a professional carpenter, can hardly put up a single shelf in a cabin. And today, if some catastrophe should cut off Madison from the surrounding farms, the citizens of the city would starve. If the market place were abolished, people would still pass the time of day or exchange recipes or bits of news; but they would no longer be dependent on one another, and their self-sufficiency would tend to break down their society. For that reason we can say that society and the market place are two sides of the same coin. If God intended man to be a social animal, he intended him to have a market place.

Traders Serve One Another

But, let us return to our imaginary experiment. We found that as the pioneer colony grew in numbers, a tendency toward specialization arose. It was found that by this division of labor more could be produced. But this profusion from specialization would serve no purpose unless some way were found to distribute it. The way is to trade. The shoemaker, for instance, makes a lot of shoes of various sizes, but he is not interested in shoes per se; after all, he can wear but one pair and of one particular size. He makes the other shoes because other people want them and will give him in exchange the

things he wants: bread, raiment, books, what not—the things in which his interests naturally lie. He makes shoes in order to serve himself, but in order to serve himself he has to serve others. He has to render a social service in order to pursue his own search for a more abundant life.

In our lexicon we refer to a business undertaking by the government as a social service; but this is a misnomer, because we can never be certain that the service rendered by the government business is acceptable to society. Society is compelled to accept these services, or to pay for them even if unwanted. The element of force is never absent from a government-managed business. On the other hand, the private entrepreneur cannot exist unless society voluntarily accepts what he has to offer; he must render a social service or go out of business.

Let us suppose that this shoemaker is especially efficient, that many people in the community like his service and therefore trade with him. He acquires what we call a profit. Has he done so at the expense of his customers? Do they lose because he has a profit? Or, do they not gain in proportion to the profit he makes? They patronize him because the shoes he offers are better than they could make themselves or could get elsewhere, and for that reason they are quite willing to trade with him. They want what they get more than they want what they give up and therefore profit even as he profits.

If he goes wrong in his estimate of their requirements, if he makes the wrong sizes, or styles that are not wanted, or uses inferior materials, people will not patronize him

and he will suffer a loss. He will have no wage return for the labor he puts in and no return for the capital—the hides and machinery—which he uses in making his unwanted product. The best he can do under the circumstances, in order to recoup some of his investment, is to hold a bargain-basement sale. That is the correlative of profits—losses.

No entrepreneur is wise enough to predetermine the exact needs or desires of the community he hopes to serve and his errors of judgment always come home to plague him. But, the point to keep in mind is that when an entrepreneur profits, he does so because he has served his community well; and when he loses, the community does not gain. A business that fails does not prosper society.

Distributive Function of the Market

The market place not only facilitates the distribution of abundances—including the abundances that nature has spread all over the globe, like the coal of Pennsylvania for the citrus fruit of Florida, or the oil of Iran for the coffee of Brazil—but it also directs the energies of all the specialists who make up society. This it does through the instrumentality of its price-indicator. On this instrument are recorded in unmistakable terms just what the various members of society want, and how much they want it. If the hand on this indicator goes up, if higher prices are bid for a certain commodity, the producers are advised that there is a demand for this commodity in excess of the supply, and they then know how best to invest

their labors for their own profit and for the profit of society. A lower price, on the other hand, tells them that there is a superfluity of a certain commodity, and they know that to make more of it would entail a loss because society has a sufficiency.

The price-indicator is an automatic device for recording the freely expressed wishes of the community members, the tally of their dollar ballots for this or that satisfaction, the spontaneous and noncoercive regulator of productive effort. One who chooses to tamper with this delicate instrument does so at the risk of producing a scarcity of the things wanted or an overabundance of unwanted things; for he disturbs the natural order.

One more social function of the market place needs mentioning. It is the determinant of productive efficiency, provided, of course, it is permitted to operate according to the unimpeded motive power of free will. In the primitive economy we have been examining, one shoemaker can take care of the shoe needs of the community. Under those conditions, the efficiency of that server is determined by his skill, his industry, and his whim. He alone can fix the standard of the service he renders his customers, or the prices he charges. Assuming that they can go nowhere else for shoes, their only recourse if they do not like his services or his prices is either to go without or to make their own footwear.

As the community grows in size, another shoe specialist will show up to share the trade with the first one. With the appearance of a second shoemaker the standard of efficiency is no longer determined by one producer. It is

determined by the rivalry between them for the trade of the community. One offers to fix shoes "while you wait," the other lowers his prices, and the first one comes back with a larger assortment of sizes or styles. This is competition.

Now the beneficiaries of the improved services resulting from competition are the members of society. The more competition and the keener the competition, the greater the fund of satisfactions in the market place. Oddly enough, the competitors do not suffer because the abundance resulting from their improved efficiency attracts more shoe customers; "competition," the old adage holds, "is good for business."

If, perchance, one of the competitors cannot keep up with the improving standard of performance, he may find himself out of business; but the increased productive activity resulting from the competition means that there are more productive jobs to be filled, and in all likelihood he can earn more as a foreman for one of the competitors than he could as an entrepreneur. Even those physically unable to care for themselves and dependent on others are benefited by competition; when there is an abundance in the market place, charity can be more liberal.

I am not attempting here a complete course in economics. What I have tried to show is that in economics, as in other disciplines, there are inflexible principles, inevitable consequences, immutable laws written into the nature of things. Exercising his free will, man can attempt to defy the law of gravitation by jumping off a

high place; but the law operates without regard for his conceit, and he ends up with a broken neck.

So, if the first pioneer had set up with force of arms a claim to everything produced in the Madison area, other pioneers would not have come near, and the community known as Madison would never have been born. Or, if he could have collected tribute, also by force of arms, from every producer in the area, he would have driven prospective specialists to places where private property was respected. If the first shoemaker had established himself, with the help of law, as a monopolist, barring competition, the shoes that Madisonians wore would have been of poor quality, scarce, and costly; the same result would have followed any legal scheme to subsidize his inefficiency at the expense of taxpayers. If early Madisonians had decreed to abolish the market place with its price-indicator, specialization and exchange would have been thwarted and the economy of Madison would have been characterized by scarcity.

The laws of economics, like other natural laws, are self-enforcing and carry built-in sanctions. If these laws are either unknown or not heeded, the inevitable eventual penalty will be an economy of scarcity, a poor and uncoordinated society. Why? Because the laws of nature are expressions of the will of God. You cannot monkey with them without suffering the consequences.

THE ALTERNATIVE TO COMPETITION

by E. W. Dykes



FROM time to time we are told that competition is an evil thing. Few among us will deny that it certainly produces its trying moments. There are, in fact, some persons who will argue that the harm from competition far exceeds any possible good which may result.

For example, they suggest that the student who does not get good grades suffers damage to his ego and may react in a most unsociable manner. I am sure there have been cases of persons who have failed in business and who have become bitter and despondent—perhaps even to the point of suicide. Some will say that these persons were victims of the urge to make a profit—a compulsion even worse than ordinary competition. “Cooperation,” they say, “—not competition—is what is needed for the good society.” To equate competition with “the law of the jungle” is to leave little doubt in one’s mind of its implied nature.

These ideas of the harmful effects of competition receive considerable support from various sources. Many school systems have eliminated grading on a competitive

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basis. Labor unions have undertaken to remove competition for jobs and to remove competition between individual workers on specific jobs by setting standard rates for a standard output which the least productive worker can meet. Some businessmen press for "fair trade" laws which will eliminate price competition on certain items. They may urge tariff barriers to protect them from the rigors of foreign competition. Farmers vote for subsidies and acreage controls to escape the vagaries of the free market. And so on and on, countless examples might be written, all of which show how we try to escape competition.

I suspect that most people believe competition to be neither generally good nor generally bad, but that a "middle-of-the-road" process will most likely produce a healthy society. They are all for competition in a horse race or in the American League or even among the suppliers of the things they have to buy, while going to no end of trouble to eliminate it, by law if necessary, in their own field as sellers.

Regarding competition, *per se*, they have no definite convictions. But persons with definite convictions about anything appear to be in rather short supply. Strong beliefs are developed by intimate knowledge of the true nature of the subject. If this be true, then it follows that we need to find the true nature of competition and then judge its merits.

It is useful, at times, to examine the extreme point of view to show the probable effects of a particular policy or action and to indicate the direction most likely to pro-

duce desirable results. My study convinces me that there is but one "alternative" to competition. If I can show what the "alternative" actually is, that may help the part-time competitors in making a clear-cut choice.

A Noncompeting Society?

Let us assume that we abandon competition in our society as of tomorrow. At once there would be a mad rush of people from their present jobs to more glamorous or more highly paid jobs. Thousands decide to be big league ball players. Hundreds of thousands decide to be movie stars. Those ready to become bank presidents are in oversupply. No one hauls garbage. No one waits on tables or digs coal. And since price competition is eliminated, no one knows how much to charge or how much to pay for a particular product. As a matter of fact, the dislocation would be so complete that the economy would come to a standstill. Clearly, competition cannot be eliminated overnight. A great deal of advance work would be needed if such a move were not to result in total confusion.

So let's go at it another way. Assume a society in which competition is to play no part from the very beginning. Our first problem is to decide who will do what. For instance, who will be the doctors? Who will write music? Sell shoes? Make shoes? What will determine prices and wages? Who decides all these things? Certainly not one person because he would be a dictator. A committee, perhaps, but who shall choose the committee? It's difficult, indeed.

It looks as though we'll have to have some competition—at least enough to select a committee. And so we have to select nominees, take a vote, and of course, accept a decision arrived at competitively. We will select those with the most votes. Now, perhaps, can't we do away with all competition?

Then the committee is faced with the questions: Who shall be doctors and who shall write music and so on. Before they face up to that one, an infinitely more difficult problem faces them. How *many* shall be doctors? Will specialization be allowed or shall that become a sub-problem after deciding how many doctors? And what about fees, prices, and wages? How will they be determined? Will any persons be appointed to act as inventors? Will anyone be set apart to occasionally don an asbestos suit and step into a flaming oil or gas well out of control? Who will become the lawmakers? This last may give a clue as to where the committee will locate itself.

Endless Planning

It is not necessary to labor the point further to show that the committee has its hands full. But let us assume that a formula has been worked out by the committee. An extremely large catalog of possible occupations has been set up which takes account of the innumerable differences in jobs and which describes each in sufficient detail to render selection a little easier. Now we are ready to select the actual people to man these occupations.

"Everybody stand up and count off. The first 2,000 are doctors, the next 1,000,000 go to the factory suboffice and get divided up there." And so on. Ridiculous, isn't it? Of course, that couldn't be the way. "We'll give tests—aptitude tests, of course." And so a long series of aptitude tests are evolved with thousands of subtests and gradations in order to match as easily as possible the many variations in a particular job category. Now, shall the "best" jobs be given to those with the highest grades? Or is that too competitive? Finally, we decide that we must introduce that much additional competition.

Where shall people live? Obviously, all the doctors can't be in one town or state and all the blacksmiths in another. The formula must be applied and all the jobs filled in the right proportion. The committee, of course, must decide who lives in what towns, too. Well drillers can be easily placed, you see, because it's well known where oil can be found—isn't it? And this brings up an interesting point. Who decides precisely where the bit shall bite? And how shall a test be devised to find that man? On the inventors' list, what shall we decide to have invented? And if something amazing comes out of it, what will that do to the formula? Dizzy? Then don't get elected to the committee.

And I shouldn't want to sit on the subcommittee which sets prices and wages either. That committee would have to bring wages and prices into balance so that everything produced could be bought. How to decide how much of even one single item should be produced almost defies comprehension. For instance, how many radios will

be sold next month? How would we decide how much a doctor would be paid in contrast with a day laborer—or would they both get the same? The committee must decide. There is no other way—the law has been passed.

It should be clear from the foregoing that all matters which are not decided by competition must be decided by decree. In other words, if wages, prices, production, jobs, and successful inventions are not set or selected by competition, then an authority has to rule on them step by step.

In other words, the “alternative” to competition can only be the planned society. Every successful attempt to rule out competition in any area is but a step nearer the socialized state. We have taken far too many such steps already. The more we do without competition the more planned is the society. Admitting for one reason or another that some persons of high potential are occasionally and temporarily by-passed in the free, competitive society, it should appear clearly that the way to find the best of anything is to allow competition to decide. Just as the best ball players are competitively selected, so it is for surgeons, professionals, bank presidents, and playwrights.

The market place operates constantly with millions—no, billions—of decisions each day to elevate the best to the top, and each of us may aspire to reach the top. Consumers, in their market decisions, actually decide who or what shall succeed or fail. Good products are selected by each of us, voting in the market place with pennies and dollars as votes. High living standards are the direct

result of competition. Competition, far from being the evil thing it is often represented to be, is the guarantee of the best for the least . . . the most often.

Now let us recall the brief reference, early in the discussion, to the suggested need for cooperation rather than for competition. To search for a clear insight to this problem, ask yourself, "With whom shall I cooperate?" The anticompetition adherents will say, "With everyone, of course." It is a pleasant idea, one with which few will argue. It just happens to be impossible. For example, if you purchase a Ford, the sellers of other makes would hardly decide that you have cooperated with them. When a maiden selects her spouse, her other suitors must necessarily have been rejected. Competition, you see, serves to select the persons with whom you would most like to cooperate—and it leaves you free to decide for yourself who they shall be. But this is a subject which, of itself, might be deserving of an essay. Suffice to say that cooperation and competition, diverse though they may seem to be, go hand in hand in the free society. The planned society, as it eliminates competition, eliminates the basis for voluntary cooperation and substitutes "planned cooperation," whatever that is.

In planned societies the committee is always replaced by the strong man—the dictator. Competition and a planned society are incompatible. Freedom and a planned society are impossible. Free people and competition are inseparable.

The "alternative" to competition is to give up your freedom.

THE NATURE OF SOCIALISTIC DISASTER

by Leonard E. Read



OUR country has stumbled into socialism during the past half century; by now—1958—we have adopted nearly all the things socialists stand for. Those of us who are aware of socialism's built-in destructiveness have watched this process with apprehension and are forever predicting, or warning against, the impending catastrophe which we think we see hanging over our society. Under socialism, some men are put at the disposal of other men, deliberately, legally, and on principle. Socialism, in other words, is premised on an immoral extension of political power.

But this is not all; socialism introduces disorder into the economic realm as well. Its economic reasoning is shot through with fallacies—which is why it has to rely on force to transact the business of production and exchange. This universe, we believe, is an orderly affair, and therefore, intolerant of disorder. It follows that while we are free to embody uneconomic and immoral practices in our society, we are not free to escape their inevitable consequences. Our malpractices will catch up with us and bear their fruits in eventual collapse and disaster. Thus runs our reasoning.

Socialism, as formal, legal American policy, was given its significant impetus 45 years ago with the adoption of the Sixteenth Amendment. With that law we proclaimed that taxation would become progressive. We adopted as principle something even worse and less idealistic than communism's "from each according to ability, to each according to need." The principle we adopted was, "from each according to ability, to each according to political expediency." That this principle—once accepted—even though moderately applied initially, would be increasingly practiced throughout the whole economy was inevitable. That it has grown enormously is obvious. That it will continue to grow and spread is a foregone conclusion—until the principle is abandoned. If and when!

Yet, where is the debacle? What happened to the predicted disaster? On the surface, things are fine. The chatter we hear and the stuff we read seem only to say, "We never had it so good!"

Where Is the Flaw?

There's a flaw here somewhere and we should find it. Certainly, our dire predictions by themselves will effect no remedy. But, where *is* the flaw? The prediction that socialism must ultimately bring disaster appears to be sound enough. And yet, we cannot deny that millions of people are better supplied than ever before with bathtubs and other gadgetry. Perhaps we need to probe beneath the surface and look at some of the things in our life we have swept under the rug. Let's, therefore, exam-

ine this question: Could it be that an important phase of the disaster is actually taking place more or less unobserved?

Disaster, in the context here discussed, is generally thought of as a state of social or economic upheaval and chaos, a panic, a famine encompassing nearly everyone, the collapse of law and order or internal revolution like the overthrow of the government or unemployment on a vast scale: some kind of collective catastrophe, in short.

It is possible that socialism in America will never result in any easily visible, eruptive cataclysm that will be described either contemporaneously or historically as "disaster." There is the probability that the over-all effect will be, as in the Roman Empire, a slow, disintegrating, eroding process over a period of many decades. We will just peter out gradually. As there isn't any time when we say, "Today, I am old," so there may not be any day or week or year when we will announce, "This is it. The America of our fathers is at an end!" The oscillation of society's pendulum is usually too slow for any such precise observation.

The kind of disaster that socialism breeds, we wish to suggest, is not necessarily to be expected in the form of a sudden, collective eruption—short of an atomic hell breaking loose! Look for its results in the form of disastrous individual experiences now taking place. If disaster is not diagnosed in personal terms, there may be no awareness that it is presently wreaking its damage.

To discuss something in personal terms is to invoke moral values. And—to anticipate the thesis of this article

—the socialistic disaster is not so much the debacle which the pursuit of antisocial policies will *someday* visit upon us; it is the immoral procedures we are engaged in *right now*. This is a moral judgment aimed at present practices and not merely a warning that we face a depression. To urge that there is even now a violation of life's moral dimension is different from a prediction that certain consequences will be unpleasant. A moral judgment does not ignore consequences, but essentially it is a judgment rendered before the consequences have appeared. For, as an 1846 editorial in *The London Times* observed: "The greatest tyranny has the smallest beginnings. From precedents overlooked, from remonstrances despised, from grievances treated with ridicule, from powerless men oppressed with impunity and overbearing men tolerated with complacency, springs the tyrannical usage which generations of wise and good men may hereafter perceive and lament and resist in vain."

A Case in Point

Analyze, with this in mind, the case of those living on a fixed income. When the Widow Doakes can no longer buy the necessities of life with the competence which seemed quite adequate when Joe left it to her, her personal problem seems too trivial to merit the label "disaster." Yet, socialism, financed by inflation which in turn depreciates the purchasing power of the medium of exchange, has caused this calamity. Varying degrees of this type of individual experience exist on an enormous scale,

all due to socialism and the consequent debauching of our money.

Here is where most of us err: We fail to regard as disaster the forcible extortion of one-tenth of one per cent of an individual's earned income to finance state intervention and political privilege. This is mere pittance, and a shrug of the shoulders summarizes our feelings. Yet, we would regard, at least as an individual disaster, the forcible extortion of one's total income. If we are to comprehend disaster, we must think of the economically minor extortion of one-thousandth of a person's earnings as a 100 per cent moral disaster.

Actually, disaster occurs whenever sound principle is surrendered or violated. As this is qualitative judgment, the quantity of money involved matters not one whit. If one accepts the commandment, "Thou shalt not steal," is the commandment any less surrendered with the theft of a penny than with the theft of a million dollars?

One of countless examples: Last year one farmer was paid \$247,000 for not growing wheat. Millions of us were compelled to chip in to build up the socialistic kitty to finance this disservice. Each chip was an individual disaster—altogether millions of moral disasters in fractionized form. Multiply this subsidy by the whole shocking, growing caboodle of socialistic subsidies which are doled out to some people at others' expense, and the enormity of the national disaster can be reckoned.

It is quite understandable why socialistic disaster so largely evades observation. Most of us evaluate affairs in our own or other countries with the careless scrutiny

of tourists; that is, with the hurried, casual, unpenetrating, sweeping glance. We spend a day or so, for instance, in the capital of a country where socialism has for decades wrought its damage: Paris or Rome or Oslo or Montevideo or Mexico City. We note a bustle of activity, shops filled with attractive merchandise, restaurants serving excellent food, galleries with invaluable art, buildings of amazing splendor, and numerous other tourist delights. "Isn't everything wonderful? These, for sure, are a happy, prosperous people."

The Forgotten Victims

What we don't realize is that we are viewing only the social and economic Remainder—those persons and their activities who stay topside after all the rest have been shaken through the socialistic sieve. Unobserved are the millions who have been the victims of this riddling. These unfortunates are, in effect, out of circulation. They're no longer the ones who are seen in the marts or heard on the air or read in the press. They are a forgotten and, for all practical purposes, a silenced people. We can't weigh them on our scales, and so, more often than not, we form our impressions solely from the Remainder and their activities.

If we are among this Remainder ourselves, we are a busy and often a prosperous lot. It is we who paint the national picture for popular viewing. The painting is a reflection of what we see. And what we see is a reflection of our own still favorable experiences. Should disaster

overtake us, however, our painting days will be at an end. This explains, in part, why socialistic disaster does its work in the dark, so to speak, hidden from casual observation.

Prior to and responsible for the economic disaster visited on individuals is an erosion even less observed. It is the socialistic demolition, bit by bit, of our political and economic institutions, the pulverizing of their moral and spiritual foundations.

Gone almost entirely, even from teaching in our schools, is the very essence of Americanism, the concept that the Creator, not the State, is sovereign and the endower of man's rights.¹ No socialist or statist can, with consistency, say a kind word about our Declaration of Independence—except perhaps to praise its literary excellence—for this document derives individual rights from the Creator and proposes a government with no functions except to secure each of us in these rights.

Once our moral and spiritual foundations are destroyed, it is relatively easy to pervert our political and economic institutions. The Constitution and the Bill of Rights, designed to protect the individual citizen against the excesses of government and of the majority, have been so twisted by political interpretation that they now promote governmental excesses at the expense of the citizen.

¹ See the chapter, "Historical Approaches to Ideal Government" in *Why Not Try Freedom?* by Leonard E. Read. Irvington-on-Hudson, N. Y.: Foundation for Economic Education, Inc. Single copy on request.

And what of the free market? Willing as distinguished from unwilling exchange is its essence. Market exchange is consistent with the moral precept that no person shall do unto others that which he would not have them do unto him. But, what is willing about the forcible exchange of the fruits of one's labor for many thousands of police grants-in-aid disbursed all over the earth through socialist and communist governments? Or, to finance projects in our homeland in which one may have no interest, indeed to which one may be utterly opposed? The American market today is a politically rigged market! Freedom of choice as to what one does with one's own income no longer exists as a right. The State is sovereign and confers rights and privileges! Government has been turned from its true purpose of protecting citizens against plunder and has become the plunderer itself.

We must bear in mind that the turnabout from moral to socialistic principles has been accomplished by almost imperceptible changes, hardly a one of which has been thought of as disaster—except by a few highly discerning individuals.² But the cumulative effect is catastrophic. In concluding these ideas about the nature of socialistic disaster, and the darkness in which it is cloaked, let us reflect not merely on the millions of individuals who have been shorn of their competence and their opportunities to develop as human beings, but on what has hap-

² One of these few was the late John W. Burgess, founder and for years the head of the Political Science Department of Columbia University. See his book, written 35 years ago, *Recent Changes in American Constitutional Theory*. Irvington-on-Hudson, N. Y.: Foundation for Economic Education, Inc. \$1.00 paper, \$2.00 cloth.

pened to those other millions who are still among the Remainder. It must not be thought that these, even though still vigorously active and, to all outward appearances, prosperous, are getting off unscathed. Indeed, looked at from the long view, what's happening to this Remainder may be the sorriest phase of the spreading socialistic disaster.

In South America recently, I came upon one of the most brilliant persons it has been my privilege to meet. How is his brilliance in the economic sciences being employed? He is selling his services to people of means, demonstrating how they can evade the existing interventionism and, by so doing, become more, not less, wealthy. Interventionism has diverted this individual from the creative career that might have been his to a traffic in wealth by stealth. It is disaster when the cream of the human crop are seduced thus to employ themselves.

Here at home there are vast armies of lawyers, accountants, tax experts—with the highest of I.Q.'s—devoting their earthly existence to this same kind of trade, employing their brilliance to keep the pains of interventionism from their clientele. And, on the other hand, we observe vast armies of equally brilliant individuals serving in the "influence" trade, helping their clientele "benefit" from interventionism. And from our moral leaders and our clergy, very little rebuke for this traffic in political privilege.

Most telling, perhaps, is the knockout blow dealt the business and professional elite. Among this group are men whose capacity for abstract thought is the equal of

the best academicians. These persons are students of liberty. They understand the rationale of the free market, private property, limited government philosophy, and are sensitive as well to its ethical and spiritual implications. But however ably they may articulate this philosophy in private, how few of their number dare say publicly and bluntly that which they know to be right! They feel compelled to adopt a wishy-washy public relations position aimed at offending no one—and make no mistake about it, the forthright spokesman for liberty does on occasion offend!

Loss of Leadership

So what we get on nearly every hand from people who are regarded as business spokesmen, are watered-down endorsements of qualified “free enterprise”; “safe” rather than sound counsel, mere verbalisms and banalities designed to placate the interventionist powers. In short, interventionism seriously, widely, and effectively deletes an intellectual and spiritual quality without which a good society cannot be maintained.

Add together all the persons who acquire a vested interest in intervention, their potential moral leadership thus being lost to the cause of freedom and righteousness, and we have here a disaster of incalculable proportions. “Who can measure the nervous strain, the time and energy spent in the struggle with the market on the one hand and officialdom on the other?” asks Wilhelm Roepke. “The real reckoning,” he says, “is made in the

consulting rooms of our cardiologists and nerve specialists. Who can measure the sum total of content, satisfaction, well-being, and fulfillment that is daily and hourly being destroyed?"

Private gain of some at the expense of others—an essential tenet of socialism—is nothing short of legalized evil. Its practice, like widespread grand larceny, can be expected to result in overt disaster. But if we are unable to discern the present and continuing disaster, let's not say that the principle of retribution is no longer in operation. Rather, let us look to our own myopia.

THEY'LL NEVER HEAR THE END OF IT

by John Chamberlain



FOR almost a full quarter of a century John Maynard Keynes's famous *General Theory of Employment, Interest and Money* has hung heavy over our heads. The "Bible" of people who have certainly never plowed their way through some of its more oppressive chapters, it has bemused the subject of economics with a whole new vocabulary: "failure of demand," "marginal efficiency of capital," "propensity to consume," "liquidity preference," "the multiplier," "aggregate demand," "euthanasia of the rentier." These terms rocket through our economic literature, throwing off dense clouds of inky blackness.

It is not that the terms cannot be defined; the trouble is, as Henry Hazlitt demonstrates with great clarity in his *The Failure of the "New Economics": An Analysis of the Keynesian Fallacies* (Van Nostrand, 457 pp., \$7.50), that the great Lord Keynes fought shy of giving them any

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precision. He let most of them do duty for a variety of things, some of them highly contradictory. But when he came to putting his words into the algebraic formulae that have become so fashionable in economics since the time of Stanley Jevons, he assumed they could be translated into precise entities. Like the "expert" who figured in the late Benjamin Stolberg's comic story, Keynes had a habit of never pausing on his way as he swept forward with inexorable logic from the initial error to the grand fallacy of the conclusion.

To review in small space Mr. Hazlitt's demolition of the whole Keynesian structure is a physical impossibility. Mr. Hazlitt takes up the *General Theory* line by line and paragraph by paragraph, discovering scores of errors on almost every page. Not only does he kill Keynes; he cuts the corpse up into little pieces and stamps each little piece into the earth. The performance is awe-inspiring, masterly, irrefutable—and a little grisly. At times one almost feels sorry for the victim. But, since Keynesian doctrines have created so much misery in the world, any sympathy is misplaced. Hazlitt's job had to be done.

As Hazlitt indicates, Keynes considered that Say's Law of Markets—the law or theory that production creates its own purchasing power—did not hold true, especially in a complex modern society. But, again as Hazlitt says, the Law is in itself merely a truism. If goods exchange for goods, it is obvious on the face of things that the creation of a good puts something into circulation that can be traded for something else. The creation of the good does not necessarily guarantee its creator a profit. But,

unless the good is burned or dumped into the sea or seized by the government or stored away in a cave to rot, *it is and must be purchasing power.*

“Failure of Demand”

So what was Keynes talking about when he made “failure of demand” the keystone of the “new economics”? As Hazlitt makes plain, Keynes had to assume his conclusions despite the evidence of his own senses. In parts of the *General Theory*, Keynes accepts the classical truth that savings and investment are two faces of the same coin. But, to arrive at his “failure of demand” postulate, Keynes had in other parts of the *General Theory* to assume that savings did not flow into investment when “liquidity preference” was rampant. The limited amount of truth in the Keynesian formulations is that the time lags that are attendant upon the swings of the business cycle create momentary imbalances. But, when the economic system is free, the imbalances give way to new swings toward equilibrium. With his bias toward authoritarianism, Keynes did not like to watch people working their way out of temporary difficulties by use of their own wills, brains, and emotional drives. An aristocrat at heart, he wanted to assign the common people—Veblen’s “underlying population”—their duties and tasks as well as their pleasures.

Again and again Hazlitt pauses amid his purely technical refutations of Keynes to observe the hand of the autocrat in the *General Theory*. Keynes proposed to correct

the "failure of demand" by artificial stimulation of the "propensity to consume." Capital must be put to work by edict, even when it had no "marginal efficiency." Demand and consumption must be "multiplied" by "government investment" (a high-toned phrase for inflation or for tax-and-spend give-aways), until "aggregate demand" had created "full employment." It would not matter if private ownership were snuffed out by the continuation of such policies—the "rentier" could be left quietly to die as his capital and its concomitant income disappeared.

Keynes, says Hazlitt, is the Karl Marx of the twentieth century. His economics is demagogic—it gets its vast influence, its "dynamism," from its sly incitement to the mob to snuff out all creditors. In Keynes the money lender has replaced the capitalist as the villain.

The Keynesian appeal to demagogic passions chimes in with the contentions of certain labor leaders, that high wages are necessary to sustain "purchasing power" regardless of their relation to man-machine productivity. The Keynesian system makes no allowance for wage cuts in industries which have seen their markets shrink because of the cost-price squeeze on the customer. Although Keynes knew very well that almost all costs, in the last analysis, are labor costs, he never dared mention the possibility that a downward revision of wages in certain industries might result in an increase in the real purchasing power of labor and in a forward movement toward the full employment of all available labor. Any such admission would have left Keynes without political influ-

ence on the Left. And it was such influence, rather than a reputation for scientific accuracy, that Keynes most prized.

A basic trouble with Keynes, says Hazlitt, is that he had reverted to "block" or "lump" thinking. Despite his assumed modernity, his habit of considering himself part of *le dernier cri* among the fashionable Bohemians of Bloomsbury, he was a man of the seventeenth century, a mercantilist, in all of his preconceptions. When he wrote of wages, he forgot that wage payments are individual before they are parts of an average or a "level." He could not conceive of a situation in which the wages in one industry might be too high at the same time that wages in another industry, or sector of the economy, might be too low or too mixed. Because of his accent on "aggregates," he thought of national purchasing power as a lump.

Taking off from the Keynesian concept of "aggregative" economics, the political disciples of the Great Man have fallen into the error of supposing that anything which stimulates "aggregate demand" must add something of value to the Gross National Product. Accordingly, the manipulators of the GNP and the "national income" propose to subsidize all sorts of moribund or marginal industries and regions on the theory that this constitutes economic progress. If the construction industry is in the doldrums, why, the way to a sumptuous "national income" is to pour government money into cheap housing. If the farms of Appalachia or the Ozarks are struggling along at the same time that rich farmers in Nebraska

aren't making quite what they would like to make, why, the way to a maximized GNP is to pour "lump" money into agriculture.

It does not matter to Keynesian "block" thinkers that this is primarily a way of subsidizing backwardness and, at the same time, of choking off the possible emergence of new "ladder" industries, such as the automobile industry once was. If there had been Keynesians around in Henry Ford's day, they would have poured "lump" money into the carriage business and they would have subsidized the blacksmiths. Quite probably they would have choked off much of the experimentation that has resulted in the modern automobile and the modern highway system.

Hazlitt's book is a joyful paradox in that it successfully combines a number of ways of looking at Keynes and Keynesianism. It exposes Keynes's fallacies in broad stroke, as though Hazlitt were looking at a mountain range through a telescope. But it also exposes the fallacies microscopically. As a by-product of his inquest, Hazlitt provides us with a beautiful series of essays on the uses, the abuses, and the limitations of mathematical economics. The book is ponderous in its scope, but it is witty in its detail. Because of its technical nature it will probably never sell in the hundreds of thousands. But the Keynesians will never hear the end of it.

THE MYTH OF FEDERAL AID

by Ralph Bradford



"There is no such thing as federal aid."

To make this statement flatly, as this writer has done frequently of late in addressing audiences of business people and others, is to invite quick challenge, angered denial, or sheer, uncomprehending incredulity.

How, in the face of so much physically visible contrary evidence, can anyone in his senses make such an assertion? Clearly, the national treasury has been tapped many times; plainly, the federal government has "aided" states, regions, municipalities, individuals, corporations, and economic groups to the tune of billions.

Yet I keep making the statement—and having done so I find, as so often happens, that other men have made it also, just as flatly and literally. I refer to no less an imposing group than the members of the House of Representatives and Senate of the sovereign State of Indiana.

In January of 1947 they passed a Concurrent Resolution that brought them almost overnight into the lime-light of national attention and editorial acclaim. The Resolution was a Hoosier Declaration of Independence and Self-Reliance—*independence from Washington and reliance upon their own skills, labors, and resources.*

It was not surprising that such a document should issue from the Hoosier State where those principles of conduct that are usually referred to as the homely virtues have long been emphasized. The philosophy of eat it up, wear it out, make it do, and do without, supposedly a product of the New England *mores*, is equally at home in Indiana.

Partly, this is innate; partly, it is due to good leadership—political and economic. At a time, for instance, when many chambers of commerce were hot upon the quest for Washington handouts, the Indianapolis chamber under the guidance of its clear-visioned executive, William H. Book, was fighting to keep federal funds *out* of Indiana. At a time when many business organizations were trying to wangle all kinds of government offices for their cities, the Indianapolis chamber waged a notable battle to force the U. S. Department of Commerce to close up its Indianapolis office and go home!

A Precedent

In such an environment, it is not surprising that the Hoosier legislators, relieved from at least one of the pressures that so often push toward big government and big spending, came out with their precedent-setting Resolution. It is not surprising either that they recognized there is no such thing as federal aid!

To be sure, they might with equal pertinence have avowed that there is no such thing as state aid for the counties and communities within the state. Just as they

85th General Assembly STATE OF INDIANA



HOUSE CONCURRENT RESOLUTION No. 2

INDIANA needs no guardian and intends to have none. We Hoosiers — like the people of our sister states — were fooled for quite a spell with the magician's trick that a dollar taxed out of our pockets and sent to Washington, will be bigger when it comes back to us. We have taken a good look at said dollar. We find that it lost weight in its journey to Washington and back. The political brokerage of the bureaucrats has been deducted. 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 henceforward to tax ourselves and take care of ourselves. We are fed up with subsidies, doles and paternalism. We are no one's stepchild. We have grown up. We serve notice that we will resist Washington, D. C., adopting us.

BE IT RESOLVED by The House of Representatives of The General Assembly of the State of Indiana, The Senate concurring: That we respectfully petition and urge Indiana's Congressmen and Senators to vote to fetch our county court house and city halls back from Pennsylvania Avenue. We want government to come home. Resolved, further, that we call upon the legislatures of our sister states and on good citizens everywhere who believe in the basic principles of Lincoln and Jefferson to join with us, and we with them to restore the American Republic and our 48 states to the foundations built by our fathers.

ADOPTED BY HOUSE, JANUARY 12, 1947
ADOPTED BY SENATE, JANUARY 22, 1947
INTRODUCED BY MR. GEORGE HENLEY OF BLOOMINGTON AND MR. LOTHAIN TEECH OF HAGERSTOWN

recognized that "there is no wealth to tax that is not already within the boundaries of the 48 states," so they might have seen (and probably did see) with equal clarity that Indiana has no wealth to tax that is not already within the boundaries of its 91 counties.

However, they were not trying to write a treatise, but to assert a principle; and this they did in ringing terms that might well be heeded by the legislatures of the other states. Nor was it a mere rhetorical gesture; for when the Bill for Federal Aid to Education, refurbished as an "emergency measure," was recently up for consideration, it remained for Senator Jenner of Indiana to announce that Indiana didn't need, and therefore didn't want, the federal money; and to be sure that nobody could mistake his meaning, he put an amendment on the bill specifically excluding Indiana from its so-called "benefits."

Are these Hoosiers crazy people, or is there maybe a very sane and down-to-earth method in their apparent madness? Let us examine this question of "aid" for a moment, considering it first in its personal application.

If I want to expand a business, enlarge a home, write a book or carry on a research project, but do not have enough funds of my own to see me through, and if you make me a loan or gift of a sufficient amount, then you have aided me in accomplishing what I wanted to do.

Suppose, however, that you have no money of your own and are not capable of earning any, but that you do have a large income by virtue of possessing the power of compelling me and millions of others to pay you each year a substantial portion of our earnings. Is it "aid"

then, when you graciously hand me back, earmarked for some specific purpose, a portion of the money which I, through many years, have been paying to you?

Disregard the Taxes

This is what happens when the government "aids" a community or a state—but it is surprising how many people do not understand this. A few months ago I heard the mayor of a great city denounce as reactionaries those who expressed doubt as to the wisdom and justice of using federal funds for local "urban rehabilitation." However, he was a politician who had been nurtured in the grab-gimme-and-charge-it-to-our-grandchildren school, and his attitude was to have been expected.

Of deeper significance was the performance of a high school senior with whom I recently spent some time. This student was alert and personable but had apparently been exposed to the big-spending ideas of a "liberal" teacher. Our talk turned one evening to the matter of foreign aid, and the student at once became impatient and spoke scornfully of those who would curb foreign aid spending on grounds of economy.

Without debating the foreign aid question as such, I did undertake to explain to this student that it was not necessarily a sign of ignorant selfishness for citizens to be concerned about the economic and possible political effects of big debt, big deficits, big borrowing, and big inflation; and I defended the anxiety of the average taxpayer who is worried about the increasing share of his

earnings that is being taken in taxes. At this point the student interrupted me:

"What have taxes got to do with it? The government doesn't have to supply foreign aid out of tax money—let it use some of its other income."

Its other income! Does this sound unbelievable? Yet I assure you it happened—and before you and I begin to condemn our educational system for turning out such a poor high school product, we'd better recall that a great many adults who have gone through high school *and* college, and who have subsequently had a great deal of practical experience, express essentially the same attitude. They may not be quite so naive about the sources of governmental revenue; but the net effect is the same when they say, "Our city got this new building erected with federal money—*it didn't cost us a cent!*"

Such people might be helped to a clearer understanding of financial reality if they could be brought to remember that governments always tend to get bigger and grow more complicated. As expansion takes place, many people are employed—to collect taxes, keep records, act as policemen and soldiers, and staff the constantly increasing and proliferating agencies.

Human nature being what it is, government is under continual pressure to provide services additional to those originally contemplated or implied. Also, while those in charge of government—the men and women who are its custodians and administrators from time to time—will not hesitate to employ force to collect the imposts they have levied upon the people, they will nevertheless desire

that those who must pay shall be kept as contented as possible; and so they will invent and offer new "services" in addition to those demanded.

Some people will be given a guarantee against unemployment. In some cases, old-age pensions will be provided. It will be decided by somebody in the government that certain citizens are entitled to more liberal loans than commercial banks are permitted, not only by sound economic practice but by law, to make them; and so the government will go into the banking and lending business. It will be decided that those who are engaged in certain types of occupation require special assistance, and so their operations will be subsidized—which means that the government will take money that has been paid in by all the people and use it for the special benefit of some of the people.

Spending Brings Inevitable Deficits

All this will lead to constantly increasing governmental expenses. But the services promised sound pretty good to those who do not think beyond them to their consequences; and when actually rendered, the services seem pretty good to those receiving them; and so most people will not object too much when it is announced that their rate of tax payment must be higher to meet the increased costs which government has been incurring on their behalf. Thus, year by year, the portion of their earnings that is taken away from them increases until it exceeds

a third of all they make collectively, and in many individual cases is very much higher.

Presently a point is reached where the government is spending more than it is receiving in taxes, and it is forced to go into debt for the difference. Forced? Well, that's what is said. Of course, the government could cut down on the services; it could even eliminate some of them entirely. That is what you and I would do if a similar situation arose in our personal affairs. But people have grown accustomed to the "benefits" promised or delivered; so if the idea of retrenchment is advanced, it is put resolutely to one side by government administrators.

They justify their attitude by uttering one or more of the clichés that have become current. They remark scornfully that they don't want to go back to the horse and buggy days. They are emphatic about the dire effects of turning back the clock. They proclaim solemnly that we must not worship at the shrine of a balanced budget—thus implying that a belief in solvency is a species of idolatry.

The outcome of all this "logic" is to go into debt. This is done in several ways, the most common being through the sale of bonds to all who can be persuaded to buy them. In simple terms, the government gives to the bondholders, in return for their cash, its promise to repay them at some specified future date. Given a reasonably stable currency, these bonds are a good conservative investment; but when a government by its fiscal policies encourages inflation, the bonds at maturity will be worth less than their face value in terms of what they will pur-

chase. Furthermore, they bear interest, which adds still more to the annual cost of running the government.

Sooner or later, in addition to all the other services and financial handouts which are being given to certain individuals and groups, a new method is introduced for transferring money which has been collected from all into the pockets of some. Perhaps those who are to benefit (as they think) dream it up, or maybe government administrators themselves originate it in order to forestall dissatisfaction or criticism. However that may be, the new idea (or rather, the *added* one, for it is as old as the pyramids) works out something like this:

A Village Water Problem

Jim Brown of Brown's Corner and the two hundred people who, with Jim, make up the population of that thriving village, are faced with a problem. The water table in their area has been lowered through a number of drought years, and they need a new deep well for their village water supply.

Right here it can be argued that it is the responsibility of every householder to provide his own water and that this is not the function of government at any level. However, we are not contemplating a theory but a condition, and the condition is that the people of Brown's Corner have elected to provide their water cooperatively, through the machinery of their village government.

To have their well drilled and cased and fitted with a suitable deep-well pump and supplied with an adequate

storage and pressure tank is going to cost them, say, \$35,000. They were preparing to call an election to vote bonds and assess a special water tax against their several pieces of property, this being the normal and traditional way to finance such facilities. But then one of them has a bright idea.

"Wait a minute," he cries. "Why don't we apply to the government for the money? We can make a case for sanitation and so forth. Those fellows at Washington put it out for nearly everything else; why shouldn't we get our share?"

Hooray! A Daniel come to judgment! Here's a chance to get something for nothing! And so they come to that group of fellow human beings who are, for the moment, "the government." The need for water at Brown's Corner is quite apparent, and furthermore the Brown's Cornerites are a rather influential group in a critical political area. And anyway, if granting their request should run the budget into the red, a few more bonds can always be issued! So they get the money.

Someone Must Pay

They get the money—and there is great and gleeful rejoicing at Brown's Corner. "Oh boy," they gloat, "lookit what we did! We got our new well and all its equipment free, gratis, and for nothing. It was financed with federal money and didn't cost us a cent!"

They entirely overlook the fact pointed out by the astute Hoosiers in their great Resolution—namely, that

every dollar they received had first been paid into the central government by the people of Brown's Corner and hundreds of villages like it. Then it had been attenuated by the expense of maintaining the huge federal establishment. Finally a few anemic pennies out of each dollar paid in trickle back wearily to Brown's Corner to finance the water works—and Brown's Cornerites go delirious with joy over the "aid" they imagine they have secured!

And if it be argued that in this case the wily citizens of our imaginary village, through pressure or chicanery, have actually succeeded in getting back more than they have paid in—what can be said of them except that *they ought to be ashamed of themselves?*

For what they have done, in that case, is to compel the people of all the other towns and villages in the country to help finance a facility that is of interest and benefit solely and exclusively to the people of Brown's Corner.

The cumulative long-run effect of such proceedings is that an increasing number of other towns and villages will try to get even by putting in *their* claims; and the result is a continuing scramble to see which can wangle the biggest piece of change from the federal treasury. More deficits, more borrowings, more credit, more money, less value, more inflation, ad infinitum.

Who has benefited? Is it Jim Brown, whose yearly tax payment has probably increased while the value of his money has almost certainly decreased? Is it the president and stockholders of the Brown's Corner Knitting Mill, which must already pay out in federal taxes more than half its profits before it can return anything to those who

risked their money to get it started? Is it the carpenter or lathe operator or pipe fitter or plasterer whose taxes and living costs have been boosted and whose dollars have shrunk still further in terms of what they will buy?

We have considered this matter in these paragraphs primarily from the surface angle of cost and tax consequences. Actually, the myth is not so much that of federal aid as it is the myth of governmental superiority to free market action. It is all part of the omniscient-and-omnipotent-government fable—a fable that has often led and can lead again to bitter disillusion.

But we need not apologize for our concern with taxes and costs, for these factors, too, are at the roots of freedom. There can be no personal liberty in a bankrupt state.

There is no such thing as federal aid.

GRASSHOPPERS AND WIDOWS

by Robert LeFevre



RECENTLY a terrible scourge of grasshoppers swept into eastern Colorado and surrounding states, devouring the tender young shoots of corn and wheat and leaving devastation in their wake.

There is no question as to the seriousness of the plight of the unlucky farmers who suddenly found themselves in the path of this marauding horde. Something had to be done, and quickly.

A few of the more independent and stalwart of the planters took action. They purchased insecticide, built fire trenches, and otherwise met the infestation as men, battling to preserve what was theirs.

This was not true of the majority. Like so many helpless and dependent children, they set up a great wail for help from the government. County and city bureaucrats called on Colorado Governor Steve McNichols. McNichols called upon the President of the United States. The problem of the grasshoppers was supposed to become a matter of national concern from the rocky coast

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of Maine to the high and spume-swept cliffs of far-off California.

Over three million acres were declared a "disaster area." But some way, the federal government didn't seem to get steamed up over the plague beyond that point. Of course, state and county money was quickly allocated to fight the locusts.

We can only congratulate and thank the federal management for not taking up the plea of Colorado's governor. And in order to understand why we say this, permit us to shift the scene for a moment.

The Forgotten Widow

Here is a widow who lives, let us say, in North Carolina. She has three children she is trying to put through school. One of the children has just had a bout with measles and the doctor's bills are unpaid. She is a month behind in her rent. Her meager income, a small annuity left by her departed husband, is not enough to manage all her costs. Fortunately, she does own a few shares of stock, as so many independent Americans do. This stock does provide her with a few extra dollars of income twice a year.

However, to compound the widow's problems, yesterday her kitchen caught fire and by the time the government firemen finished the demolition job, she was facing a \$1,000 repair job. Insurance will pay about \$600 on it, and she must find the other \$400 or do her cooking out of doors.

You ask, "What has the widow got to do with the grasshopper plague?" The answer is, of course, that morally she has nothing to do with it. But because the farmers ran to the bureaucrats and the bureaucrats ran to the governor and the governor ran to the President, this widow might have been compelled to help pay for that grasshopper infestation.

Taxes on the income from her few shares of stock might have gone up next year so that the farmers in Colorado could have some bug juice sluiced out upon their fields.

We, of course, are sorry for the farmers. But we are also sorry for the widow. And if we multiply this widow by thousands, we will see the true picture that faces all of us whenever government is called upon to render help in a disaster.

Private Charity

The trouble is that all of us face our own private disasters every day. Mostly, we are ready and willing to help others whose condition may be worse than ours. But the only person who can judge whether a grasshopper-plagued farmer is in sorrier straits than we are, is each one of us individually.

The government cannot possibly have this information nor can it act on it. The government, then, is not the proper agency to assist anyone. It can only render such assistance at the point of a gun leveled at everyone without distinction.

This illustration should enlighten us as to the absolute necessity for individual initiative, even in the face of disaster. The business of "togetherness" causes all of us to sink in the face of any disaster.

Would it not be better and far more moral for each of us to handle our own problems, asking for assistance on a voluntary basis if we need it, rather than to harness the guns of government so that regardless of the problems everyone else has, they too can be compelled to share in ours?

REGULATORY TAXATION

by Hans F. Sennholz



WE often forget that the taxes levied by our governments aim not only at raising revenue but also at other purposes. Taxation today is the favorite weapon of interventionism. Federal income taxes, for instance, undoubtedly are intended to yield some revenue but they also aim to bring about greater equality of wealth and income.

Our legislators have always been aware of this "regulatory" aspect of taxation. Regulation through taxation formerly was limited, by and large, to protective tariffs which restricted the supply of certain goods in order to benefit certain producers. Today the regulatory objectives are broader and more far-reaching. Some taxes aim at influencing the consumption of certain items. Some affect various sectors of production and trade. Others change business customs and conduct. And, finally, still others aim at controlling or changing our economic system. In far too many cases, the revenue accruing to the government treasury is an insignificant side-effect of taxation.

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Taxes intended to control consumption include those on alcoholic beverages and tobacco. Legislators and government officials, concerned about the health of taxpayers, try to curb consumption by making these items more expensive. Such reasoning is dubious, however, because the demand for tobacco and alcoholic beverages is rather inelastic to price changes. People do not like to be coerced. They continue to smoke and drink in spite of taxes on consumption. Many of the legislators themselves are known to be notorious consumers of the very items they would tax out of use. These taxes, therefore, merely tend to lead to tax evasion and illegal production and trade.

Another example of taxation aimed at consumption control is the levy on oleomargarine. The producers of butter, the dairy farmers, induced Congress and several state legislatures to tax oleomargarine because they found it offered serious competition to butter. They commanded a bloc of votes which directed the government apparatus to take action against the margarine producers. In this case, as in many others, government force has been employed to restrict competition in favor of one group to the detriment of another.

Other taxes are imposed to regulate certain sectors of production and trade. Almost half of our states levy special taxes on chain stores. The avowed purpose of this taxation is to handicap chain stores and restrict competition so as to favor small dealers. Again, a large bloc of votes directs the government apparatus against some citizens who lack effective representation.

Another example of the regulatory objective of taxation was the 10 per cent federal tax on state bank note circulation levied in 1865. In order to further the sale of war bonds, the federal government chartered national banks which were authorized to issue national bank notes against government bond collateral. The state bank notes, which banks could issue under state regulation without war bond collateral, were taxed out of existence by the 10 per cent tax. The ultimate effect of this taxation was the supremacy of the federal government in matters of money and banking.

Finally, the protective tariff is a tax that interferes with production and trade. It aims to handicap foreign producers and favor certain domestic producers to the detriment of all domestic consumers. If the rates are high enough, competition from foreign-made articles may be wholly denied, giving domestic producers a monopoly.

To Improve the Businessman's Conduct

Other taxes aim to change business customs and conduct. Speculation, which is said to constitute harmful business conduct, is opposed by the central planners. They blame speculators for the economic booms and recessions which their own intervention has caused. They charge the speculator with impeding and jeopardizing the government planning and blame him for their own failures. It cannot be surprising, therefore, that they try to turn the government apparatus against the speculator. Numerous Federal Reserve regulations restrict his use of

money and credit. Speculation is further discouraged by taxes on short-term capital gains at double the rate on long-term gains.

In order to improve business conduct in matters of employment, most states apply lower unemployment tax rates to employers with relatively stable employment records. Their basic assumption is that business customs and procedures are responsible for unemployment which can be prevented, or at least alleviated, through a change of conduct. The effect of this tax discrimination, however, is quite the opposite of its intent. The industries that are most subject to losses during recessions are taxed at higher rates, which merely adds to their difficulties and increases unemployment.

A further example of this regulatory objective occurred during World War II when all wage increases paid without prior government approval were treated as corporate income subject to tax in order to force businessmen to submit to government wage controls. More recently, in order to fight the "undesirable" business custom of rebates through trading-stamps, some states imposed heavy taxes on their issue, which in fact succeeded in eliminating them in those states.

The last objective mentioned at the outset is the controlling or changing of our economic system. Of course, the other objectives also aim at changing some aspects of our individual enterprise system. But they do not intentionally aim to substitute interventionism or socialism for the enterprise system, although they interfere with the smooth operation of the economy and, therefore,

may lead to more and more intervention until socialism is realized. The taxes that are to control or change our free economic system are directed against its very foundations: the profit incentive and capital accumulation.

This ominous objective came into the open some 25 years ago when Keynesian and institutional economics swayed people's minds. Numerous schemes were advanced for "taxing the country out of the depression." In order to encourage spending and penalize savings, the tax rates on corporate revenue and large personal incomes were raised sharply. A new tax, the undistributed profits tax of 1936, aimed at checking the accumulation of corporate earnings by management. It was hoped that there would be greater spending from dividends than from corporate earnings held back by management.

The disastrous results of this new tax policy clearly reveal its fallacies. The New Deal taxes, together with a great number of antibusiness measures, aggravated and perpetuated the Great Depression, which held the nation in its grip from 1930 to the outbreak of World War II.

Progressive income taxes and business taxes diminish the incentive to work. High-income executives and professional men whose services are most urgently needed are induced to work less and retire sooner than they otherwise would. Without the pecuniary incentive, fewer young men will choose a career requiring long and costly preparation or connected with uncertainty and risk; and this tends to reduce the supply of such labor, thus impeding economic progress.

It is no coincidence that throughout the capitalist era

the most energetic and ambitious men in America went into business and became founders and promoters of successful enterprises. On the other hand, socialist and interventionist societies offer to the ambitious little choice beyond the military services, a political career, or emigration to a capitalist country.

Capital Consumed

The destruction of personal incentive is not the only ominous result; the taxes that aim at the roots of our individual enterprise system also spend and consume what generations have built and accumulated. Heavy death duties and highly progressive business and income taxes tend to consume accumulated capital. True, such taxes do not immediately and visibly destroy such capital equipment as steel mills, railroads, or refineries. But they force the heirs or owners to sell all or part of the taxed estate in order to raise the cash demanded by the tax collectors. This cash or liquid capital then is taken and consumed by governments, thus preventing other investments and expansions which would have been made if there had been no inheritance tax.

In this connection, let us consider two other results of our confiscatory death duties. While still in his prime, the man who is both successful and responsible prepares financially for his demise. The owner and operator of a highly specialized enterprise tries to avoid leaving his business to his widow or heirs and the tax collectors. His widow usually knows little of its management and opera-

tion. And she could hardly hope to sell it profitably within the short period of time allowed for tax payment. Therefore, the businessman, while he lives, feels compelled to sell out to his competitors. He can sell his business under conditions as favorable as possible and then reinvest the proceeds in readily marketable securities, such as U.S. Treasury bonds. The death duty thus eliminates an independent enterprise and channels productive capital into government debt.

The other result which flows from the peculiarity of our tax legislation is the formation of tax-exempt foundations. Under the present laws a man may irrevocably hand over all or part of his wealth to a foundation that spends it or the income for religious, charitable, or educational purposes. But he may keep and pass on to his heirs the voting rights of his wealth. In other words, by forming a foundation, a businessman and his heirs may stay in control of the enterprise although the returns are to be spent by the foundation trustees. Again funds are taken from a productive enterprise and channeled largely toward consumption.

Steeply graduated personal income taxes also reduce saving. Consumption expenditures of the higher income groups usually are less flexible than their saving. The taxes are paid chiefly out of the income which otherwise would have been saved. Often, taxpayers find they must draw upon their savings accounts, sell some of their stock holdings, or borrow from banks to provide the funds for tax payments, all of which signifies capital consumption and lower capacity to produce.

Business profits and losses are the signals of the free enterprise system. A profit indicates that the businessman is efficiently satisfying the needs of consumers. Profits not only encourage but also provide the means for expansion. Losses, on the other hand, indicate to the businessman that his costs of production exceed the market price of his products and that he must produce more efficiently or else face bankruptcy.

Taxes on profits interfere with these important signals. They weaken the signal of encouragement to a profitable business and confiscate the means needed for expansion. Thus, taxes frustrate the adjustment the market demands, destroying the dynamism of competitive enterprise, protecting inefficient operators at the expense of more capable competitors. The capitalist economy thus loses its characteristics of quick adaptability, managerial efficiency, and keen competition. The fundamental pillars of the free market are dangerously weakened by the present taxes on business profits.

There are two other taxation objectives gnawing at the foundations of our system. One aims at checking business recessions through tax changes; the other intends to prevent inflation through taxation.

After every period of active inflation brought about by government deficit spending and credit expansion, the American economy goes through a readjustment. Immediately, proposals are made to alter the tax system in order to stimulate business. The federal government is urged to increase expenditures—to “prime the pump”—and simultaneously cut taxes. The recession is attributed

to a mysterious reduction of spending on the part of consumers and businessmen, and increased government expenditures and reduced taxes are supposed to put additional spending power into the pockets of the public. Such spending is supposed to improve markets and stimulate the economy. The tax relief is granted only to lower income groups, on the theory that they are sure to spend the money, whereas tax reductions for higher income groups might only lead to more saving and hoarding.

The Result Is Inflation

There is one aspect of this spending program that is seldom considered. The additional spending power is created through inflationary devices on the part of the Federal Reserve System. Without inflation, the additional purchasing power which tax reductions grant consumers would be offset by a reduction of government purchasing power necessitated by lower revenues. If both consumers and government are to have more money to spend, only inflation can provide it. So, what these spend-thrifts advocate is inflation and monetary depreciation.

It is true that inflation may alleviate recession. It causes product prices to rise, which tends to make business profitable again. But at the same time, it has a great number of disastrous effects. The purchasing power of the money is reduced. Creditors lose; debtors gain. Fixed-income receivers suffer. Capital is squandered and malinvested. And finally, at the end of the inflation spree there must be another readjustment, another recession.

Inflation is but a temporary makeshift that breeds more disaster than it can possibly alleviate.

Inflation is the increase of the money supply by our monetary authorities. For our government to fight inflation is a simple matter; it merely must order the Federal Reserve authorities to cease and desist from further money expansions. Any other measures, such as price and wage controls or additional tax burdens on the people, merely aim at the inflation symptoms but leave untouched the source of the evil. Higher business taxes may even intensify the inflationary effects, inasmuch as they tend to restrict the output of goods. It is no wonder that American product prices are rising incessantly year after year while the money supply grows and business taxes absorb over 50 per cent of corporate earnings.

There is no prospect of relief from this situation until the American people understand that inflation comes from governmental depreciation of the money, and that the present taxes deny the incentives by destroying the fruits of competitive private enterprise.

RICH MAN'S TAX POOR MAN'S BURDEN

by Harold Brayman



FEW PEOPLE realize it, but 84 per cent of all the revenue obtained by the personal income tax comes from the basic 20 per cent rate and only 16 per cent of the revenue arises from progression. If the income presently taxed in excess of 50 per cent were taxed only at that rate, the direct loss in revenue to the government would be just \$734 million, which is approximately one per cent of federal revenue collections.

If all progression were to stop, the encouragement to new enterprise would be so great that, after a slight time lapse, net returns to the government would increase because of an expanding economy and higher revenues from greater economic activity.

Let me illustrate. Although I shall not identify him by name, but refer to him only as Mr. X, this is an authentic case of a wealthy man who was approached by a group of people who wanted him and some associates to put up approximately \$7,500,000 for a pulp and paper

Mr. Brayman is Director of Public Relations, E. I. du Pont de Nemours and Company. This article is excerpted from his address of November 7, 1958, before the Public Relations Society of America.

mill, which they proposed to build in the South a few years ago when there was an intense shortage of paper.

This was the equity capital in a total investment of \$25 million, the rest of which a financial corporation was prepared to lend. The pulp supply had been located, the project had been carefully engineered, and it showed the probability of earnings on the total investment, after interest on the senior capital, of \$2,500,000 a year. That would have been a 33 per cent return on the \$7,500,000 risk capital investment—a very attractive proposal.

But the 91 per cent income tax to which Mr. X and his associates were liable compelled them to turn it down. They pointed out that if they undertook the project, it would mean first that the \$2,500,000 annual earnings would be subject to a 52 per cent corporate tax. And then, with a normal payout of about 50 per cent of earnings in dividends, he and his associates would have had left, after paying their own taxes, a net return of 67 cents per \$100 of investment—just two-thirds of one per cent. If the entire earnings were paid out in dividends, the net return would be only 1.4 per cent. “No, thank you,” he said. “We couldn’t take the risk to get that kind of a return.” The plant never was built, and the paper it would have made is being imported from Canada.

Now, let us see who was hurt in this instance. Not Mr. X. He eats just as well as if he had gone into this venture. But the 500 to 700 people who would have been employed in the small Southern town where the plant would have been built, and which town, incidentally, needed economic stimulation, have been seriously hurt.

Some of them certainly don't eat as well because the 91 per cent tax removed all incentive from Mr. X. The small businessmen and the people of the town have been seriously hurt, because they didn't get the stimulation of a new plant with all the payroll and all the purchases that it would have made in this community.

Now, how did the government make out? Did it get any more taxes out of Mr. X? Not a dime. But if the high-bracket tax rate had been low enough to tempt Mr. X and his associates, and the project had gone through, the government would have received a 20 per cent income tax revenue on the earnings of the 500 to 700 people thus employed. It would have received a corporate tax of 52 per cent on all earnings of the corporation, and income taxes from Mr. X on any dividends declared. And this would have been not just for one year but would have gone on continuously year after year.

The point is that, when you discourage initiative, you put brakes on the economy which hurt everyone—hurt government which doesn't receive revenue, hurt people who are not employed, and hurt small businessmen who don't get the stimulation of increased sales.

Every day across this country, instances such as this occur by the scores, if not by the hundreds, although most of them involve smaller accounts and fewer people. The fact is that people in these high brackets are not interested in acquiring income subject to such a tax if they have to take any risk at all to get it.

The 91 per cent rate hurts most, *not* the people who pay it or who even pay 50 per cent or 40 per cent or 30

per cent, but the people who never come within the length of the George Washington Bridge of paying it at all—the poorest and the most desperate in the country—those who are out of jobs because of this tax.

WHY NOT PAY CASH?

by Oscar W. Cooley



OFTEN said—but never too often—is that the government has naught to spend but what it gets from the people, either directly and forthrightly in taxes or service charges, or indirectly and deviously by manufacturing new money, the value of which is taken out of the money in our pockets.

When the government taxes a dollar from me, I have a dollar less to spend for groceries and the government has a dollar more for missiles. The wealth of the nation has not been increased a farthing.

When the government gets a dollar by printing or otherwise creating it out of nothing, the people's stock of dollars is not reduced but the government's stock is increased. When the government spends this new dollar for missiles, it is plain that now, as in the case when the government gets a dollar by taxation, real wealth—steel, fuel, and the like—is taken out of the stock of civilian goods and put into the stock of military goods. The people's wealth has been reduced, but this time the people have not had to give up their dollar. They still have it. It seems they can have their cake and blow it up at Cape Canaveral, too!

But obviously they cannot. The real wealth represented by the missile is gone just as truly when it is paid for with created money as when it is paid for with tax money.

Some say this is not true when there are unemployed resources, that is, labor, land, and capital. They say that then the government spending of the newly created dollar sets to work otherwise unproductive resources so that the nation's total product is increased. This ignores the fact that the nation's entrepreneurs are continually bidding for the resources, and that if certain resources are at any moment unemployed it is because their owners are holding them for a higher price.

When the government enters the resource market with its abundant, newly created money, it outbids the private entrepreneurs, bidding up the prices of resources. The entrepreneurs, unable to afford the higher prices, "lay off" resources, and there is no net increase of employment. In fact, there may be a decrease. It is easy to see and count the resources that the government puts to work, but those that private entrepreneurs lay off are not so apparent.

If government creation of money by "borrowing" from the banks nets the economy nothing, why does Congress insist on spending more money than it taxes from the people? Taxing at least is straightforward and direct and brutal, while this other process is deceptive and devious. Anyone can understand taxing, but not one person in a thousand sees through the sleight-of-hand known as deficit financing.

Taxation Without Representation

Deficit financing and the inflation it engenders is essentially taxation without representation, a fiscal process by which the federal government filches from its people without their authorization, even without their knowledge.

When the government spends more than it currently collects in taxes or voluntary payments, as ours has done almost every year for a quarter of a century, the growing federal debt gives rise to the fiction that the burden has been postponed—passed on to future generations. Even if this were true, how could we in this prosperous era justify shifting our burden to our children? We have no cause to assume that they will be better off than we are—that they will be able to pay not only their own bills but part of ours.

But it is not true. He who thinks a part of the cost of government is being postponed by deficit financing is hoodwinking himself. If one-fourth of the real wealth produced this year is to be consumed by the government, then only three-fourths will be left for consumers, and the pain of giving up that one-fourth will not be alleviated one whit by paying for it with bonds rather than with cash.

Even in wartime, deficit financing makes no sense. When a nation goes to war—assuming that the war is supported by the people—this involves transferring the necessary part of its resources, including manpower, from the production of civilian goods and services to the pro-

duction of war goods and the fighting of the war. Hence, the consumers must pull in their belts and consume less in order that Mars may consume more.¹

Illusions of Postponed Costs

Neither the consumers nor Mars can "borrow" goods and services from future generations; they must get along on what is on hand or produced currently. We did not fight the war of 1941-45 with guns made in the 1950's. We fought the war on a currently balanced budget of goods, but we emerged from the war with a money budget unbalanced to the extent of \$275,000,000,000. This debt, which imposed on the American people an interest charge of more than \$7,000,000,000 a year *in perpetuity*, did not kill a single Jap or German. The interest, which in effect is paid by the group of Americans known as taxpayers to the group known as bondholders, neither adds to nor subtracts from the nation's wealth. But the debt, having been largely converted into money, has generated inflation to rock the economy in a thousand ways.

If the money needed to pay for the war had been collected from the people currently, this would have reduced their disposable income and its upward pressure on price levels. Hence, neither price ceilings nor rationing would have been required. All the cost of policing

¹For a more complete exposition of the economics of war, see *Human Action* by Ludwig von Mises (New Haven: Yale University Press, 1949), chapter XXXIV.

the price control edicts, all the evils fostered by "black marketing," would have been avoided.

Some believe that it would have been impossible to collect enough taxes from the people to pay cash for World War II. One of these is Professor William H. Anderson, author of *Taxation and the American Economy* (Prentice-Hall, 1951). However, he admits that the United States paid by taxation only about 41 per cent of its cost of fighting the war, while Canada and Great Britain managed to pay 50 per cent of their war expense by this method; and he adds, on page 533, "We did not approach either our psychological or taxable capacity under war conditions." Others hold that had wartime income taxes been only 10 to 15 per cent higher than they were, there would have been no postwar inflation.²

In the months following the Japanese attack on Pearl Harbor, the American people were fired to a high pitch of determination. To say that they were not willing to pay the cost of whipping the Axis nations—that the war had to be paid for largely by deficit financing—is to accuse the people of not wanting victory enough to pay for it, of being less patriotic than the congressmen who voted the appropriations.

The deficit financing by government implied that the people had to be cajoled into bearing the burden of the battle, had to be assured that a part of that burden was being shifted to the future.

And, indeed, a similar implication may be seen in the

² See article by W. J. Fellner, *American Economic Review*, March 1947.

continuing peacetime deficits. Congress feels that the Treasury must "borrow" money to pay farm subsidies, veterans' benefits, doles to house builders, foreign aid, and the like, because the people are not willing to supply cash for these purposes. And this time, Congress may be right!

Does Congress Know Best?

Assuming that the people are unwilling to pay, are their representatives warranted in stealing from them? Having found a way to raise money by sleight-of-hand—to rob the people in their sleep, so to speak—our legislators apparently are using this method to finance operations they fear the people would not be willing to support openly and directly. Through Washington's deficit spending the American people are losing control over their own wealth.

What are the motives of the congressmen? Evidently, they think it their duty to control the economy. They have so indicated in such enactments as the Employment Act of 1946. Only they, it seems, have the wisdom and capacity to manage the nation, which entails spending the nation's wealth. When the people demur, Congress spends anyway and writes it on the cuff. Government deficits are financing a burgeoning socialism.

The people's protests are feeble. Whatever the meaning of the 1958 elections, they certainly were not a rebuff to the spenders. The popular, but mistaken, notion is that a part of the cost of government pap is being shifted to

the shoulders of future Americans. The modern desire to get something for nothing—to reap without sowing—is moving the people to countenance successive government deficits during a period when, if ever, they are able to pay cash. Our generation refuses to pay its own bills. We are approaching the nadir of irresponsibility.

William McChesney Martin, Chairman of the Board of Governors of the Federal Reserve System, reports that foreigners are asking: "Since Americans clearly can afford these expenditures (of government) why don't they pay for them? That is, why don't they pay in taxes . . . instead of giving IOU's or simply printing more paper dollars?" As Mr. Martin so well put it, that is indeed "something to think about."

RUNAWAY SPENDING BRINGS CRISIS IN LOCAL GOVERNMENTS

by Lawrence Sullivan



ALL local government in the United States is in deep financial distress. Inflation is increasing costs much faster than the cities, counties, and states can find new sources of revenue.

In their 1959 sessions virtually all our state legislatures face difficult budget deficits.

The current deficit in California ranges between \$200 million and \$250 million, the final figure to be determined by administrative decisions.

With a budget of \$2 billion for New York State, Governor Rockefeller recommended an increase in the state gasoline tax from 4 cents to 6 cents a gallon, plus higher state income tax rates, and more local taxes on cigarettes. In all, new taxes requested total \$277 million a year.

In Massachusetts, Governor Furcolo asked the legislature for \$90 million a year in new taxes. "No other Governor in the history of Massachusetts ever has asked for so much in new revenues at one time," says the Massachusetts budget survey.

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An official study in Connecticut found "the big problem is how to meet growing state expenses without operating in the red."

The Idaho survey concluded, "How to raise \$15 million for schools is a problem."

From Illinois: "Lawmakers must scratch for new funds for both hospitals and schools."

Maryland needs more new revenues to finance a general increase in teachers' pay promised last year.

Michigan faces a deficit of \$65 million this year. The legislature had before it 13 specific proposals for tax increases.

Montana faces a current deficit of \$5 million.

Oregon discovered a crisis in her unemployment trust fund, plus an embarrassing deficit in her operating budget.

South Carolina faces a deficit of \$15 million.

Texas faces a deficit of \$55 million this year, and \$74 million next year, if all presently authorized programs are expanded at the rate now fixed by law.

Washington State faces a deficit of \$80 million this year.

Other states seeking new revenues to avert 1959 deficits are Alabama, Colorado, Georgia, Minnesota, Nebraska, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Rhode Island, South Dakota, Wisconsin, and Wyoming.

Washington, D. C. is no exception to the rule for cities. Early in January a committee of the House of Representatives warned the commissioners for the District of Co-

lumbia against their rapidly expanding municipal payroll. "The percentage of payroll increase in the District of Columbia has gone up in recent years far more than in any other similar city in the population class." In 1952, Washington, D. C. carried 19,676 on the city payroll; the current total is 23,421.

A 1957 survey by the Federal Reserve Bank of Philadelphia reported that state and local budgets have increased from less than 5 per cent of the gross national product in 1946, to 9 per cent for 1956.

Taxes and Debts

Almost without exception since 1953 all local and state government units in Pennsylvania and New Jersey have been operating in the red. Some now approach the limits of their borrowing power.

This Federal Reserve study relates the stormy meeting of a local school board which demanded an immediate new school.

"But ends barely meet as it is," the treasurer interrupted. "How are we going to pay for a new building? We still owe a lot of money on the gym we built in 1953. We'll have to have higher taxes before we can take on anything more."

"I don't think the public will stand for more taxes," another member of the board interjected. "We've already raised taxes twice, and people are beginning to grumble."

U. S. Budget Director Maurice H. Stans tells of a meeting to discuss a new bridge in the Midwest. Part of the

cost was to be borne by the city, state, and county, but no division of allotments could be agreed upon. "Everybody was unhappy, and there was no solution in sight until one fellow at the end of the table suggested brightly: 'Let's get the money from Washington—then nobody'll have to pay for it.'"

In 1946 state and local spending was only 18 per cent of all governmental spending in the U. S. Today the state and local total makes 36 per cent of all public spending.

Three states in the Northeast and all their cities over 25,000 population went into the red by a total of \$1.4 billions during the four fiscal years, 1953-56 inclusive.

Growing deficits in Dixie were surveyed in the January 1959 bulletin of the Atlanta Federal Reserve Bank. "State and local governments borrowed at a record rate in 1958. . . . The borrowing trend of state and local governments in the [Atlanta] District still appears to be upward. . . . The demand for public services continues unabated and, in a sense, feeds upon itself. . . . Although some new sources of revenue may still be untapped, they are certainly dwindling. . . . The time, therefore, may be approaching when the public must choose between a school or a shiny new automobile, a sewer or a new television set."

Population increase, of course, justifies some annual increase in local budgets. Since 1946 city and county populations have increased by roughly 25 per cent on national averages.

In most urban areas, per capita income has increased upwards of 60 per cent since 1946. There is hardly a

community in the country which could not afford to sustain *normal* growth in public services out of current income.

But what community can cover the pinch of inflation, when it costs \$2.46 today to duplicate what \$1.00 brought in new construction in 1945?

In 1945 hospital construction was estimated on the basis of \$10,000 per bed. Today's hospitals are calculated on the basis of \$25,000 per bed.

"Charge it!" appears to be the guiding mood of the city fathers everywhere.

Thus, budget demands have far exceeded, percentage-wise, both population growth and improvement in per capita income. Extravagance approaching public profligacy at the state and local levels is another grave factor in today's fiscal crisis. Local taxpayers must take matters in hand. In many areas, grumbling taxpayers already are looking to their political powder horns.

A revealing incident epitomizing the Wallingford spending mood of local supervisors comes to light in Montgomery County, Maryland, a wealthy and booming suburban area adjoining Washington, D. C. For many years new schools were located on 5-acre plots. Recent county regulations make the new area 30 acres per school—the legal limit on areas taken by eminent domain. In one instance the school site alone, with road frontage and storm drainage, cost \$10,000 per acre—or a total of \$300,000 before ground was broken for the new school!

Many suburban counties across the land today face critical shortages of schoolrooms. Yet scores of these same

counties already have launched junior colleges, extending public education through two or four years of college, while some of their first and second grades still are on split-shifts, or housed in quonset-type tempos.

New roads and streets necessarily deferred during the wartime restrictions on building materials, create another major problem in local finances. Since the war, auto registration has doubled in most states. But no community has yet caught up with this growth, plus the backlog of streets and highways neglected during the years 1941-46. And all this highway development postponed during the war then fell on top of a mountain of deferred extensions accumulated during the depression years 1932-42, when most cities and counties maintained their fiscal equilibrium only by avoiding all expansion and renewal of streets, alleys, and highways.

In most areas, however, these deferred highway demands overlapped similar wartime backlogs in hospitals, schools, waterworks, and fire prevention. Trying to catch up all at once, during the last decade, with 25 years of deferred demand plus a 25 per cent population increase presents the raw skeleton of today's national crisis in local finances.

First Things First

Every state and every local board faces the stern task of perfecting a slate of orderly priorities on public improvements. No community can do everything at once—today's controlling mood.

Extravagance must be curbed through alert public auditing committees of taxpayers. With federal aid available in virtually every facet of local operations, the tendency to conceal real costs from local taxpayers is becoming a dangerous national habit.

Trick budgets are strong encouragement to runaway spending. Hardly a city, county, or state in the U. S. today presents its annual budget in two columns headed *income* and *outgo*. Instead, every budget is a maze of "segregated revenues," "earmarked funds," "special purpose taxes," "statutory items," and "restricted revenues"—until the poor, befuddled taxpayer has difficulty determining whether his community is really in the black, or hopelessly overboard with "deferred capital items."

It should not be necessary for citizens to hire professional CPA's to find out what their local budgets add up to from year to year.

Honest budgets, and straight-away accounting statements published monthly by legal requirement, would permit the taxpayers to know what their master planners are doing to them from month to month.

In many urban areas today new apartment buildings are being constructed which yield to the local government roughly \$150 a year per unit in taxes. But each apartment gives, on national averages, 1.8 pupils to the public school system. Each pupil costs the county about \$200 per year. So each apartment adds \$360 a year to the school budget, and contributes approximately \$150 a year in taxes! This is jocularly called "urban renewal."

Such is the road traveled today by literally thousands

of growing communities—the very core of the ever-increasing wail for more and more systems of federal aid.

Government Takes One-third

But with the federal establishment currently in the red at \$12 billion a year, there are no longer any untapped revenues, anywhere, to supply the local deficits.

Total taxes in America today—federal, state, and local—take 28 per cent of the gross national product every year. And total government spending consumes 30 to 33 per cent of the gross national product. One reputable tax authority estimates that every employed person in America now works until April 14 merely to pay his year's taxes. Then, on April 15, he starts to work for himself and his family.

Classical theories of taxation teach that no community can sustain itself in a state of solvency when the total tax burden exceeds 20 per cent of the gross product. Americans have been paying more than 20 per cent since 1940. And today state and local expenditures combined are increasing by more than 10 per cent a year, and state and local debt since 1940 has increased at the average rate of 12 per cent per year.

Congressman Wilbur D. Mills of Arkansas, Chairman of the House Ways and Means Committee, presents vigorously the crux of the revenue problem at all levels of government: "In recent years one popular way of imagining ourselves out of this problem has been to assume that the increase in revenues resulting from the growth

of the economy will outstrip government expenditures."

Only one figure need be cited to explode this theory, Congressman Mills insists; total public debt has increased steadily from \$38.7 billions in 1932 to \$333 billions at the end of 1958.

During the same period, gross national product has increased from \$56 billion a year to the present \$450 billion.

During the last quarter-century our gross national product has been multiplied by 8 but total governmental expenditures have been multiplied by 10.

Only effective public disciplines can stop this headlong rush toward inflation, national bankruptcy, and chaos.

Obviously, we are all in for some stern local budgets.

Somehow, we must devise, at every level of government, a system of buying only what we can afford.

Economists have recognized since history began that there is no end of human wants. Only the disciplines of civilization can hold public spending within the limits of community resources. Taxpayers are now aware that many of the welfare-state luxuries devised during the last quarter-century are still carried on the cuff of the public debt.

True, some one group in every community regards each program of public service as indispensable to human felicity. Public belt-tightening means simply that each community must somehow arrive at a solid public judgment on what the local treasury can afford. Tested by this standard, every program must have a controlling *relative* importance. And that is where the public belt-

tightening must begin—at the first program, or extravagance, the community decides it cannot afford.

There is an ancient adage in political science which teaches that any government big enough to give the folks everything they want is big enough to take away everything they've got.

Local budgets are more than a fiscal problem, more than an economic issue. Balanced budgets today are a *moral* issue of the first order.

TAX DECALOGUE FOR THE WELFARE STATE

by H. P. B. Jenkins

- I ONE GOLDEN RULE LEADS ALL THE REST:
THE TAX THAT YIELDS THE MOST IS BEST.
- II LET RACKING TAXES BE REPEALED,
SAVE THOSE OF SURE AND STABLE YIELD.
- III DIVERSIFY YOUR SOURCES; WHEN
THE GOOSE IS NAKED PLUCK THE HEN.
- IV DESIGN YOUR TAX WITH SNARES AND COILS
TO CATCH EVADERS IN YOUR TOILS.
- V MAKE TAXES CERTAIN; LEAVE NO SCOPE
FOR ARGUMENT OR FOOLISH HOPE.
- VI BE FAIR TO ALL; FROM SAINT OR SOT
COLLECT NO MORE THAN HE HAS GOT.
- VII LET PAYMENTS BE CONVENIENT; WHEN
A MAN HAS MONEY, CATCH HIM THEN.
- VIII USE HIDDEN TAXES; PEOPLE FRET
WHEN THEY TOO PLAINLY SEE YOUR NET.
- IX ALLOW APPEALS FROM THOSE WHO BALK;
BUT TAKE THE TAX BEFORE THE SQUAWK.
- X SEND TAX COLLECTORS OUT IN PAIRS;
AND KEEP A TRAINING CAMP FOR SPARES.

Mr. Jenkins is an economist at Fayetteville, Arkansas.

INFLATION AHEAD

by Hans F. Sennholz



WITHIN the past four years the American economy has undergone another boom and another recession. And now again we are witnessing the numerous symptoms of a boom in its early stages. Throughout this period prices have been rising continuously.

People often believe that high prices are inflation. This is putting the cart before the horse. Inflation is legalized counterfeiting. High prices are merely the effect of inflation.

In ages gone by, governments often indulged in clipping coins. Today the methods are more complicated, but the effects are the same. Today the federal government goes into the red at a rate of 10 to 15 billion dollars and covers all or part of this deficit with new money. In the language of the economist, which sounds much less conspicuous, the government calls on the Federal Reserve System, which is its monetary agency, "to provide the bank reserves for the nation's growing monetary needs."

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What are the inevitable effects of such federal government deficits and inflationary methods of government financing? The most important although least perceptible effect is the *loss and consumption of capital*.

When the money supply is rapidly inflated, interest rates are artificially low. Many projects and expansion programs then started depend on these low rates for profitability. Therefore, when the interest rates rise again because people begin to take the monetary depreciation into consideration, these new production facilities may prove to be unprofitable. In other words, they are then called "excess capacity." Economically, they are malinvestments that cause some capital losses.

But this is not the only situation resulting in capital consumption. Through inflation the federal government consumes an ever larger part of our income and reduces our capacity to accumulate capital. Inflation lifts us into higher and higher income brackets subject to progressive income taxes. Although my income may not increase in purchasing power, inflation will lift me into higher income brackets where the government's share will be larger in percentage. Thus my real income will decline which will reduce both my consumption and my ability to save.

The government may even levy taxes on "profits" that in reality constitute no income at all. Inventory profits may be purely inflationary. And yet, the government demands a "share" which must be paid out of the net worth of the company. The inflationary profit may even hide some real losses in which case the government actually

taxes the losses. In all cases capital is consumed and production impeded by the amount of the capital lost.

The inflationary profits and improvements in income may also deceive the recipient. They may induce him to increase his consumption, which of course reduces saving. Thus income is consumed that otherwise would have enhanced the capital supply.

Those Hurt by Inflation

This inflation-induced consumption, however, is partially offset by the "forced savings" of all those who must restrict their consumption on account of the inflation. The price of consumers' goods tends to rise which fact forces some people to reduce their consumption, especially all fixed-income receivers such as the aged living on pensions and fixed benefits or people with stable salaries or interest income. But this offsetting effect is only partial because it does not offset the capital consumption but merely the additional spending by the holders of the inflationary money.

The "forced savings" clearly reveal that inflation inflicts losses on all fixed-income receivers. In addition, there is another important class of people that suffers losses: the creditors. They have claims on future money income which inflation reduces in purchasing power. For instance, a bondholder loses if the money he receives in the future is of lower value than he himself paid for the purchase of the bond some time in the past. The same is true of all owners of money and claims to money,

such as time and demand deposits, life insurance policies, mortgages, and so forth.

Many people don't feel concern about these losses of creditors because they erroneously believe that the rich are the creditors and therefore suffer the losses. This may have been true during the Middle Ages when the large majority of the people earned very little as compared with today and consequently also saved very little. In present-day America, however, the large majority of the people own some savings in the form of life insurance, savings accounts, government savings bonds, etcetera. Consequently, it is the masses of the people who are apt to suffer from policies of monetary depreciation. The rich in general are the owners of businesses, corporate stock, real estate, and other claims to real wealth.

The fact that the majority of the American public is suffering from the effects of monetary depreciation has far-reaching consequences.

The provident are penalized when their thrift and sacrifice come to naught. Deprived of the full worth of their savings and jeered at by the spendthrifts, they turn improvident themselves. They become desperate and receptive to radical ideas. Along with the spendthrifts they learn to throw themselves on the State for security and support. Thus self-reliance and independence become rare virtues and people are conditioned to life under the Welfare State. Our present trend towards socialism clearly feeds on inflation.

While monetary depreciation robs millions of people of their hard-earned savings, it enriches some people at

the expense of all others. Who are these beneficiaries of inflation? There are the immediate recipients of the inflation-created money. Let us assume that the federal government spends it on arms and ammunition. Then the armament producers and their workers have more money and purchasing power than they would have otherwise. Or, the government may increase the salaries of its army of employees, the handouts to its favored groups, or its payments to public works contractors, in which case these groups are the recipients and beneficiaries of the new money. Whoever first receives the money that is newly created gains from the money creation.

But these groups of people are not the only beneficiaries. There are two others. When the first recipients of the new money have spent it and consequently have caused the prices of some goods to rise, the sellers of these goods profit from higher prices. While the rest of the economy has not yet adjusted to the inflation, the sellers of the inflation-affected goods obtain higher prices although they may still be able to buy their goods and materials at pre-inflation prices. The difference is the inflation gain.

In other words, a person profits from inflation if his position in the economy is such that he can sell his products or services at higher prices and buy the products and services he needs at the old prices. On the other hand, a person loses if he must buy in the inflated market but sell in a market that remains temporarily unaffected by the inflation. It is obvious that these situations are only temporary. They come to an end when the new money

supply has reached all sectors of the economy and the necessary economic adjustment has run its course.

Finally, there is the large class of debtors who gain from monetary depreciation. As the federal government is the greatest debtor in the country, it is also the greatest inflation profiteer. It gains billions of dollars through monetary depreciation of its debts. And the bondholders who have entrusted their savings to the government annually lose the very amount the government gains. Monetary depreciation in fact amounts to gradual repudiation of the government debt.

Another disastrous effect of a policy of monetary depreciation is the recurrence of economic booms followed by sudden busts. The inflation at first makes for feverish economic activity. Prices rise and business profits are attractive. But soon also labor and other costs tend to rise. They soar until business becomes unprofitable at which point the recession begins.

If the government through its monetary agency, the Federal Reserve System, accelerates the inflation, the downturn can be avoided temporarily. For as long as product prices rise faster than business costs, business will stay profitable. Of course, the ultimate outcome of such a policy of accelerated inflation must be the total destruction of the currency. If, however, the money is stabilized and the Federal Reserve refrains from further inflation, the currency is saved but a recession sooner or later sets in.

The recession usually develops one to two years after the inflationary policy has been abandoned. There are

two reasons for this delay. First, business costs are slow in catching up with product prices. Wages and salaries, for instance, react to inflation more slowly than the prices of consumers' goods. If business costs rose simultaneously and to the same extent as product prices, if for instance, all wages were immediately adjusted to the cost of living, the recession would follow the inflation immediately.

Accelerated Spending

The second reason for the delay is what in bad economic terminology is called "the rising velocity of money." During the period of active inflation people realize that prices are rising. They now begin to reduce their cash holdings. They buy readily and quickly in anticipation of higher prices. They may even go into the red in order to take advantage of present prices before they rise again. Consumers' indebtedness increases by leaps and bounds, and billions of dollars of savings accumulated by banks and other savings institutions are channeled toward consumption.

It is obvious that consumers' prices must rise because of such an inflationary sentiment which constitutes a natural reaction to the actual inflation. And it is also understandable that this reaction may even continue after the Federal Reserve inflation has come to a halt. Thus we can witness a short period in which our monetary authorities refrain from inflation but prices continue to rise and the economy evidences all symptoms of inflation. The inevitable recession and readjustment

finally sets in as soon as more and more people realize that the inflation has temporarily come to a halt.

This slow reaction to a policy of monetary stabilization, which constitutes the source of many economic errors and fallacies, could actually be witnessed in the years 1956 and 1957. The active Federal Reserve inflation was abandoned in 1955, and yet, prices continued to rise on account of people's reduction of cash holdings and increase in consumers' indebtedness. When, during the latter part of 1957, it became clear to more and more people that the inflationary policies had been abandoned, cash holdings began to increase again and the increase in consumers' indebtedness began to slow down. This development together with the other recession reasons mentioned above then led to the recent business downturn.

Some people erroneously believe that inflation affects the economy simultaneously and uniformly. The notion prevails that inflation increases prices like rainfall raises the water level of a pond. This notion is as fallacious as it is popular. In reality inflation causes price upheavals. It affects prices and wages differently and at different times. As has been pointed out, some industries and their workers may actually benefit from inflation if their money income increases before other prices have risen. Other industries are bound to suffer losses if they must continue to sell their products and services in markets still unaffected by inflation but buy products whose prices have already risen on account of the inflation.

People often don't realize this. Especially are our labor

leaders prone to forget it when they clamor for wage increases regardless of inflationary effects. They observe wage improvements in other industries that benefit from inflation and consequently feel obliged to obtain the same improvements for their own members. If this happens in an industry that actually suffers from inflation, the ensuing union demands merely add to the woes and troubles of the industry. And labor dissatisfaction and unrest usually result.

The product prices of some industries such as railroads and public utilities are controlled by various government regulatory bodies. Experience shows that these industries suffer greatly from inflation. While their costs of operation, especially labor and material, rise on account of inflation or union pressure, their own prices are subject to government supervision. The regulatory bodies, however, like to keep prices stable often in order to "counteract" inflation. Consequently, such an industry is squeezed between rising operating costs and stable prices of its own products or services, which of course results in losses and consumption of capital. Usually these difficulties then lead to more government regulation and supervision.

The most tragic of all inflation effects is our tendency to advance further toward socialism. When prices rise and people suffer through no fault of their own, they clamor for government protection from inflation. But they often mistake the symptoms of inflation, the rising prices, for the real inflation which is the Federal Reserve increase of the money supply and of bank reserves. Thus

they favor remedies that would merely attack the symptoms while the roots of the evil are left untouched. This mistake is often made during the period that immediately follows the active Federal Reserve inflation when people continue to decrease their cash holdings and increase their indebtedness. During this period of rising prices our monetary authorities correctly point to their idle printing presses but mistakenly deny all responsibility for the inflation.

The Hair of the Dog

The public cry for government protection from inflation appeals to the very institution that alone can inflate and depreciate our money. Only the federal government through its agency, the Federal Reserve system, can print money and inflate the money supply. You and I would be held punishable for counterfeiting if we were to produce a single dollar bill.

But while we appeal to the government for protection from inflation, we condone the very policies that are inflationary. We condone the budgetary deficits of 10 to 15 billion dollars and the "stimulation" of the economy through Federal Reserve credit expansion. This contradiction obviously must lead to government policies that continue to be inflationary. And it must lead to a "fight" that is aimed at the symptoms rather than at the inflation itself. But according to all rules of semantics, when the government fights rising prices through price controls, wage controls, and a series of other controls, our

system of economy ceases to be free. It falls into the abyss of socialism.

What are the causes that induce our monetary authorities to embark again and again upon inflationary adventures? Most people pretend to oppose inflation. And yet they clamor for the things that make inflation inevitable.

In an analysis of the present-day American predilection for policies that make inflation inevitable, the following two groups must especially be mentioned as having successfully pressured our monetary authorities into easy-money policies on their behalf.

The first pressure group consists of those people who continuously clamor for federal aid and spending for their own special interests. There is the Farm Bloc insisting on farm supports, government buying and storing of food, giving it away to foreign nations, or throwing it on the world market at lower prices than we Americans have to pay. There is the soil bank which is a scheme of government subsidy for work not done.

If all these funds were raised by taxing the people, no inflation would result—merely a shift of spending power from the pockets of all taxpayers to those of the farmers. Often, however, our government is afraid to present us with the true bill for its lavish spending on the pressure groups. Running deficits, it borrows the funds from the banks which in turn have received the necessary reserves from the Federal Reserve. This, then, constitutes inflation.

But there are not only the farmers who constantly clamor for federal aid and support even if the money

must first be created, but also many other groups in high public repute. There are the veterans' organizations constantly pressuring the government for more liberal pensions and other costly benefits with utter disregard for the source of the money. Hundreds of thousands of healthy veterans are still receiving government educational help. The Veterans' Administration has guaranteed or insured \$23 billion worth of home, farm, or business loans. It has loaned more than \$700 million directly. All in all, total federal spending for veterans amounts to approximately \$5 billion annually, or about seven cents of each tax dollar. Nearly one-fifth of all federal spending other than for rearmament goes to the veterans and their families.

If all this money is raised through taxation, no inflation results, merely a transfer of \$5 billion from the pockets of all taxpayers to those of veterans and their families who make up approximately one-half the American population. But whenever the federal government operates at a deficit on account of these and many other spending programs, the necessary funds usually are made available through currency expansion. The fact that the veterans' organizations nevertheless insist on costly benefits regardless of the effects on the nation's currency and economy, makes them a dangerous pressure group for inflation.

There are the pressure groups advocating multibillion dollar foreign aid programs, federal road construction programs, public utility programs, federal housing programs, and many others. Again, all these schemes would

not be inflationary if all the money were raised by taxation. But in most years since 1930 the federal government operated with large deficits, the funds for which were made available through credit expansion.

The Social Security Burden

There is one spending program standing high in the public mind that in the future will constitute a powerful reason and excuse for inflation, although in the past it even counteracted inflationary ambitions. This is the social security program. Since January 1, 1937, an ever greater part of the working population has been taxed to finance the Federal Old-Age and Survivors Insurance. For more than 20 years the annual intake of the Social Security Administration exceeded the benefits paid out. Consequently, a surplus of more than \$20 billion resulted that was merged with other tax revenues and spent by the government. It is obvious that this amount helped to pay for the various New Deal programs and thus prevented the government from inflating the nation's currency by this very amount.

In the future the situation will be quite different. An ever larger number of taxpayers is reaching retirement age and drawing old-age benefits. But this is not the only reason for an expected rise in outlays. Since 1939 the benefits were broadened to provide for wives, widows, and dependent children of retired workers. Payments were increased repeatedly in order to assure adequate support. Each worker's old-age claim is no longer based

on the amount of his contribution, but on our politicians' definition of need and adequacy.

This criterion for benefits has led, and must lead in the future, to costly revisions of the program, especially when the costs of living are rising. Each political party is tempted to bid for the votes of the aged through higher old-age benefits. Consequently, rising expenditures will require much higher taxes and, in case the revenue should not be forthcoming promptly and sufficiently, also monetary expansion. The social security program, which in the present fiscal year is expected to suffer its first deficit, therefore will constitute another reason for inflation and monetary depreciation.

Our labor unions comprise the *second* important pressure group advocating inflationary measures. Through collective bargaining, strikes, and many other methods of coercion they tend to lift wages above the rates determined by a free labor market. But whenever wages are forced above those determined by competition in the market, unemployment inevitably results. This in itself constitutes no inflation, merely a maladjustment. But then the very unions that bring about these harmful effects begin to clamor for federal aid and easy-money policies. Through their influence on public opinion and their connections in Congress they pressure the Board of Governors into inflationary money policies to provide relief for their depressed industries. We can observe this phenomenon in all industries in which there are powerful labor unions.

Until recently the American residential building indus-

try, for instance, has been working at less than 70 per cent of capacity. For years powerful unions have pushed building industry wages far above free market wages, which fact raised housing prices considerably. And while prices were rising, the demand for houses declined. Unemployment of capital and labor resulted. Now, instead of shouldering the responsibility for this maladjustment, the labor unions clamor for easy-money policies which would supply the mortgage money needed to sell more homes at higher prices. In other words, they ask for inflation as a cure for maladjustment.

Even during recessions when business suffers from unprofitableness labor unions continuously raise business costs. Consequently, they increase unemployment. A comparison between the unionized North and the South with its less harassed labor relations clearly demonstrates this causal connection. Where are the 5 million workers who presently are unemployed? They live in the industrial North that is plagued by union activities. They live especially in the union strongholds, in Chicago, Detroit, Pittsburgh, New York, New England, and so forth. And where did the last recession have its most depressive impact? Every objective observer will agree that it is the unionized North that breeds recessions.

Facing the dilemma of mass unemployment, our Washington administration is called upon to remedy the situation. It has two alternative policies at its disposal. It may oppose the multiplicity of coercive labor union practices through revoking the legal sanctity which New Deal legislation has bestowed upon unions. Unfortunately,

this alternative is not open to the large number of congressional representatives who owe their election to the labor leaders.

The other alternative is much more popular. Whenever the country suffers from unemployment due to coercive union practices, our government immediately comes to the rescue of the labor unions and their dominated industries through easy-money policies. It rescues the building and construction unions, for instance, through more government guarantees, easier terms of payment, lower rates of interest, and other "stimulating" measures all of which result in inflation.

In this respect inflation is a political expedient resorted to by weak administrations. It is a device that hides temporarily the evil effects of coercive union practices. But while it does this, it bears its own formidable effects.

INFLATION IS A BURGLAR

by Samuel B. Pettengill



WHEN I was a boy in Vermont, there was a year when the apple crop was so huge that the apples did not bring enough to pay for the barrels to put them in. All we could do was to turn the hogs loose in the orchard to eat their fill.

This was hard luck, but not deflation. Contrarily, freezing weather in Florida last winter made oranges scarce and their price high. But scarcity or glut of one commodity or another is not inflation or deflation, even though it makes the price of the commodity rise or fall.

Nevertheless, these apples and oranges illustrate an important way by which inflation causes a *general* rise in the price of nearly all commodities, like groceries, or services, such as pulling teeth or hospital care. Such a general price rise has no necessary connection with the scarcity or glut of commodities or services.

Under "runaway" inflation, the cost of hospital care would be sky high even though hospitals were as thick as service stations.

Mr. Pettengill, noted attorney and author, was formerly a congressman from Indiana. This article first appeared in the June 1958 issue of *The Pure Oil News*.

Inflation, which makes practically all prices rise, has been chiefly due in recent years to an excessive increase in the money supply which distorts the price balance between money and commodities.

This can be seen clearly if we were to imagine a government decree which made every leaf on the trees a "dollar." As you raked up bushels of these leaf dollars, what would happen to prices?

No government has ever made dollars out of leaves, but dozens of governments have made "dollars" or marks or francs or rubles out of paper which can be made from leaves! In short, paper money can be made as worthless as leaf money.

Prices move up during inflation because the value of money goes down, due to an oversupply. This fools millions of people. They can easily see prices go *up* because a price tag is fixed to whatever they buy, but they cannot see the value of money in their pocketbooks going *down*.

Because this "sleight of hand" fools people, during inflation practically every consumer blames the producer, farmer, manufacturer, middleman, or merchant for the rise of prices, just as some people blame the oil companies for even the small increase in the price of gasoline today.

This causes hard feelings between the different economic groups in a country, a demand for price and wage controls, and in some countries even revolution.

The terrific inflation in Germany in the 1920's was a big factor in the rise of Hitler to power, which finally

cost us billions of dollars and the blood of our own sons.

Yet the German inflation probably caused *little or no change* in the exchange value of one commodity for another commodity. If a bushel of potatoes exchanged for a bushel of sugar beets in a German town before the inflation, it is likely that they still exchanged, bushel for bushel, at the height of the inflation, even though a bushel of potatoes or sugar beets was "worth" a million marks!

In short, commodities probably did not rise in Germany *at all!* It was only the German mark (money) which fell to zero in value by reason of the glut of marks. This was due to the government running the monetary printing presses night and day, not to the producers or dealers in commodities.

It can, I think, be laid down as a universal rule that all inflation is caused by the acts or politics of government, among which is any large increase in the debts of the central government. A large increase in government debt by borrowing at the banks creates a glut of money, which causes money to lose value just as each apple lost value when there was a glut of apples. (Why government debt increases the money supply requires more space than the editor has available in this issue.)

However, it is plain that no government will permit any private person (counterfeiter) to manufacture dollars. Consequently, a large permanent increase in the dollar supply which reduces the exchange value of dollars for commodities and services is always due to actions taken by the government—not the people, except that be-

cause so many do not understand inflation, the people permit the politicians who run the governments to proceed with their sleight-of-hand magic.

Savings Lose Value

Now then, why is inflation a burglar robbing millions of hardworking people while they sleep? It is because most of what we save during our working years, other than a home, is in the form of life insurance, company pensions, government bonds, social security, and savings accounts payable in a fixed number of dollars. As inflation proceeds and dollars lose purchasing power, all of these savings lose value.

Since 1940, inflation has eaten away 200 billions of dollars of these nest eggs, and right now is doing so at the rate of billions of dollars a year. While we continue to work, most of us can keep abreast of our losses from inflation. But sickness comes, and old age advances when you no longer can work. The dollar is now worth less than at any time since George Washington's day.

If the government had taxed you what you have lost in the value of your savings, you would raise Cain. What we need to know is that inflation is a hidden tax, with *no* exemptions or deductions! It is, in fact, the cruelest of all taxes because it falls on the poorest the hardest.

This is a serious subject. But we can still get a laugh out of it. Before inflation hit Germany, an old man was put in an insane asylum. At the height of the inflation he was declared sane, given back his purse with a few

old coins in it, and told to take a cab to his brother's home. When he got there, he asked what the fare was. The cab driver said, "200,000 marks." The man said, "That's more money than I ever saw. I can't pay."

The driver said, "Let me see what you have." So the man opened his purse; the driver took out a coin and gave him 1,000,000 marks in change!

The poor old fellow said, "Take me back to the asylum. I'm not cured after all."

The only cure for inflation is public understanding which will demand sound money.

HOW LABOR UNIONS "CAUSE" INFLATION

by Leonard E. Read



*And now remains
That we find out the cause of this effect;
Or, rather say, the cause of this defect,
For this effect defective comes by cause.*

SHAKESPEARE, *Hamlet*

LABOR unions "cause" inflation in precisely the same manner as do chambers of commerce, the National Council of Churches, thousands of other organizations, and millions of individuals who call themselves Republicans, Democrats, Socialists, and Communists.

Labor unions, like many influential groups, cause inflation by exercising their power to extend government beyond the point where sound financing is politically possible.

Why should we seek to understand how labor unions cause inflation? In order to see how most of the rest of us cause it! Looking into labor union behavior is like looking into a mirror for millions of us. We may not believe what we see, but it will be an accurate reflection, nonetheless.

It can be truthfully said that *people* cause inflation,

but people do many other things besides. Thus, if we would stop inflation, we must know precisely which actions of people bring on inflation and which ones do not. So with labor union practices, we need to know which of these are inflationary. Otherwise, we may be criticizing labor unions on the wrong count while we ourselves innocently follow practices which bring on the very inflation we so stoutly deplore. We cannot hope to stop inflation until we know its causes—and the real causes will elude us as long as we chase after fictitious ones.

Those who blame inflation on the incessant, persistent, coercive drives of labor unions for higher and higher wages are on the wrong track. Such coercion is not to be condoned, but it is not a direct cause of inflation. For instance, if your gardener issues an ultimatum that you pay him \$100 a day or else he will quit and forcefully keep any other person from taking his place (the labor union device in principle), you are right to condemn his action, but you are wrong to call it a cause of inflation. What you can say is that you may go broke if you give in to his demand, or that he may be unemployed if you refuse. The same results follow, except on a larger scale, when a million gardeners act in the same way through a labor union. Inflation *is not* one of the results of such action, except in an indirect way.

Like most organizations, labor unions have aims they cannot attain, make claims for deeds they never achieved, and get blamed for sins they never committed. For example, labor unions try to claim credit for raising wages. But, regardless of their claims, unions have had no more

to do with the general level of wages than with the general level of the seven seas.¹ They have, it is true, succeeded in obtaining increases for their members at the expense of nonmembers; they have destroyed property and done other damage to their employers; and they have thrown many of their own members into unemployment. But their coercive wage hikes are not the immediate cause of inflation. It's another action of unions which supplies the inflationary spark.

Let's dismiss the labor union subject for a moment and examine inflation. What is it? Inflation is merely an increase in the money supply. The *process or act* of diluting the medium of exchange is inflation. Brutally, but nonetheless accurately, inflation is legalized counterfeiting. Inflating the medium of exchange—everything else being equal—will result in higher prices. But the rising price trend itself is not inflation; it is only one of the possible consequences of inflation. It is of supreme importance that we know the difference between cause and effect.

Assigning causation to any result is difficult, at best. My ears are injured. The injury is an effect. What caused the injury? A deafening sound. What caused the sound? Vibrations. What caused the vibrations? Dynamite. What caused the dynamite to explode? And so on. We find that cause underlies cause *ad infinitum*.

Inflation, like the ear injury, is the effect of a sequence of causes that go deeper than we are capable of explor-

¹ For a confirmation of this fact see *Why Wages Rise* by F. A. Harper. Irvington-on-Hudson, N. Y.: The Foundation for Economic Education, 1957.

ing. However, the cause that immediately underlies the effect—inflation—is plainly observable. Inasmuch as government has sole responsibility for our monetary system, *we can easily see that government causes inflation.*

An Opiate Form of Taxation

But what causes government to inflate the money supply? Again, the answer is simple enough: Government meets its costs of operation by taxation. There is no other method. Now, if the costs of government become so high that it is no longer politically expedient to tax by direct levies, an indirect form of taxation will be utilized—inflating the money supply!

In most countries throughout history the direct tax levy has been politically expedient up to a 20 to 25 per cent “take” of the peoples’ earned income. After this point, in most instances, the direct levy becomes repugnant to the citizenry and thus politically impossible. The people just won’t stand for it any more! What to do? The answer: Inflate the money supply, an opiate form of taxation. At first, it feels good and secures the politicians’ popularity. The fact that it assures long-range disaster is a problem for the next generation! Indeed, inflation, as a rule and for a time, is a well-received form of tax. To the economically naive portion of the population it is a way to “have their cake and eat it too.” In short, they see inflation as a means of escaping direct governmental levies without giving up the “benefits” of governmentally guaranteed welfare and prosperity.

This particular subcause of inflation can be summarized as follows: Whenever the federal government can collect no more by direct tax levies without risking political suicide, it will print money to pay its bills. The fact that the current procedure involves monetizing the debt through the central banking system doesn't make it a new procedure; it only becomes more difficult to understand. This complex scheme is no different in principle from calling in the coin of the realm and shaving off some of the precious metal—"coin clipping"—as was done of old.

Very well. We must now examine the next underlying cause. What causes the expenses of government to be so high that they cannot be paid by direct tax levies? Pressure group demand for government handouts, sometimes called "services"! In ideal theory, government is supposed to be the protector of life, liberty, and property. It shouldn't be accessible to any group for largess or special privilege. But today, it's open sesame; the bars are down. There isn't a gold standard or any other discernable standard. Indeed, government in the U. S. A. not only invites but insists that its treasury be raided. Spend-thrifts and a dangerous number of bureaucrats have become identical twins. Except in a few isolated instances, one no longer hears government officials ask the question, "Where's the money coming from?" Nor do they openly admit, "We'll inflate, print money, to pay the bills." To speak truthfully of such wrongdoing would be to renounce political aspirations, and all politicians know this.

However, government behaves in accord with the thinking of the people who organize it. If they be lax and predatory in their ways, their government will fairly reflect these ways. Therefore, it is the thinking of the people—at least those in positions of leadership—that must be examined if we are to explain this third underlying cause of inflation.

The actions of labor unions are based pretty much on the thinking of their leaders. Their whole philosophy can be summarized by a statement in an AFL-CIO pamphlet (Publication No. 41):

“Through their legislative activities, unions have consistently championed measures to improve governmental benefits for various groups of citizens, without regard to whether the beneficiaries are union members or not.”

Going through their publications, one finds them supporting more government aid to foreign countries, *government guaranteed full employment*, federal aid to education, more government housing, more compulsory social security, government ownership of power and light facilities, federal aid to so-called distressed areas, and on and on and on.

Labor unions are politically influential. In large measure they get increased federal activity on projects they sponsor. Their coerced and uneconomic wage hikes cause unemployment. Then they use their pressure for government guaranteed full employment which adds billions to the costs of government. It is precisely this successful pressure on government that is the effective subcause of inflation. *This is how labor unions cause inflation.*

In principle, if not in degree, the social action program of the National Council of Churches resembles the labor unions' program—the assumption by government of more and more responsibility for the welfare and prosperity of the people. The National Council of Churches is influential. The governmental activities they sponsor cost money. *This is how the N.C.C. causes inflation!*

And, chambers of commerce? Only a few in the whole nation have refrained from running to the federal pawagon. Federal aid for roads, hospitals, airports, and so on and on and on. Chambers of commerce are influential. The things they succeed in getting cost money. *This is how chambers of commerce cause inflation!*

Millions of citizens from all walks of life cause inflation in the very same manner. And all of them, along with labor unions, the National Council of Churches, thousands of other organizations, including chambers of commerce, loudly decry inflation and demand that the fire be put out as they add fuel to it!

We now come to that cause of inflation which is fourth in depth. What causes so many people to act so contrary to their own and the general interest? In short, why do they do things in the political collective they wouldn't think of doing personally?

Who can be certain? The more one studies the problem the harder it seems to pinpoint the exact cause. No less than a dozen occur to me. Economic naivete is one. But what causes otherwise responsible persons to be so inattentive to study and reflection on a matter this serious?

With an enormous evidence all about us that warrants a faith in free men, more and more persons are putting stock in a political apparatus that can do nothing more than take from them, giving back less than it takes. Why this decline in a sense of values?

Much of the world-wide surge into collectivism has rubbed off on our erstwhile free enterprisers. Why this softness among Americans with their reputation for hardheadedness, this caving in to the wiles of political medicine men?

Certainly, there has been an almost total failure to identify the free market, private property, limited government way of life with moral and spiritual ideals. Why this myopia when the moral basis for liberty is so obvious?

The Possibilities of Self-Improvement

There are many other plausible causes. I wonder, however, if all of these wouldn't tend to fade away were more of us to turn our eye inward, looking to an improvement of our own understanding. Admittedly, this doesn't seem as easy as seeking solutions through organizations or by the reforms of others or by waiting for some "leader" to appear. Isn't there a requirement for candor, for an integrity of personal conviction—an accurate, open reflection of what the conscience dictates as right—that is not now sufficiently prevalent? Leo Tolstoy suggested what would likely follow the change of emphasis urged here:

One free man says truthfully what he thinks and feels in

the midst of thousands of men who by their words and actions are maintaining the exact opposite. It might be supposed that a man who has spoken out his thoughts sincerely would remain a solitary figure, and yet what more often happens is that all the others, or a large proportion of them, have for long past been thinking and feeling exactly the same, only they do not say so freely. And what was yesterday the new opinion of one man, becomes today the public opinion of the majority. And as soon as this opinion becomes established, at once, gradually, imperceptibly, and irresistibly, men begin to alter their conduct.

Labor unions can cease those collective actions which contribute to inflation, as can chambers of commerce, the National Council of Churches, the Republican and Democratic Parties, and other organizations. However, it is their members acting with intellectual integrity and as self-responsible individuals who can take positive steps to stop inflation. They can refuse to serve their own pressure groups in the advancement of socialism, communism, the Welfare State, and the other robbing-Peter-to-pay-Paul schemes which cause the government to cause inflation. In short, they can stand in defense of individuals—all individuals—in their God-given right to their lives, liberties, and properties.

A MERCHANT'S APPRAISAL OF INFLATION

by Hughston McBain



It was midnight when my cab pulled up at the hotel. I had had the taxi since early morning. I opened my suitcase and counted out 71,250 marks. This included a 5,000 mark tip for the driver. He was delighted and thanked me profusely. How could he know that the total cost to me for his cab, gasoline, and services for that 16-hour day was only 57 cents? Naturally, he could think only in terms of his own money. To him it looked like a fortune for a day's work. The time was October 1922—the place Berlin. The value of the paper I had given him expressed in terms of prewar marks was about \$14,000!

I spent three months in Berlin that year. Prices were rising with such rapidity that no merchant could open the doors of his establishment much before noon. He had to reprice each item every morning!

One evening I took some German friends to the Adlon

Mr. McBain retired in 1958 as Chairman and Chief Executive Officer of Marshall Field & Company. As a veteran merchant, a world traveler, and a keen observer of economic affairs, he is well qualified to discuss inflation. This article first appeared in two installments in the *Chicago Sunday Tribune*, March 15 and 22, 1959.

Hotel for dinner. Despite my urging, they would order no meat. I explained that meat would cost me practically nothing. To them I seemed to be paying \$900 for a sirloin steak!

I lived through many months of German inflation—and I learned a lot. The German people seemed unable to grasp the fact that the loss in the value of their money was bringing ruin. They thought only in terms of high prices ascending to astronomical new heights every morning.

Years later, another time and place made an indelible impression upon me. I was having dinner with our Italian agent in Florence. The year was 1947. World War II had come and gone. Another country had been hit by disastrous inflation—though not of such proportions as the one in Germany during 1922-23. This night in Italy our dinner check totaled 6,000 Italian lira. To my Italian guest, thinking in terms of his country's currency before the war, I was spending \$1,250 on dinner for two! If in the not too distant future a similar situation develops in America, I am certain most of us will be deploring "high prices" rather than correctly blaming our rotting dollar for the disaster.

I asked this Italian agent what he had done to protect himself from the scars of inflation. He told me he had saved regularly 20 per cent of his earnings during 40 years of business life. I asked him about life insurance. Yes, he had started a program many years ago and most of it was paid up. He told me of his expectation that his life insurance would enable him to retire in comfort.

Now that retirement was close at hand, he said, there was no question of default; the life insurance companies were paying their claims in full, as promised, in Italian currency. But—and tears came to his eyes—instead of providing lifelong security for his wife and children, his entire insurance proceeds would now buy a supply of food for only three weeks!

My Italian friend, like my German friends, could think only in terms of very high prices.

I do not pretend to be an economist. But I do know something at firsthand about inflation. Personal experiences such as these show how tragic its effects can be. Since my vivid experiences in Europe, I have studied the causes and effects of inflation with compelling interest.

Perhaps the greatest story ever written on the subject is entitled *Fiat Money Inflation in France: How It Came; What It Brought, and How It Ended*.¹ It was written by Andrew D. White, the first president of Cornell University. Despite the fact that the French inflation described by Dr. White occurred in the latter part of the eighteenth century, its closeness to our own situation today is startling.

The trouble started in 1789 when France found itself with a heavy debt and a serious deficit because of an unbalanced budget. There were grave doubts whether the French people would place any confidence in paper

¹ A 1959 edition of *Fiat Money Inflation in France* with a foreword by Henry Hazlitt is published by the Foundation for Economic Education, Irvington-on-Hudson, New York. 124 pages; \$1.25 paper, \$2.00 cloth.

money not exchangeable for gold but backed merely by government's promise to pay. Therefore, the government decided to confiscate all the church lands in France and to use them as security for paper moneys. The church real estate formed about one-third of the entire real property in France. It looked like a solid base for a great financial future. (It is now obvious that church lands were a poor backing for currency for the simple reason that no individual could ever obtain these lands or any portion of them in exchange for his money.)

Against this base, paper money was issued. The new credit caused great joy; the treasury was relieved; a portion of the public debt was paid; creditors were encouraged; ordinary expenses were met. Six months later business slumped again. Politics again prevailed. There was less argument than before against issuing more paper money. A few sound thinkers of that day explained that increasing the quantity of money and credit in any country must soon increase prices, disturb values, alarm capital, and decrease the demands for products and labor.

A Vicious Cycle to the Guillotine

Nevertheless, the vicious cycle had started; it was politically inexpedient to stop the subsequent issuance of more and more paper money. After each new issuance, business improved temporarily and prices advanced—but the value of all French moneys declined.

By January 1793, about 3 billion francs had been issued—all publicly and legally. Prices were constantly

rising. Committees were formed to attack and stop inflation. Orators endeavored to enlighten the people by giving every reason in the book for this disaster save the true one. The government blamed the ministry, the nobles, the hardhearted rich, the merchants, the shopkeepers. Today's convenient "whipping boy"—Big Business—was as yet unborn.

In late 1793, the Law of the Maximum was passed—and price ceilings were born. Controls were established on wages, selling prices, profits. The people were overjoyed, but evasion, as always, quickly followed—then scarcities—then rationing. Manufacturers were crippled, agriculture depressed, shopkeepers were ruined if they obeyed the law. Many shops closed—others were looted. Some evaders were sent to the guillotine; others were hanged. (I'm grateful not to have been a merchant in those days!)

At the end of 1795 more than fifty billion francs had been issued. The purchasing power of this paper money (despite the enormous value of the lands pledged behind it) was practically nothing.

On February 18, 1796—9 a.m.—in the presence of a great crowd in Paris, the machinery, plates, and paper used to make this "fiat money" were solemnly broken and burned.

Once more, in our own times, the subject of inflation is making headlines every day. We are deluged with newspaper stories, magazine articles, and speeches. Several intelligent articles on inflation have appeared in this newspaper. But it is true, nevertheless, that much of what

we read and hear on the subject is complicated gibberish. In some cases I believe it is purposely so. History verifies the statement attributed to Lenin: "The surest way to overthrow an existing social order [government] is to debauch the currency."

Just what is inflation? "Inflate" means "expand."

To me, "inflation" means inflating the money supply. It is just that simple.

Stated another way, each dollar is a purchase order; that is, it is a claim on goods and services. It is the increasing of these purchase orders—making more of them than is properly justified by the economy—that is true inflation.

People are led to believe, erroneously, that "high prices are inflation." That is putting the cart before the horse. High prices are merely the *effect* of inflation. And quoting Webster's dictionary: "Inflation always *produces* a rise in the price level, in accordance with the quantity theory of money."

Our government has a complete monopoly of the "money factory." If you doubt this and care to test it, try manufacturing some money or government bonds yourself! But you had better not: the government's control and monopoly is absolute. Only the government can be a "legal counterfeiter" in the sense of legally creating more money and bank credits. It follows logically that under such control the government, and only the government, can prevent inflation.

How does the government inflate our currency? There are several successful methods, the oldest of which are no

longer in favor. They would be too easily detected by the better educated citizens of this generation. In the ancient great days of Rome and Athens, however, inflation was accomplished by "clipping the coins." This was done by the government's taking the coins then in circulation and reminting them so that they contained less gold or silver. The government then represented to the people that they had the same value as before. (Does anyone value our paper dollar of today as equal to a gold one?)

Printing Presses and Central Banks

Many centuries later, governments resorted to a much easier method made possible by the advent of the printing press. They simply printed more paper money, thus increasing the government's income much more conveniently than by raising taxes. In our own generation many examples come to mind of the money printing press route—Chile,, Germany, France, Italy, Argentina, Greece, Brazil, and China, to name a few. Today, however, we practice a much more subtle scheme to accomplish the same ends. Our government prints bonds and sells them to commercial banks which pay for them by entering deposits (or credits) in the government's bank accounts. Of course, these deposits may be spent by the government (just as you or I may draw on our personal bank accounts).

With its complete monopoly, no matter what method our federal government elects to use to increase the avail-

able supply of money and credit, the all-important fact is that it is the government, and *only* the government, that has the power to cause true inflation.

The following table quickly shows the total amounts of usable money available in the U. S. A. at year ends:

1939—	64.7	billion	dollars
1948—	172.7	"	"
1956—	226.4	"	"

It is quite obvious that neither the increase in our population nor the increase in productivity has grown anywhere nearly as fast as the money and credit supply. It is also true, however, that if there had not been some considerable increases in our population and in our productivity, the value of our currency would have decreased much more severely than the approximate 50 per cent drop in the last 20 years.

Many of our confused ideas concerning inflation stem from oft-quoted statements that labor unions and business cause inflation; the former by gaining higher wages for employees, the latter by increasing selling prices. Since high prices are not inflation; since inflation only relates to money and bank credits; and since only government controls the quantity of both, it is obvious that neither unions nor business can *cause* inflation.

However—and this is fundamental—when wages are arbitrarily forced above the market level that would have reflected the existing relationship between the supply of labor and the demand for it, we have the starting point of a vicious cycle:

1. Wages increase.
2. Prices increase.
3. Products lose competitive position in world trade.
4. Unemployment results.
5. Pressure on government to make more money available tends to become irresistible.
6. Government gives in to political pressure.
7. The government creates more money.
8. The value of our money drops—and we have inflation.

In emphasizing the government's complete responsibility for *causing* inflation, I do not intend to imply that unions and business are blameless—quite the contrary. When a union or a business or an individual is responsible for raising wages and/or prices faster than the market allows, they are fanning the flames of inflation. They are creating the very conditions that eventually bring such powerful political pressures on government that it will surrender its responsibility to keep our currency good.

People spark inflation. Demands made by “people” for federal funds (no matter what group name they use), when excessive and beyond reasonable limits, cause a breakdown in the normal laws of supply and demand. Such demands lead to property destruction, unemployment, and eventually irresistible pressures on government to extend its power beyond its competence.

Business tends to put the whole blame on labor unions because of their demands for higher and higher wages. But is business—and other so-called moderate groups—

blameless? I doubt it. When "great conservative leaders" representing chambers of commerce, churches, slum clearance projects, agricultural "security" groups, hospital building programs, foreign aid devotees, and countless others all demand that their pet projects be included on the "federal gravy train," I believe they are just as guilty as the unions.

In all these areas—people—you and I—are responsible. The next time I am asked to lend my name and support to any project which aims to pressurize government for more federal funds I am sure my answer will be an emphatic "No!" The federal government is already committed to spend far more than it can properly afford.

The recent appointment of a cabinet committee headed by Vice-President Richard Nixon to draft plans for combating inflation is encouraging. It will have no difficulty in ascertaining the facts. The announced intention "to strive to build a better *public understanding* of the problem of inflation" is all important. I hope the committee follows through.

Other governments in other years have lacked the courage to reveal the truth about the real cause of inflation. They have lacked the courage to explain that all inflation is bad—no matter how small or creeping it may be. Once started and not checked, I firmly believe that inflation always leads to disaster—and it always takes the greatest toll from those who can least afford it.

INFLATION IN UNDERDEVELOPED COUNTRIES

by Romulo A. Ferrero



MANY people today, in industrially developed countries such as the United Kingdom and the United States, are concerned—and rightly so—with an inflationary situation marked by a 3 or 4 per cent annual increase in the level of prices. But so modest a rate of inflation would seem like stability in many underdeveloped countries. In Peru, for instance—though we've fared better than most of Latin America—inflation over the past 20 years, as measured by the cost of living index, has been at the annual rate of 11 per cent, compounded. The cost of living in Peru is 8 times as high as it was 20 years ago.

There is a widespread belief that free economies have a capacity to take "open" or "unsuppressed" inflation in stride without much harm. But the "open" inflation of the past 20 years has caused a great deal of harm in Peru, as in most underdeveloped countries. The following are

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some of the bad consequences I have seen in an official capacity of trying to cope with inflation:

1. Inflation kills the market for all kinds of long-term bonds, making it exceedingly difficult, if not impossible, to obtain sound financing for major projects essential to economic development. If public works cannot be financed through the sale of government bonds to private investors, then the government resorts to "borrowing" from the Central Bank, which means outright printing of paper money—inflation. The housing problem, one of the most serious in underdeveloped countries, cannot be solved unless there is a market for mortgages. But there is no possibility of developing such a market under conditions of rapid inflation. Though authorities in Peru have increased the yield on mortgage bonds to a present rate of 9 per cent of face value, and granted tax exemption, it is difficult to find investors who will pay as much as 80 per cent of face value for such bonds.

2. Inflation not only curbs the supply of capital available for economic development, but it also upsets the labor market and makes for bad employer-employee relationships.

Underdeveloped countries are seldom backward in experiments with "welfare programs." Peru, for instance, boasts such "social benefits" for workers as service indemnity or severance pay, paid vacations or holidays, life insurance, sickness insurance, old-age and survivors insurance, profit sharing, health and welfare benefits, bonuses for employees with long service, workmen's compensation, and Christmas bonuses.

The cost of all these "benefits" is considerable, averaging approximately 50 per cent as much as the basic wage or salary. This added cost of labor means that basic wages are much lower than they otherwise could and should be, that workers are getting "social benefits"—often deferred—instead of more adequate food, shelter, clothing, and other necessities of the moment. Consequently, workers press for higher wages, which harassed employers find difficult to pay on top of the heavy tax burden of the Welfare State. Social legislation has been one of the most powerful engines for inflation in many countries that can ill-afford such luxuries.

Finally, inflation creates a problem with respect to pension funds and service indemnity reserves. There are no sound securities in which to invest such funds; inflation eats away the real value of the reserves; governments use the reserves of official funds to meet current expenditures. So these reserves add nothing to real capital or productivity or national income nor in any way help to relieve the burden of social benefits. Meanwhile, the poorly conceived benefits create friction between employees and employers. Pensions, based on length of service and on the employee's most recent wage level, tempt employers to discharge workers who are about to qualify and to hold wage levels down arbitrarily for older workers. Such problems multiply in time to break forth in open conflict.

3. Rates or service charges for public utilities never keep up with inflation and increasing costs. Political pressure prevents rate readjustment, with the result that

services deteriorate and the utilities face physical breakdown. Nevertheless, public opinion strongly, and wrongly, opposes increased rates.

4. Tax authority allowances for depreciation of fixed assets, on the basis of original cost, fail to recognize the declining purchasing power of the monetary unit. This represents, in effect, a drastic increase in the rate of income taxes. The "excess profits" tax becomes, in reality, a confiscation of capital; and the replacement of worn-out tools and equipment becomes a major problem for businessmen.

5. Rapid inflation encourages speculation and misdirection of investments. There is a marked preference for deluxe apartment or office buildings or other real estate as a hedge against inflation. Foreign exchange is purchased, which means correspondingly less investment in the domestic economy. Investors turn to the accumulation of inventories to benefit from price rises instead of starting businesses of their own or helping to finance further industrial development.

6. Sooner or later, rapid inflation leads to all kinds of governmental regulation: price control, rent control, wage control, import control, exchange control. "Open" inflation thus becomes "suppressed" inflation. Exports are particularly discouraged because internal costs rise while exchange control unduly depresses selling prices. To add insult to injury, the exporters are blamed for the "shortage" of foreign exchange and the devaluation which inevitably must come. The loudest cries against exporters come from the very ones who had pressed hard-

est for the monetary policies and other governmental interventions that caused the inflation.

The inevitable result of all these controls is reduced production of the things most needed, these being the favorite targets of control: housing, food, public utilities, exports. Shortages develop. The international balance of payments is unbalanced. Exports decline. More and more foodstuffs have to be imported. Saving is discouraged. Investment is misdirected. Economic development is retarded.

THE WAY TO ECONOMIC PROGRESS

by Gustavo R. Velasco



At present in economics, there is no subject so popular as the plight of the underdeveloped countries, if one is to judge by the number of studies and books about it.

I am not at all sure, however, that this interest is a healthy one—that it will turn out to be beneficial to the underdeveloped countries. This doubt stems from my belief that, from an economic point of view, underdeveloped countries are fundamentally similar to developed ones. According to my definition, an underdeveloped country is a poor country considered to have a possibility of becoming less poor.

Now, a poor man wishing to make his way up in the economic scale does not have to follow rules different from those followed by a man who is already well-off but wants to become richer. If there is any difference in these

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rules, it is only that the poor man will have to work harder, to be more careful in his conduct, and to be thriftier.

Similarly, I find that underdeveloped countries are not subject to a set of economic principles different from those to which the advanced countries are subject. The problems of the former are fundamentally similar to those of the latter. Certainly, these problems are very much like those affecting Great Britain, the United States, and France a century and a half or two centuries ago, before the Industrial Revolution took place.

It is by no means my intention to play down the differences of all kinds—economic, political, and social—which exist between Mexico and the United States, for instance. But I believe the scientist should look far deeper than the tourist into the real situation, discerning the similarities as well as the true differences.

To cite a simple illustration: Two years ago, my good friend, Professor Louis Baudin of Paris, France, visited us in Mexico City. As he and I were driving from the airport to a hotel, he saw lines of people waiting to go into movie houses and asked whether we had price control over admission tickets. Indeed, the municipal authorities have imposed a maximum price of \$4.00 (32¢ in United States money). Of course, this control has increased the demand for seats. Incidentally, it also forces us Mexicans to travel to the United States to see our movie star Cantinflas in *Around the World in 80 Days*, because this picture cannot be shown in our country at the official price.

There may indeed be a special problem for under-

developed countries in international politics. But on the economic plane, I believe their problem is a general one and that it applies to all nations, poor and rich alike.

I am loath to speak in the currently fashionable way of "economic growth" or "economic development" because, as Professor S. Herbert Frankel of Oxford University rightly said in a recent lecture in Mexico City, there is a tendency in our underdeveloped countries to think that our problems will be solved if we grow physically, i.e., if we just build enough new factories or engage in new activities, regardless of whether they will be profitable or whether they are being created artificially through protective duties or subsidies, and thereby in reality decreasing instead of increasing the income and well-being of the people.

I therefore prefer to use the term "economic progress." And if critics assert that this term is neither special nor new, I would reply that this is an advantage and not a disadvantage.

On concrete grounds, I would say that the similarity between the underdeveloped and advanced nations is made greater by the tendency to follow social and economic theories fashionable at a given moment. Perhaps because the capacity of underdeveloped countries to develop original thinkers is still limited, we imitate the more prosperous nations, not only in their many good features but also in their dubious and even frankly bad ones.

To me, this is conclusive proof that it is not facts, not realities, which determine the actions of men, but rather

the ideas which they form of things, the theories which they fancifully elaborate in order to guide their conduct and to be supposedly "better off."

Mexican Welfare State

Mexico is beset by each and every one of these fanciful theories. We have the Welfare State. It is growing daily and creating all sorts of difficulties. For instance, there is resistance to a bus fare increase of five *centavos* (two-fifths of a cent in United States money) in Mexico City. The people have become accustomed to not paying for economic goods and services, or to paying less than their cost, so that the inevitable rise in fares becomes a political instead of an economic question. This leads to a very serious political situation because the government, victim of the same mentality, neither speaks out clearly nor acts forcibly.

We have inflation—not yet a hyperinflation such as we had in 1916 when our money system was completely wrecked—but sufficient to have multiplied the money supply by 17 times and to create almost an eight-fold rise in prices during the last 22 years. This inflation (perhaps because we, like the Germans, were once badly burnt) has led to widespread dissatisfaction and to lack of confidence in the Mexican peso.

In our country, we have labor unions with special privileges and exemptions from ordinary legislation. We have corrupt labor leaders, participation of unions in politics, minimum wages, and continuous pressure by

unions and government to raise nominal wage rates, supposedly "to improve workers' living conditions" and make "a more just" distribution of national income.

Finally, we have had land reform with the disappearance of the old "haciendas," and the revival of the semi-communal system of land ownership that existed during colonial times. Of course, this tremendous change—I would almost say "upheaval"—resulted in a sharp drop in agricultural production from which we have been emerging only in the last twelve years, but which has left us with a heritage of very difficult problems.

As you can see, underdeveloped countries may be poorer and weaker from an economic point of view than the developed ones, but the painful symptoms from which they suffer are the same and the disease is the same, no matter whether it is called "interventionism," "statism," or "collectivism."

In the problem of inflation, I would say that we occupy a middle position; we are not among the worst offenders. We do not belong within the better group of nations. In spite of this, we have had continuous inflation since 1936, with prices steadily going up although lagging behind the increase in the supply of money according to the official price indices.

Our inflation has sometimes proceeded at a more rapid pace, as it did between 1937 and 1946; sometimes more slowly, as it did between 1946 and 1952 (I cite the years coinciding with the changes of our government administration); or still more slowly, as it has since 1952. Nevertheless, the fact is that we have been unable either to

stop inflation or even to approach a rate of "merely 3 per cent a year" which is looked on by some economists as not too harmful.

Worse still, the effects of this long inflation have been cumulative, especially the psychological ones. Although I believe the job can be done, few people think that the trend will be reversed, that prices will cease to rise, and that the government will succeed in preventing another devaluation of the *peso*.

Generally and basically, I believe that Mexico has had and still has inflation because it has lived beyond its means. More specifically, I find that the underlying causes of our inflation are:

1. The Welfare State
2. The desire for economic betterment
3. The desire for economic development

Permit me to comment briefly on the foregoing causes of inflation:

- Our budget, i.e., our traditional budget, has been balanced over the last six years. But outside this budget, we now have dozens of independent establishments and economic agencies providing economic goods or services free or at less than cost. Some of these agencies have deficits because of inefficient management; others must be subsidized to make ends meet; most of these agencies or establishments go in for extensive development and investment plans. In many cases, the Bank of Mexico has had to grant loans or absorb their issues of securities either directly or through a development bank called

Nacional Financiera. Naturally, it also helps to sustain them by pegging their prices and buying them when offered for sale.

- In relation to the desire for economic betterment, the labor unions exert constant pressure—and so does the government—toward the raising of money wage rates. In Mexico, collective labor agreements have to be revised every two years. In general, unions succeed in securing approximately a 15 per cent rise every time. Of course, I do not believe that this is a direct cause of inflation. It is still necessary for the monetary authorities to add to the money supply. But this union pressure has created the climate in which the money authorities have made the increase and have relaxed their measures against credit expansion.

- The desire for economic development does not, I believe, *per se* produce inflation, and it does not have to be accompanied by inflation, as has sometimes been said in our underdeveloped countries. (Incidentally, I must here remark that we in the underdeveloped countries accept all the bad theories propounded in the advanced countries and even add some of our own!) Inflation arises from economic development as the result of a tendency to overinvest, both on the part of the government and of private enterprise. As I pointed out, the building of new plants—whether profitable or not—is confused with real economic progress.

There is a plain connection between the Welfare State and inflation. It is interesting to note that in Mexico they appeared simultaneously, or more exactly, synchronously.

Socialism Breeds Inflation

We began to try out socialistic measures in 1935 under President Cardenas. The next year, the budget had a large deficit and the only way to cover it was through an overdraft in the amount that the Bank of Mexico was authorized to lend to the government. Over the years, budget deficits were the most important cause of our inflation. And though during the present Administration, the traditional budget has been balanced, it is a fact that the so-called social and government banks and economic agencies are still being helped by the Bank of Mexico.

Often, discussion of the Welfare State centers around the subjects of social insurance and medical services. However, the concept of the Welfare State, at least as I understand it, embraces much wider subjects. I think we have this admirable scheme (admirable, of course, if the government could be a sort of third-dimensional Santa Claus) whenever the government provides some goods or services free—in whole or in part—or when it forces some members of the community, such as property owners of housing, to provide services and goods free to others, such as tenants.

If this concept is correct, then in Mexico we have not only general social insurance and medical services for those persons embraced by the Welfare State (up to now, artisans, domestics, and agricultural workers are not covered by the insurance system), but also a multitude of other *prestations sociales*, as the French say rather elegantly, or of “handouts” as in American slang.

There is a particular point about the Welfare State that I, as a lawyer, am greatly interested in bringing out. I believe that the Welfare State is incompatible with the Rule of Law, or, to use the European expression as it is written in French, with "L'Etat de Droit et le Principe de Legalité."

Unfortunately, in our century, the legal profession and teachers of law have failed miserably—as Professor F. A. Hayek has stressed—in their duty to defend this prized feature of Western Civilization.

The Silent Opposition

I can bear witness to this. Last year, I attended a meeting of the International Association for Juridical Science, held under the auspices of UNESCO at the University of Chicago, which dealt with the Rule of Law. One of the subjects discussed there was "The Welfare State and the Rule of Law." The official conclusion—set forth in a report—was that there is no conflict, no incompatibility, between the two ideas.

Among the distinguished gathering of leading professors of constitutional and administrative law at the UNESCO conference, I was the only one to speak out publicly against the report, though several of the persons present told me privately that they were in agreement with my view. Perhaps I spoke up because, even though I am not an economist, I am proud to be counted among "the ignorant and vociferous minority"—as the delegate from Poland called some economists who, he

proclaimed, are the only ones to oppose the Welfare State.

It has been said very rightly that free enterprise can take an awful lot of punishment. I believe it was Benedetto Croce who wrote that the spirit of freedom is always reviving and assuming new forms despite all obstacles.

Permit me to point out that a healthy strong man can indulge in a great deal of alcoholism or lead a most dissolute life before the ill effects finally get the better of him; but a frailer man, or an adolescent beginning development, can take no such liberties without suffering immediate bad results.

Such is the case with the underdeveloped countries. Measures causing only some inconvenience or harm to giants like the United States or Great Britain may well prove fatal for us. The advanced, well-developed countries have more social and political stability, and even stronger traditions, than we, although even in Great Britain, which is the motherland of constitutional government and of the Rule of Law, we have seen the weakening effects of socialism and of the Welfare State.

As a final point in considering the economic progress of our underdeveloped countries, permit me to say that it is up to the developed countries to set good examples for us. Parents should not lead disorderly lives and then blame their children for imitating them.

We have already one bad enough example wherein the State was going to wither away and the people would rise to unheard-of stages of prosperity and happiness. Surely if India has a socialistic development plan and if Egypt

expropriates the Suez Canal, it is not solely because of this single bad example.

I am aware that the task before us is a common one, and that it devolves on us all—great or small, developed or undeveloped—to preserve and perfect our civilization. But I also believe that if the greater nations of the West wish to regain their leadership, they must first of all be our spiritual and intellectual guides. They must again believe sincerely and practice wholeheartedly the principles of freedom under which they led the world until a generation ago.

The way to achieve economic progress, for poor and rich nations alike, is to follow the principles of economic freedom.

WIRK

by E. F. Hutton



JOHN HARTFORD, of the Great Atlantic & Pacific Tea Company, hung a sign on the wall of his office. It read: "Ache and Pain Dept. Wirk."

He said, "I spell 'work' with an 'i' because I'm the only one around here who wirks."

Of course, he was "sorta" joking, because the A. & P. gives jobs to 100,000 folks, and it just couldn't become the greatest food store in the world unless they wirked.

It couldn't have lasted and grown for 100 years without a lot of aches and pains. But they all get cured by wirk.

If Mr. Hartford had lived in Ben Franklin's time, the old philosopher would have put him in *Poor Richard's Almanac*. He'd have told young folks: "If you'd get ahead in the world, put 'i' in your wirk."

A young man, applying for his first job, who doesn't ask when his pension will begin, or how many paid holidays he'll have, and so on, is sure to get and hold a good job.

Mr. Hutton is the well-known industrialist, investment banker, and author of the column, "Think It Through."

A golden age is opening up for such young men and women. For they will have less competition than ever before!

The idea today is that you can have wealth without work. Just vote yourself rich!

That's what the politicians tell us.

But unless Ben Franklin and John Hartford were completely wrong, we'll find that the output of society can't be greater than the input of workers.

EMANCIPATION BY MACHINE

by *William Alvadore Buck*



ROBOT, rabbit, wreck, slave of the machine! How many unflattering epithets have been applied in modern times to the factory worker, the "poor wretch" who contributes essential manpower to industry's "dark, Satanic mills."

The anathema hurled at the factory, the machine, and quantity production started long before Samuel Butler described Erewhon (spell it backwards), the land where machines were forbidden and a long prison term was the penalty for constructing as tiny a machine as a watch.

The scare story is still current around the world, nourished by the Kremlin, that soon Americanization will set in all over and every worker will become a slave on the assembly line, while his wine or beer will be turned into soda pop. Mass production, according to some self-anointed egg heads, is the worst and final blow to man's dignity and creative life. Such is the line the Soviets preach wherever it looks good, even while building mass production in the homeland as fast as they can.

This is fancy stuff in the same package with sea ser-

Mr. Buck is a free-lance journalist, editor, reporter, and author. He has written for numerous magazines, including *Partners*, where this article was first published in November 1958.

pents and the Loch Ness monster, as all of us should know; and one day as I stepped from a union headquarters into the dazzle of New York's Broadway, it seemed to me that this monster could and should be crushed.

All right, let's do so here and now—shredding as we go, themes by Thorstein Veblen and advanced by Chaplin's film, *Modern Times*.

To begin with, we may ask, exactly how many Americans work at what is thought of as a typical mass-production job—where the operation is repetitive and broken down into simple, constituent motions, amounting to machine drudgery—whether on the assembly line or elsewhere? No one, I found, has ever counted them. I therefore started working down from a Bureau of Labor Statistics figure for a recent year.

That year, there were 13,174,000 production workers employed in the land. I subtracted figures for those industries, such as lumbering, where narrowly repetitive operations do not exist. I found many stray figures that helped. In a Brooklyn tool plant, for example, 25 of 156 employees worked at "robot" jobs; in an auto assembly plant of 1,800 only 1,068 actually worked on the line. After several hours of diligence, I reduced the total figure to 2,500,000. It cannot be far wrong, but to confuse doubters, let us call it 3 million. I was as surprised as probably you are.

That particular year, there were 66 million employed in our nation, this "land of mass production," where everybody soon will be serving a machine. From this it is clear that only one in 21 held down what we think of as

a mass-production job. Would it not be more polite, then, to call us a nation of "craftsmen, foremen, and kindred workers"—since the Bureau that same year placed 8,825,000 in that classification? Or a nation of "professional, technical, and artistic workers," whose figure was 6,445,000? Or of "managers, officials, and proprietors"—6,648,000? Or, nearest of all, a nation of college people, considering that today some 20 million of us have graduated or at least managed to shy through from a year to three years of college work?

Where Are Our "Robots"?

Now, let's take after that word "robot." The three million include few who ache to resign, few miserable wretches, and many happy fellows. Psychologists tell us that many people are so constructed that assembly-line work is precisely their isle of content, and these are not always the least intelligent. Certainly there are three million in our population who can be well-satisfied on the line or in another such job; and doubtless, in this land of opportunity and movement, these are by and large the very people who are working there as "robots"—more or less.

I once watched the assembly line at a Caterpillar Tractor plant, and it seemed to me that this was a rather gay place. The "Satanic mill" belonged on another planet; here, by contrast, was light and dramatic activity. No one was in a great lather. One man on the line remarked, "Oh, we gabble a lot and have a good time."

A man in Personnel told me, "Most of the men on the line are there because they want to be, I have no doubt. Maybe all. They say you can get into the swing of it."

I know the name of a young milling-machine hand in a tool plant who turns out 15,000 small parts a week. It would drive me into dementia, a deadly job. But this fellow slips his brain into neutral, so to speak, snaps on the radio at his bench, and there is his valley of contentment, his green pasture. He has been there for years, though he has been offered a transfer. He owns a bigger and slicker convertible than any officer of the company.

Few men are fastened to the assembly line with chains, chains of iron, gold, or duty, according to the sentiment at Plant X, the auto assembly plant studied by Charles Walker and Robert Guest of Yale and reported in their book, *The Man on the Assembly Line*. Men do know how to move. Up or out. The authors of the study noted that the quit rate for the line was higher than for other departments.

It is true that the Horatio Alger Thruway from file clerk to president is not as open as it once was. To create a modern factory, organize its teamwork, and run its production requires much education, high ability, and special training. But a booming industry is always starved for talent; hence, most companies offer their employees training opportunities and any lad with a wee drap of ambition will find himself moving without straining a button.

The three million include few who repeat one operation day after long day, as did Charlie Chaplin in

Modern Times. Walker and Guest found that only 32 per cent of the men on the line at Plant X performed a single operation. Moreover, there were some, like the repairmen, who were highly skilled. Peter Drucker—one of capitalism's deep, scientific worriers on this personnel subject—has said that monotony is not a problem in a modern plant. He also has written that, even on the line, the American factory furnishes the worker with "status and function" to an astonishing degree.

The truth is, the "rabble theory"—the theory which energizes all totalitarianism and which still appears alive elsewhere in the world—is rare in the American front office today. Long ago, the production boss liked to talk of the factory hand as a part of the machine: "Give him enough money to get drunk on Saturday night, and no responsibility, and there you have the whole book of industrial relations." Such arrogance, we know now, is folly, triple-crowned. The wage-fighting buccaneer of business is no longer admired. The early communists never dreamed that this change of heart and understanding could happen. But it has happened—and affected all of us from housewife to mine foreman, from jockey to newsland's copyreader. That is why Marx's egregious proletariolatry appears so idiotic, so antique, in American eyes.

A man can speak up in the factory as on any other job, and the most exalted ears will hear—sometimes. A worker for great Cadillac or Ford is a man of dignity and substance and can pose with a man's proper self-esteem as he spins genial yarns over a Hamtramck bar. Some

actually exaggerate the pressure on the assembly line and brag that they enjoy the excitement of keeping up the pace. The last thing the "poor wretch" asks for is your pity—except on income tax day. He bears no more kinship to the peasant or proletarian of Soviet myth than he does to one of Khrushchev's gorillas.

A Backward Look at the Guilds

We can find a useful comparison here if we match our manufacturing times against the great time of the guilds. Some utopiates talk as though the workers of olden times were all sculptors of Gothic cathedrals or talented silversmiths and argue that the modern age has degenerated these great artists into the poor robot who can accomplish little more, between sweats, than swallow a mug of beer in a toast to Walter Reuther. Somehow, we must find our way back to those golden days of yore, they urge.

But who, in truth, were these guildsmen? When the reek of the Middle Ages began to clear from men's minds, nearly all Europe was agricultural and feudal; the common man was a slave, owned as much by his land as by his lord. A few commoners worked for the lords directly, and for once in history, the wage and servant problems were under control. In the year 1300 A.D., for example, a maid at Forncett Manor in England received a 100 per cent boost in wages, from one shilling to two shillings *a year*. Clearly, the lord of Forncett did not want to burden the soul of his vassal with too much purchasing power.

After the world failed to end in the year 1000 A.D., as all Christendom expected, the upsetting thought entered some rebel heads that a Christian might own himself. A flight to freedom began and continued for centuries. The cities grew by a process of natural selection. The run-aways were, no doubt, the less homeloving and churchly, but by no means country riffraff. On the contrary, as Lewis Mumford wrote, "The Medieval city gathered to itself the more skilled, the more adventurous—probably the more intelligent—part of the rural population." These, the distinctly successful types, formed the guilds. In Queen Elizabeth's time, we know that a large number of the guild apprentices in London were younger sons of the country nobles. There never were many guildsmen.

Monopolistic Practices

As the guilds rolled into their great days, the ordinary Tom and Jerry had no more chance to get into the organization than into the Duke's iron pants. Even the journeyman who had completed his apprenticeship waited long for his chair in the almighty lodge and often never made it. The guilds' ruthless control over wages, competition, apprenticeships, and prices make our ideas of monopoly today look like galloping socialism. The guilds had power. Sometimes they chivied the king or queen into passing laws which decreed exactly what guild-manufactured garments people in this or that class must wear!

While the guilds perfected their legal squeeze on the

pocketbook of the citizen, feudal society fell apart under the pressure of new ideas and a new agriculture. Former serfs flocked to the towns by the thousands, many driven from the land by the "enclosures" and the demand for wool from Holland.

A truly Oriental destitution became the normal life for myriad folk. A quarter of the city people of Europe were casuals and beggars; half of the citizens of Paris were no better than that. Begging was an accepted way of life. The most brutal police action could not control piracy and crime. Before science and industrialism changed the earth, smells of vast burden lurked in city ways and dirty death flowed in the open sewer that was the street. For centuries bands of outcast syphilitics roamed Europe in despair and rags, criminals and beggars without a choice. It was considered a nice pastime, when the guildsmen had their power, to slip a couple of hard-boiled eggs into your pocket and go to watch the public torture of criminals. There were 200 capital crimes in English law. Even as late as the nineteenth century, women and children labored in English coal mines, naked as Hottentots. The guilds had perished before that—in the eighteenth century—in a rolling boil of public hatred.

The simple fact is, the factory system—and later, mass production—abolished far more human drudgery than they created. Dragging an oar in a trireme, chopping cotton, carrying the hod, keeping an overstuffed Victorian house clean, loading coal by bucket or barrow, plowing with your wife in the ox-yoke, and many an-

other old unhappy burden has been lifted from man's shoulders by the machine. The factory has created incredible abundance and has lessened the problem that was never to be completely solved—poverty. When Aristotle, poking fun at liberal ideas, stated that men would be able to free slaves “when the shuttle wove by itself,” he *knew* what was possible and what was not. But what would Aristotle today think of nylon stockings, not only on the limbs of queens and court ladies but also on the weaver and her daughter as well! We do the impossible today and slavery has vanished from the civilized world. In many ways the machine has made all of us free men.

It has done more than that. For where do the children of today's counterparts of the old guildsmen go for their apprentice training—along with many a son of the shanty and many a son of the manor? To college, of course! Indeed, we have not changed the guildsman into a faceless robot; we are changing him into a doctor, a flight engineer, a research chemist, a lawyer, a teacher—and, sometimes a second fiddle in a symphony or a third baseman for the “Giants.” I'm sure that none but a mass-production economy could give 20 million citizens a freshman's dink to wear for a while. Nor could any less productive system provide for 6,448,000 in the professional, artistic, technical, etcetera, category.

Those who quarrel with American materialism from far away and little ken should stare at this figure and let its significance really sink in. For it shows, as specifically contrasted with the guildsman's craft accomplishment, a shift of desire and fulfillment from material production

to the direct promotion of the art of living. A Gothic cathedral is a great achievement in man's aspirations, but it is not greater than an electronic brain, a philharmonic orchestra, or a well-baby clinic. Certainly, following Abou Ben Adhem, we can love our fellow man with enormously greater capability than society could manage in the days when Queen Elizabeth decreed that everyone in a certain station in life must wear a beaver hat, and beggars were licensed and assigned territories by law.

As all of us surmise, automation soon will take over the great share of the drudgery involved in mass production. As this development progresses, the worker tends to become more and more a skilled supervisor of production. Being human, the worker of tomorrow will have problems to contend with. But they will not be problems of slavery—such as Karl Marx envisioned in his fatuous Mumbo Jumbo. Most likely—in America, at least—they will be the problems of a physical freedom that seems too boundless. The American worker's spiritual emancipation—what he does with his improving health and leisure—will be strictly up to him. If this be slavery, let *Pravda* make the most of it.

Our machines show no tendency to become our masters; on the contrary, their developing role is to take over human drudgery as our good and faithful servants.

BENEFICIARIES OF FREE MARKET UPGRADING

by Leonard E. Read



SOCIALISM is indeed the great leveler. But the fact that the leveling is always downward seems to escape most theoretical socialists. They fail to see that their victims include not only those from whom the fruits of their labor are taken but also those among whom the spoils are distributed as well as those who police such compulsory redistribution.¹

The leveling of socialism involves cutting off the mountaintops to fill the valleys, taking from each according to ability and giving to each according to need, subtracting the cream from some and adding it to the skim milk of others. The progressive income tax, government housing, subsidies to farmers, federal aid to education, TVA, and "social security" are but a few examples of the lethal socialistic weapons designed to do a leveling job. "The enshrinement of mediocrity" is a description no socialist will relish, but it accurately describes the result of dragging down the successful to nourish the not-so-successful.

¹ Read, Leonard E. *Victims of Social Leveling*. Irvington-on-Hudson, New York: Foundation for Economic Education, 1953. Copy on request.

There is, however, an upgrading system which, like a magnet held on high, tends to draw everyone upward. Instead of leveling people toward an economic bottom, it frees, releases, and attracts them to whatever economic heights are consonant with their desires and abilities. As might be expected, it is socialism's opposite: the free market, private property, severely limited government way of life.

In terms of our planet's existence, one need turn back the clock no more than a moment or two—to the beginning of the Industrial Revolution—to observe economic freedom's early triumphs at economic upgrading. Except for the very few—a fraction of one per cent of the population on whom the monarchs bestowed titles and large estates—nearly everyone at that time lived in abject poverty. Adam Smith reported that there were areas in the British Isles where a mother had to bring twenty children into the world to be assured of rearing two to adulthood.

The Industrial Revolution brought a great change. Its distinctive features were division of labor, free exchange of the resulting specializations, savings or capital formation, and mass production which is production for the masses.

While this market or exchange economy has never been completely practiced, it certainly was begun spottily, only in minor ways here and there. Upgrading a whole people who were lying economically prostrate was a task too enormous for these revolutionary devices in their infancy. But, lift up bit by bit they did. The plight

of the people lying prostrate was not worsened as has been erroneously reported by numerous pamphleteers posing as historians.² Their low economic state was only highlighted or emphasized as some became able to stand economically erect.

As suggested above, the free market economy has never been tried all the way. The British Empire gave it the best trial next to the U. S. A. However, even these partial attempts have not only eliminated famines but have conferred tremendous economic bounties upon people from all walks of life. Millions of wage earners have been upgraded to the point where they enjoy food and clothing and shelter quite comparable to that available to persons of great wealth. Indeed, their economic status and their opportunities for travel, luxury, leisure surpass what but a short time ago was the fare of monarchs.

Let me shift the line of argument for a moment. Recently, while at a meeting in Switzerland, several of my American friends commented on different occasions, "I just love these Swiss people." Well, so do I, but why be so emphatic? Reflection and observation supplied the answer. The bartender at our hotel, I noted, had a passable command of six languages. In some ways he was a more cultured person than many of those he served. And, he was typical of many Swiss who perform personal services. Who wouldn't be favorably impressed if waited upon by superior individuals!

The point is that the wage for "servants" in Switzer-

² Hayek, F. A. *Capitalism and the Historians*. Chicago: University of Chicago Press, 1954.

land is very low when compared to the U. S. A. While Switzerland has a much better economy than do most countries, nonetheless, it is far from being a truly free enterprise economy. As a consequence, many persons of ability, resourcefulness, and quality have not been raised from the personal servant status—have not been economically upgraded. Their numbers are so high relative to demand that their wage is low. And, their numbers are high because of an absence of capital—horsepower and tools. They have been left to labor with little but their hands.

Machines Displace Servants

A European friend of mine told me that in his grandfather's house in a big provincial city of the Austrian Empire during the 1870's one male servant's time was completely absorbed by carrying water and wood for the kitchen, water for the family washing and bathing and, in winter, in chopping and carrying wood, heating the stoves, and cleaning the oil-burning lamps. Another man turned up three times a week to dispose of the garbage and to clean the toilets. All these chores thirty years later were taken care of by installations made available by specialized industries. Seen from the point of view of the consumers, button pressing became the equivalent of two men's labor. Domestic help was released by machines, freed to seek a higher level of employment.

The further away from a true market or capitalistic economy a country is, the greater will be its percentage

of "lower class" and the more will personal servants be available at low wages. In a country like India, for example, one with a relatively modest income can afford a half dozen servants.

The socialists in rebuttal might point to Russia as the exception to this rule. Russia is actually a confirmation of it. The vast majority of Russians don't even enjoy the status of servants who have the choice of quitting or taking jobs. They're slaves, for they have masters who coercively direct their lives.

The U. S. A., in spite of present trends to the contrary, has more nearly approached the market economy than has any other country. Observe this striking fact: In no place the world over is there so much talk about "the servant problem" as here in our homeland. Cooks, maids, chauffeurs, valets, laundresses are only for the well-to-do. In Westchester County, New York, it is difficult to obtain seven hours of competent house-cleaning service for ten dollars. Teen-age babysitters receive more in one evening for watching the neighbor's TV than I received as a boy for sixty hours of pulling weeds in the hot sun. Domestic help, even in the deep South with its hangover of slavery, is performed by the less and less competent and at higher and higher wages. Millions of Americans with extremely limited skills have been stepped to higher rungs on the economic ladder—beneficiaries of the market economy's upgrading power—and, thus, are no longer available as "servants."

The person who succeeds in becoming relatively well-to-do may complain about the lack of competent and

faithful servants such as grandpa had. Yet, this is precisely the situation the free market economy tends to create. While it does not necessarily lessen the wealth differential between people in a comparative sense, it does move the great mass of us into a wealth echelon over and above the domestic or servant or serf status.

Actually, if the market economy were permitted to function, we could expect the day when hardly anyone would have personal servants. The "cheap help" just wouldn't be available. They would become highly paid workers making dishwashers and numberless other mechanical servants not only for the well-to-do but for themselves. Economically, the trend would be toward the open as distinguished from the closed, static society of the pre-Industrial Revolution period. Classes would give way to a social fluidity—persons moving in and out of different wealth levels.

Return to a Free Market

The real economic interest of the great mass of any society is in the perfection of the free market economy—in the upgrading influences—even though this may not be apparent to them. They approve of leveling only because it is sold to them as a process which would elevate them. But despite the label, the package they are being sold can only level downward. This will continue until those of us who know the upgrading powers of the market economy devise better ways to explain this wealth-giving phenomenon.

Showing how the millions may have a hand in creating nonhuman servants that in turn will serve them as well as others is a possible step not only toward better explanation but in rescuing the free market economy which presently is on the socialistic skids. For it is this economy which makes it the interest of each to serve all, an incentive we should seek ardently to improve, not lightly to destroy.

SLUMS AND MANSIONS

by Hans F. Sennholz



THE present recession has intensified the statist clamor for more public housing and "slum-clearing" on grounds that large-scale construction activity constitutes a make-work measure and thus alleviates the present recession. Widely overlooked is the fact that resources for public housing construction are taxed or "borrowed" from other uses, thus acting as "reduce-work" measures in other sectors of the economy. Insofar as the operation may be financed by government inflation or monetary depreciation, the "stimulation" must take the customary form of boom and recession.

What actually is a slum and what are the characteristics of the people populating it? According to one definition, a slum is a city district that is substandard in living conditions. The standard is established by the city authorities to serve as a model. It is obvious that in this case the authorities can enlarge or reduce the slums merely by raising or lowering this standard. If it is raised high enough, most houses, or even all houses, may be declared slums because probably no house represents the best that modern technology can build.

But government officials are not alone in setting stand-

ards that by their very nature must be arbitrary. The general public also is influenced by arbitrary standards when defining slums as city districts marked by squalor and wretched living conditions. The definition obviously depends on the notions, judgments, and experiences of each individual. In the United States where living conditions are incomparably better than in the so-called underdeveloped countries we may describe a slum in terms which to a Chinese or Hindu may sound like a mansion.

Whatever a slum may be, people create it. It isn't buildings that make slums, but people. Some people tend to create a slum wherever they move. Others give cleanliness and orderliness to any surrounding. This fact also explains why subsidized housing that actually succeeds in attracting slum dwellers deteriorates quickly into new slums. Our experience with subsidized public housing since 1937 clearly demonstrates this.

Income controls admission to subsidized public housing. To enter a project a person must not earn more than a certain income with allowance being made for the size of his family. In Chicago, for instance, a one or two person family must not earn more than \$3,600.

Income is not only the basis for admission but also it determines the tenant's rent. Public housing projects aim at attracting a spread of tenants in various income brackets. Those in higher brackets pay higher rents for the same facilities than do those in lower brackets. When a tenant's income rises, his rent also rises. When his income surpasses the top limit, he must move out.

These principles suffer from several shortcomings whose disastrous effects create vast public slums. Subsidies are paid and received on two levels. First the whole project with all its tenants is subsidized by the taxpayers. Then the lowest income tenants are subsidized by the tenants in higher income brackets paying higher rents. The difference in rent is often considerable. For instance, in Chicago the rent for the same facilities varies between \$31 and \$96 a month.

Someone Has To Pay

Receiving and paying subsidies are radically different things. In this age of welfare state mentality many people indeed are eager to be on the receiving end, but they are very reluctant to participate in subsidizing others. A tenant who pays rent at the higher level may feel that he is "sharing his wealth" with his neighbor. In fact, he may begin to wonder if he hasn't become the victim rather than the beneficiary of public housing.

To pay more than others do for the same good or service conflicts with man's sense of fairness and justice. This is the psychological reason why public housing projects are crowded with tenants paying minimum rents. The "cross-sectional" rent principle does not work because renters at the upper end of the scale tend to move out long before they have reached the permissible limit. Consequently, public housing projects often fail to earn even the operating costs.

In Chicago's projects, half of the tenants are paying

minimum rents. In some New York housing projects a majority of families are on relief. The ones that cling to minimum-rent housing are mostly problem families without incentive to increase incomes. Recent studies by the *New York Times* and the *Wall Street Journal* found the conditions in public housing to be shocking and appalling. "These monstrous aggregates in which one family out of twenty in New York now lives," says Harrison E. Salisbury in the *New York Times* of March 26, "have tended to become new-style ghettos. . . . By screening applicants for low-rent apartments to eliminate those with even modest wages the new community is badly handicapped. It is deprived of the normal quota of human talents needed for self-organization, self-discipline, and self-improvement. A human catch-pool is formed that breeds social ills and requires endless outside assistance."

According to Ray Vicker in the *Wall Street Journal* of April 10, "Public housing attracts a high percentage of broken families, families with big broods of children by nameless fathers, other welfare cases and shiftless characters who prefer unemployment to work as long as government agencies provide handouts." It cannot be surprising, therefore, that the solid hard-working families tend to move out as soon as the maladjusted cases move in.

Public housing breeds slums of indescribable squalor and horror. It shuts them up within new walls of brick and steel and thus hides them from the eyes of a gullible public. But the same public is told constantly by a host of socialists and other do-gooders of the cases of poverty

and poor housing conditions that existed before the days of the Welfare State. Capitalism is reviled for having created slums which government housing is supposed to supplant.

One may point to the slum conditions of public housing as one answer to these charges, but a further answer lies in some elementary principles of economics.

Before the days of subsidized public housing, slums only developed in the oldest districts of a city. When the houses were new, they were occupied by tenants who paid rent sufficient to cover interest on the owner's investment, compensation for depreciation, and perhaps also a profit. But houses like all other earthly goods, begin to deteriorate as soon as they are built. Wear, tear, and old age gnaws at them continuously. Of course, skillful maintenance may retard this process, but cannot defeat it entirely.

With the deterioration of the houses, the demand for them undergoes a continuous change. The original tenants move on to newer houses with modern facilities and services. And lest the old houses stay vacant, the rent must decline in order to attract tenants in the lower income brackets. This process of deterioration and declining rent continues until the indigent and improvident crowd the premises. Thus do mansions become slums.

Aging buildings are unprofitable. The return on them, as with other investments, is all the more insecure because of the rapidity at which the capitalist economy with its advancing technology improves living conditions. Toward the close of the nineteenth century and during the

first decade of this century numerous improvements, such as electric lighting, new heating systems, bathrooms, elevators, and the like, tended to outmode comparatively new housing developments and inflicted losses on landlords.

Excessive Property Taxes

Another factor that contributes to the unprofitableness of deteriorating houses is the property tax which two or more superimposed governments—state, county, school district, and others—levy on land and houses. While rent income declines, the assessed value which constitutes the basis of taxation usually demonstrates a remarkable rigidity. Especially during depressions when rents decline rapidly, property taxes usually remain the same, or at least fail to decline simultaneously and to the same degree. Consequently, the rate of taxation on market value tends to rise.

The relationship between taxation and housing conditions is through the fact that taxes constitute one of many factors of cost. A man who builds a house for rent expects to be reimbursed by his tenants for these taxes as well as for all other costs. Naturally, without this reimbursement of cost he would refrain from making the investment. Nor would he build the house for his own occupancy unless he expected value or satisfaction greater than the costs, including taxes.

Rent, which is the price for the use of someone else's real estate or housing facilities, is a market price. Like

the prices for all other commodities and services, rent is determined by demand and supply. As is well known, costs do not affect prices directly and immediately. However, when costs decline, production becomes more profitable, which in turn will increase the supply and push prices downward. On the other hand, when costs rise, production becomes unprofitable, the supply fails to increase, and prices are pushed upward.

The same is true in housing. When construction costs, real estate taxes, or other costs rise, house ownership becomes unprofitable. The supply fails to increase, which in turn tends to increase rent. When taxes are raised on old houses, it becomes unprofitable to own them, or at least less profitable, which reduces their market value. This is true whether a house is occupied by a tenant or by the owner himself. Every tax increase inflicts on the owner a capital loss that amounts to a multiple of the taxes.

Throughout the nineteenth century when government interference with other businesses was greatly minimized, the general property tax was the basic local and state tax, and in many cases amounted to several per cent of the value of the land and buildings. And, of course, property taxes are even more burdensome today than they were then.

The restrictive effects of this taxation are enormous. In order for a landlord to embark upon housing construction, his return must yield the tax rate in addition to a net return comparable to that in other industries. In other words, the gross return on housing in the form

of rent in many cases has to be double the return on other investments. This is why rents must be relatively high before investment capital begins to flow into the housing industry.

High property taxes, therefore, hamper construction activity and restrict the supply of housing, which in turn causes higher rents. Consequently, housing throughout the nineteenth century was expensive. While food and clothing became cheaper and many other items that used to be luxuries became accessible to American workers, good housing often remained prohibitive. Therefore, many crowded into cheap housing facilities that looked like slums to the planners. The advocates of public housing never mention this restrictive aspect of property taxes when they denounce capitalism.

A relatively recent cause of housing shortages and slum conditions is rent control. The enormous inflation during and after World War II tended to increase all prices, including rent. But rents were arbitrarily controlled at prewar rates while such costs as taxes, labor, and materials increased greatly. One reason why rent control has not been wholly disastrous is that the controls have not applied strictly to new housing built after the war. Nevertheless, to the degree that rent control has been effective, it has discouraged the production of housing, and has obliged many tenants to pay higher rather than lower rentals.

The dual burden of increased taxes and rent control means a dwindling return to the landlord and a loss in the market value of his real estate. In terms of depreciat-

ing money, this may not be readily perceptible because his loss may be hidden by inflationary price rises. But in terms of purchasing power, his loss is real. He loses current income as well as capital. Unless he wishes to play ostrich and pretend that nothing is happening, he must cut costs in order to re-establish the earning power and value of his investment. This is why many landlords have been doing so little to maintain or improve their properties, for such expenditures may merely add to their losses. Houses subject to rent control and rising taxes inevitably deteriorate. Cities subjected to rent control for several decades always have deteriorated into huge slums.¹

Mansions at Bargain Prices

An interesting side aspect of this problem is the deterioration of costly mansions built and occupied by wealthy people before the days of redistribution. Confiscation of wealth, through inheritance taxes and 91 per cent income taxes on top of 52 per cent corporation taxes, has forced the sale of an increasing number of mansions. The former occupants have sold their estates at whatever prices they could get and have moved to more modest homes.

Heavy property taxes on mansions and large estates have had the twofold political appeal of raising revenue

¹ For a description of the effects of rent control in Paris, see Bertrand de Jouvenel's *No Vacancies*. Single copy, on request, from the Foundation for Economic Education, Irvington-on-Hudson, New York.

and redistributing the wealth. But instead, they have destroyed the object of taxation. While taxes rose, prices tumbled, until they amounted to a mere fraction of the original construction costs. Needless to say, the construction of mansions practically came to a standstill, and old mansions often fell into the hands of the taxing authorities. Many of the old places have lost their splendor, some standing vacant, others occupied by such tax-exempt organizations as hospitals, schools, and charitable institutions. The property tax thus failed in its fiscal objective but eminently succeeded in its redistributive end.

The development of a city is such that most of the houses in any given district are of approximately the same age. Being subject to the same taxation and controls, they deteriorate together. As was pointed out at the beginning, the old tenants move on to more modern quarters and thus make room for other tenants. It is hopeless for a single landlord to fight this change. Even if he were to rebuild and modernize his facilities, the demand would decline because the section is deteriorating. High-rent tenants shun the most modern apartments if they are located in a low-rent neighborhood.

Rehabilitation of a "slum" usually proceeds by large blocks which radically changes the appearance of the district. Such redevelopment involves large capital investment to purchase the old city blocks and to construct modern apartment buildings. However, accumulation of capital in such amounts, by individuals or by companies, becomes increasingly difficult under steeply progressive income taxes and confiscatory corporate taxes. The effect

of such burdensome taxation is to perpetuate the old slums.

The Welfare State then seeks to solve the problem through housing projects that breed new slums. Thus government housing is slowly substituted for privately owned homes, and socialism advances another step. But socialism neither improves housing conditions nor otherwise alleviates the poverty of people; it enslaves and impoverishes them.

FIGHTING FIRES PRIVATELY

by *J. A. Harper*



A SPECTACULAR fire broke out in the city of New York on Valentine's Day, and six fire fighters were killed. Two were members of the City Fire Department, and the other four were members of the Fire Patrol.

Who are these Fire Patrolmen? They are men privately employed to fight water damage to property while the City Firemen are fighting fire with water. A group of nearly 200 fire insurance companies hire patrolmen under an organization called the New York Board of Fire Underwriters. Responding to fire calls from four points of departure and using their own trucks and equipment, patrolmen answer all fire alarms—which number about 20,000 yearly in New York. About \$25,000,000 in water damage is said to be prevented each year by their efforts—about \$140,000 per patrolman.

Despite the hazards of such work, the Fire Patrol's honor roll shows only thirty-two dead during the last hundred years. So four deaths in this one fire is a tragedy of note in their annals.

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As frequently happens, the private Fire Patrol on Valentine's Day arrived at the scene of the fire before the City Firemen did. In fact, twelve minutes after the first fire alarm sounded there was a cave-in which killed the four patrolmen.

But the main point of this story has to do with the processes of self-interest, self-reliance, and private enterprise. The advocates of more and more governmental services frequently cite fire fighting as a sure-fire justification for more and more governmental operations. They deny that private processes could possibly do such work.

"What about fire protection?" they ask. "You wouldn't dare risk that social hazard to the whims and selfish convenience of private citizens, would you? For once a fire broke out, it would spread from house to house because private citizens would not concern themselves about it until their own house became endangered. So whenever any O'Leary cow kicked over a lantern, entire communities would burn."

The work of the New York Fire Patrol shows how a voluntary system of dealing with fires can operate under private endeavor.

1. Persons who want to insure against fire losses rather than to carry their own risks take out policies in insurance companies and pool their risks with others.
2. Insurance companies, banding together under a mutual interest, hire fire patrolmen to serve them all, thereby reducing the cost of damage claims they would otherwise all have to pay.

It is self-interest that motivates persons to join volun-

tarily in the mutual insurance plan. It is self-interest that induces the insurance companies to join voluntarily in a fire patrol system. No outsiders are compelled to carry any of the costs involved. In fact, as we shall see, outsiders also benefit.

It would be foolishly expensive for each person to maintain his own fire patrol. It would even be foolishly expensive for each insurance company to do so, having to wait at the time of each fire to see which company's policy covers the building that is burning—whose patrol shall go forth to do the job. The owner probably doesn't remember which company it is, and his insurance policy is probably at the bank or perhaps even in the burning building. The building could burn to the ground during any such delays, leaving nothing for the patrolmen to do when they get there.

So the patrolmen answer every fire alarm promptly without waiting to see which company carries the insurance, if any. Such delay would negate their function. Uninsured persons thus get protection, too, and commonly reward the servers after the service has been rendered—insurance of a sort, with payment after the fact, on a basis somewhat different, to be sure, from when a person pays regular insurance premiums in advance.

That is how private, voluntary enterprise takes care of part of this classic problem of fire protection service even in New York where a city fire department is operating under a tax system to pay its costs. Self-interest causes private enterprise to find ways of doing things more promptly and effectively than where the force of mo-

nopoly is used to compel participation. Why shouldn't interested persons, motivated by self-interest, be more inventive and more sincerely devoted to the search for better ways of doing the job than are disinterested persons whose search is motivated primarily by political interests? People left to their own devices will not allow fire damage to persist without trying their best to devise ways of preventing it.

The miracle of the voluntary way of pursuing self-interest in no sense denies mutual assistance nor does it even preclude personal sacrifice. It may be argued that people are too ignorant and shortsighted to serve their own interests through voluntary mutual assistance; that this must be accomplished by the political route. Yet the same persons are presumed to have sufficient wisdom to select from among their number a ruler who will use political compulsion unselfishly and wisely.

The voluntary way of doing things cannot, of course, perform the miracle of making people wiser than they are. But the alternative—the involuntary way of monopoly force—prohibits us from attaining the full use of the limited wisdom with which we are endowed.

One thing the voluntary method accomplishes, having almost the appearance of a miracle, is to induce competitors to cooperate in phases of their operations where it is mutually advantageous to do so. The fire patrol system is an excellent example of this wholesome aspect of the voluntary way of rendering services. Competition does not blind wise competitors to the opportunity of mutual advantage in cooperation, wherever it is deemed

to exist. Competition means freeing competitors from the disadvantage of forced cooperation—a highly important right of escape in a progressive society of free persons.

As an expression of respect and mourning for those four patrolmen who were killed rendering fire protection in New York on Valentine's Day, let us ponder this lesson which might otherwise have gone unnoticed and unlearned.

FIGHTING FIRE FOR PROFIT

by Ralph Bradford



A good friend of mine who was postmaster in a Southern city once scandalized his fellow officeholders by asserting that the Post Office Department could be run more efficiently and at less cost by a private company.

Others outside the government have held the same view; and there are those who believe that many of the functions staked out for itself by government could be done better and cheaper by private enterprise. Indeed, there are certain emancipated thinkers who can take even the sacred cow of education by the horns and make a convincing case for getting the government out of education.

All such doctrine is, of course, rank heresy to devoted interventionists, and even to many who are not truly interventionists, but who have been reared in the tradition that certain things are "just naturally" the function of government. Custom, habit, inertia, the pattern of accepting things as they are—all this has conditioned our thinking about such matters.

Even the man who inveighs most loudly against the inefficiencies of the Post Office Department—its antiquated methods, its failure to modernize, its delayed de-

liveries, its rising costs, its annual deficits—is not proof against the habits of a lifetime. If you suggest to him that a private corporation could probably do a better and cheaper job with the mails, he is quite apt to look at you as though he thought you were crazy.

Certain things, in the general concept, are “just naturally” a job for government; and if you want to retain your reputation for sanity, you’d better not go around making assertions to the contrary! For instance, if I said to you that the fire fighting function of the modern municipality could be handled cheaply and efficiently—and at a profit—by private operators, what would you say in reply?

Why—obviously that’s the sort of service that offers no attractions or inducements to private initiative. Don’t be silly. Can you imagine anybody operating a fire department at a profit? Or, if he did, he would have to charge exorbitant rates. That’s a job that “just naturally” falls to the municipal government.

So? But did you never hear of the Rural Fire Protection Company of Phoenix, Arizona? If not, here, in brief, is its story—a story of private enterprise operating profitably and efficiently in “government territory”; a story of fire fighting for a fee—and, of course, a story about a thing that just naturally couldn’t be done.

Like most successful enterprises, it began with and centers about a man. His name is Louis Witzeman. He is a former newspaperman who bought a house about ten years ago in a suburb out on the desert north of Phoenix —“out on the desert” being localese for any spot outside

the big irrigation ditch that goes around the four sides of the city proper.

But when Witzeman moved in, he found that he was without municipal fire protection because his suburb was outside the city limits. His neighbors, of course, were in the same fix—and so he began to do some thinking. An idea took form, and he discussed it with a few people around the community.

The idea was that of a privately owned and operated fire department with Mr. Witzeman as the entrepreneur! Crazy? Of course! Any fire department official could tell you that fire fighting is no proper job for private enterprise. It is altogether too risky. The equipment is expensive and complicated. The occupation is highly hazardous. Nobody could expect to carry on such a "business" except at a loss. Emphatically, it was a thing that just couldn't be done.

Incidentally, I asked Louis Witzeman if anybody told him that when he was getting started. He replied: "Yes, they said it couldn't be done—and they were almost right!"

So there were problems—just as there would have been if he had been starting a lumberyard or a printing shop; but in this case the problems were aggravated by the inertia of popular thinking. Nobody would have assumed that a lumberyard or a printing shop could be operated better by the government. But fighting fire—that was different!

I asked Mr. Witzeman what the most difficult problems were and he started off (as was to have been expected)

with: "Finances"—and he added: "We only had \$1,600." Not much of a shoestring on which to launch a business that was doomed to failure anyway!

The Customers Were Reluctant

But he persisted. His plan was simple. Instead of taxing themselves to create and support a fire department, the householders in his area would contract to pay him a monthly fee or retainer, in return for which he would undertake to give them adequate fire protection.

Simple—yes; but it took some doing. "It was an educational program," Witzeman told me. "People had never heard of a private fire department and were leery of signing up. Some also thought of it as a racket."

In spite of all this, he succeeded in selling \$10,000 worth of contracts in advance, putting the funds so raised in escrow with a bank—an achievement which, measured against the sales resistance encountered, must be a record of some sort. To be sure, the people had no fire protection and he was offering them something in place of nothing; still and all, it wasn't a proper field for private initiative; and it probably couldn't be done! But finally it *was* done, and a new type of "business" was on its way—to possible success in the view of a hopeful few, to almost certain failure in the judgment of most people.

But the rejoicing was not universal. Since this suburban fire fighting effort would probably reduce the fire hazard for the city proper, as well as in the semi-rural area covered, one would have expected the city officials

of Phoenix to be happy that Witzeman had set up in business. I said as much to him, and asked him if my assumption were correct. His reply:

"Like hell they were! You see, we slowed down their annexation program. Now however," he added, "we work for them. They hired us to take care of their recent annexations because our insurance rate reduction was favorable, and interim protection was needed until they could set up their own services."

The new venture started out in 1948 with a fire station and one truck; but if you are envisioning a continued small-time operation or makeshift equipment, you couldn't be more wrong. In ten years it has grown to a four-station, eleven-truck fire department; and they are now in process of building a new, central station for eight trucks. It is equipped with modern, high-pressure fog fire trucks, and boasts that it was one of the first nonmilitary departments in the state to use this kind of equipment. Only the municipal departments of Phoenix and Tucson now exceed the Rural Fire Protection Company in size and equipment. It now has trucks, real estate, buildings, and miscellaneous assets which Mr. Witzeman estimates are worth in the neighborhood of \$300,000, and he adds that they are almost all paid for.

The company has twenty full-time employees and employs twenty others on a part-time basis. There are ten who work nights or "per fire" only. In the Witzeman parlance, these latter are "sleepers." The full-time fire fighters are well trained and equipped with the latest paraphernalia for efficiency and safety. At its headquar-

ters the company has complete living quarters for the fighters, an office, an alarm desk, and its own three-way radio network. It serves subscribers on an annual fee basis.

As this is written, I do not have the figures for 1957, but in 1956 the company responded to 1,229 alarms. The value of the property involved in these fires was nearly \$8,000,000. The actual loss of property for that year is reported as \$636,000, or approximately 8 per cent, which means that about 92 per cent of the property was saved. As a layman, I know little of the meaning of such statistics, but I am told that they rate very high in the experience of fire departments.

What Does It Cost?

The question that interests everybody, of course, is, "What does it cost?" For the special information of those who are accustomed to measure the cost of public services in terms of government-subsidized electric utilities, where taxes and other normal cost items are often disregarded, I asked Mr. Witzeman about the cost of his service per subscriber, as compared with the cost in taxes per citizen of the average municipal fire department. His reply will surprise many people, especially those who think that a private company rendering a public service will "just naturally" charge more than a government-owned facility will charge.

"Our per-capita cost," he said, "is lower than any in the state that is recognized by the board of fire under-

writers." And he added: "Our insurance reduction is equal to the lowest nonmunicipal reduction west of the Mississippi."

Now it is not the purpose of these paragraphs to urge ambitious young men to start private fire departments in a field that is already largely pre-empted by municipal monopoly. The point of this article is that a man in Arizona has demonstrated a thing that is too often lost sight of in a generation dominated by the philosophy of super-governmentalism. It is this: That no field of human activity or service is reserved by either logic or necessity for the hand of government alone. He has shown that when government monopoly does not exist, even the specialized and somewhat risky job of fighting fires can be handled cheaply, efficiently, and with profit by private endeavor¹.

Certainly his experience should give pause to those who assume that certain economic functions are "just naturally" or properly governmental in character. That assumption was made long ago about the handling and delivery of our mails. As a result, that assumption is pretty generally accepted. But if a contrary assumption had been made at the beginning, today we should have one or more corporations handling the mails, using the latest machinery, paying taxes, earning dividends, and almost certainly giving better and cheaper service than we get from our state-operated mail service.

If this appears to you as a far-fetched assumption, take

¹ See also, "Fighting Fires Privately" by F. A. Harper, page 218 of this volume.

the case of the telephone. Here is a service that is one of the modern marvels, developed entirely without government aid and operating a nationwide and complicated network. It is seldom that one hears a word of criticism of either rates or service. But suppose Alexander Graham Bell had been told that only the government could develop the telephone properly. After all, it is a form of communication, just as the mails are. If that decision had been made, today we should have a state-owned telephone system—and most people would be assuming that it was “just naturally” a proper sphere for governmental rather than private operation.

But does anyone think we should have a better service? If so, let him pay a visit to the nearest post office and take a look at the way it is run—or let him compute the length of time it requires to transmit a letter from Washington to New York!

And what about aviation? If the Wright Brothers and the other pioneers had believed that the utterly new, difficult, and extremely hazardous adventure of conquering the skies was “just naturally” a job for the government, and if the State had taken over at that time, we should today be riding in state-operated airplanes—and most people would be assuming that aviation was not a proper field for private enterprise.

But does anyone dream that the equipment and service would be better? If so, let him take a ride on a government-owned train in England or France or Argentina.

Fire fighting, after all, despite its occasional hazards, is relatively simple when compared with the vast intricacies

of the airplane and the telephone, or with the electronic wizardry of radio and television. If these could reach their present stages of efficiency and near-perfection under private skill and initiative, can anyone doubt that fire fighting would have fared equally well?

If anyone does have such doubts, let him visit the Rural Fire Protection Company of Phoenix and see what private initiative has accomplished. And what was the motivation for that enterprise? Did Louis Witzeman start his company to prove an economic principle or teach a lesson in freedom? Certainly not. He set out to do a needed job for his suburban area—a job that he believed could be made serviceable for his neighbors and beneficial for himself.

But in the process of succeeding, he has demonstrated the inexhaustible vitality of human enterprise and ingenuity when left free to operate untrammelled and uncoerced. Concerning the limitless ability of man to invent and achieve we never need to have any doubt, because all about us on every hand we find the evidence to support this faith.

THE GROWTH OBJECTIVE



"MAN is a creature who lives not upon bread alone, but principally by catchwords," wrote Stevenson three-quarters of a century ago. Economic debate is a running record of the correctness of his statement. One catchword after another takes the popular fancy, is bandied about as if it were the final expression of truth, becomes the slogan for a variety of debatable proposals, is gradually subjected to the cold light of analysis, loses its glamor, and passes into the discard, to be followed by another magic phrase.

Among the catchwords in greatest favor at the moment is "economic growth." Like other catchwords, it expresses or implies an objective which is obviously desirable in itself. It is harmful only to the extent that it comes to be regarded as describing a new and epoch-making discovery that supersedes old rules and principles, and hence is used to justify specific measures that violate these rules and principles.

Economic growth is usually discussed in terms of what the Department of Commerce calls the gross national product, the total estimated money value of all goods and services produced in the United States within a speci-

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fied period. Unfortunately, money is the only common denominator available to measure the wide variety of goods and services produced. Money, however, is a very imperfect unit of measurement because the value or purchasing power of money changes as prices rise and fall. Variations in the gross national product, therefore, reflect two sets of changes: changes in the amounts of goods and services produced and changes in the prices of these goods and services.

To overcome this difficulty, the Department of Commerce estimates the gross national product not only at current prices but also in terms of a hypothetical dollar of constant purchasing power. This is the so-called real national product, a sort of aggregate of what may be roughly thought of as the physical volume of output, although no physical unit of measurement is or can be used, and although physical volume has no literal meaning when applied to the output of services.

The real national product, despite its admitted vagueness and imperfections, is generally accepted as a useful concept and a fairly good measure of over-all production, and the increase in this product from one time period to another is what is usually meant by economic growth.

Thus defined, economic growth is an objective with which few people could quarrel. It means more useful things to serve the needs and desires of the people. It is what men have always striven for in their individual lives and what economists have always pointed to as the greatest hope for material progress in the future. It is an idea, an aspiration, and a reality as old as human his-

tory. Despite the immense obstacles placed in its way by ignorance, superstition, physical violence, and political interference, it has been interrupted only temporarily, because it is a product of human nature and normal human behavior.

Growth in a Free Society

In a free society protected against violence and fraud, economic growth is an automatic process. It takes place as a result of the desire of individuals to better the material condition of themselves and their families. In this endeavor, people save, invest, devise new and better tools, invent new products and new processes, and employ other people in order to operate more efficiently and on a larger scale. In this respect, individual proprietors and corporations behave in essentially the same way. Under the spur of competition and the profit motive, they strive constantly to produce more and better products at a lower cost. The result is economic growth.

For centuries during and after the Middle Ages, this natural process was retarded, and at times halted completely, by the extreme insecurity of life and property and by tight political restrictions on economic activities. When the system of state prohibitions and state-protected monopolies now known as mercantilism gave way to a regime of relatively free enterprise about two hundred years ago, the Western world entered upon a period of unprecedented economic growth. Within decades, the material conditions of life changed more than they had

done in centuries of feudalism and mercantilism. This almost explosive progress is still going on, and it still owes its vitality to the same individual initiative, the same desire for personal self-betterment, the same freedom from paralyzing controls that actuated it from the beginning.

Economic growth in our complex modern society, while automatic in the sense of being self-generating, is not completely smooth and uninterrupted. It requires balance among many interrelated and interacting forces. As saving and investment increase, the supply of productive equipment must increase accordingly, and the same is true of the relation between consumption and the supply of consumer goods. Prospective markets cannot be gauged with perfect accuracy, nor can prospective costs. Industry must become familiarized with new processes and consumers with new products. Workers must find and learn new jobs. There is a constant need for readjustments and the correction of errors, and these corrections take time. For all these reasons, total output can never equal theoretical capacity. One hundred per cent employment of human and material resources is an impractical dream.

How fast can economic growth occur in practice? Between 1929 and 1957, both of which were years of generally good business, the real national product increased at an average rate of slightly less than 3 per cent a year. This company's index of business activity, which reflects a long-term rate of growth approximating that of the real national product, rose at about 3.6 per cent a year during the postwar period 1947-57. It is questionable,

however, whether such a high rate can be maintained over a longer term, as the postwar years were to some extent a "catching-up" period following the long depression of the 1930's and the war-induced shortages of the early 1940's. Experience so far suggests that 3 per cent is about as high an annual rate of growth as can be reasonably expected over a long period, although any such answer must, of course, remain subject to revision in the light of future developments.

The essential point is that experience must be the guide. No arbitrary rate can be postulated and treated as a national objective. This is where the sloganeers of "economic growth" are treading on dangerous ground. To them, economic growth is not merely a natural and desirable occurrence; it is a program. They would set up a goal based upon theoretical calculations rather than practical experience, and in striving to achieve this goal they would make use of fiscal policy, monetary policy, and various forms of centralized planning.

The most popular objective among the "economic growth" enthusiasts seems to be a growth rate of 5 per cent a year, apparently because this is approximately the average rate for the early postwar years when industrial reconversion from war to peace and the great upsurge in prices were over. This is below the wartime rate of 10 per cent or more achieved under obviously abnormal and highly inflationary conditions, but it is substantially above the 3 per cent rate based on actual long-term experience. The 3 per cent rate is rejected by the "5 per-centers" as inadequate because the long span of years

on which it is based included some periods of recession—with the clear implication that such periods can and should be avoided in the future.

How would recessions be avoided, according to the 5 per cent school? Principally by making the 5 per cent growth rate a national objective and shaping fiscal, monetary, and business policies around it. To begin with, federal spending would be deliberately increased at that rate. This rise in federal spending, reinforced by appropriate tax, monetary, price, wage, and profit policies, would cause other types of expenditure to increase accordingly. The increase in total expenditure would be matched by equivalent increases to output, incomes, and governmental revenue so that there would be no price inflation, no Treasury deficits, no increases in tax rates, and no rise in the ratio between governmental and private spending. The only difference would be that economic growth would proceed steadily at the 5 per cent rate, instead of varying from year to year and averaging out at about 3 per cent, as in the past.

This program is so full of gratuitous and unrealistic assumptions that it would be difficult to know where to begin the list. Its weaknesses might be summarized by the statement that it assumes the feasibility of an arbitrary rate of growth at variance with the testimony of experience, and assumes further that this rate could be achieved by inflationary methods that would stimulate without inflating and without causing a “boom-and-bust” cycle.

Actually, the rate of economic growth in a free society

is determined by the same factors that cause it, namely, the relative propensity of individuals and business firms to spend, save, and invest. It is the net resultant of a complex set of powerful forces. It cannot be predetermined, and any plan to increase it by fiscal manipulations is simply a blueprint for inflation.

It is easy to understand why theorists become impatient when they contemplate the gap between actual output and full capacity, and why they are prone to devise schemes for closing this gap. Yet it is significant that businessmen are seldom found among proponents or adherents of such schemes. Businessmen know by experience that economic freedom includes the freedom to make mistakes and that only in a society where mistakes are never made can output continuously match full capacity. Economic regimentation offers no solution, because dictators also make mistakes, and their mistakes not only are on a larger scale but also are beyond the discipline of free markets, the great automatic correctors of mistakes. Dictators' mistakes may not cause unemployment in the usual sense, but they are sure to cause hidden unemployment in the sense of misdirected utilization of resources.

The desirability of economic growth is not subject to question, and if the United States can achieve a long-term annual growth rate of 5 per cent or even more, so much the better. But when economic growth becomes a slogan for proposals aimed at uninterrupted business boom, it becomes a menace to economic stability and economic freedom as well.

THE CORRUPTION OF UNION LEADERSHIP

by Sylvester Petro



The greatest tyranny has the smallest beginnings. From precedents overlooked, from remonstrances despised, from grievances treated with ridicule, from powerless men oppressed with impunity and overbearing men tolerated with complacency, springs the tyrannical usage which generations of wise and good men may hereafter perceive and lament and resist in vain.

THE LONDON TIMES (1845)

COERCION marks the beginning and corruption the conclusion of the march of union power observable in the McClellan Record. The process begins with the use of compulsion to secure members. Thereafter new and different coercive devices are used to bind the unwilling employees to the union. After a union has learned the use

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fulness of coercion in increasing membership, it falls into the habit of using even more in disputes with employers.

Some trade union leaders hold that any employer who resists their demands is an "enemy of the labor movement" who must be taught a lesson, and, if he continues to resist, must be exterminated. If employees themselves refuse to acquiesce in strikes, if, instead, they exercise their right to continue working during strikes, they are considered traitors, against whom brutal reprisals are not only permissible but praiseworthy.

Law-enforcement officials sometimes stand in the way, however, and it therefore becomes necessary to take care of them, too. Pure bribery is not always the appropriate method here, and often a generous campaign contribution will do as well. If the laws of the land pose an obstacle to the use of union power against traitorous employers and employees, then the laws must be changed, and full-scale political action, largely financed by membership dues contributed in a substantial degree by workers of differing political views, is the appropriate vehicle of change. Candidates who support the unions' claims of special privileges to coerce and compel get extensive, expensive, and enthusiastic political support; those who insist that the laws of the land should apply to trade unions are marked for extinction. Too often the unions have their way, although a startling exception here and there indicates that the black night has not yet fallen.

Meanwhile, alongside the structure of traditional unionism, there begins to grow in its shadow a murky pseudo-unionism. A two-stage process is at work. Fre-

quent use of coercion and violence by traditional unions induces their leaders to include on their staffs—alongside college-trained economists—men with criminal records and backgrounds of brutality; if dirty work is to be done, it is just as well to have a person around who has had some experience with it. And the practical privilege to coerce, to extort, to shake down, to compel (such as has accrued to the unions) is precisely what the denizens of the underworld, the professionals of organized crime, have been searching for most avidly, ever since the rich pickings under Prohibition dried up.

If a single picket will harm a business badly enough to make the owner sign up with the union, maybe it will also serve to shake loose some immediate money. In either case the picket line is coercive, and if it is a specially privileged form of coercion in the one case, why not in the other? Thus the professional extortionist discovers a new tool for his trade, and thus too are born "racket-picketing" and its associated shakedown techniques.

Convicted criminals are in the unions then with both feet—as adjuncts to traditional unions, and on their own, cynically using the form of unionism as a cover for their age-old methods of getting ahead in the world. The one thing they have never learned is how to work for a living. As union agents and leaders, they live very well off the product of those who have learned how to make a living through socially useful work—the businessmen and workingmen of the country.

Although society at large may know very little about

all this, it pays the bill—an overwhelming, extortionate, and destructive bill. A shakedown induced by “stranger-picketing” has to be made up by the businessman somehow.

The situation is not made any better by the shrill accusations of the union leaders against businessmen about the high cost of living and unemployment. The plain fact is that no businessman ever *likes* to cut back production. He does so only when he has to. More often than not the union leader has been responsible for pricing union members out of the market. For that he ought to be fired, or law and law enforcement ought to be rigorous enough to keep him from abusing workers, union members, businessmen, and the public.

The point cannot be emphasized enough. The harm done by criminals masquerading as union officials is enormous and filled with the most ominous signs for the future of society. But it is still less than that produced by the power of the traditional unions. They daily coerce and brutally attack workers who decline to join or refuse to participate in strikes. They throw out of work hundreds of thousands of men because of their artificially inflated wage costs. They create irresistible inflationary pressures and compound the evil by encouraging costly and destructive deficit-spending by governments. Through the use of legal and political special privileges, they tie up entire industries into tight monopolies and cartels which abuse the public and threaten the destruction of the free and competitive economy which has always been the American ideal.

This is the panorama of union power. Traditional unions have secured for themselves special privileges which vest in them unlimited power. This power, like any other unlimited power, can only be abused, and it is abused. Violence and economic coercion by themselves create socially harmful conditions, the consequences of which are infinite and unpredictable. Besides, they exert a magnetic force, drawing to the trade unions some of the worst types of criminals, who find there an environment which suits them.

The combination is a destructive force which no society can long survive: on the one hand, abuse of the citizenry and impairment of peaceful, progressive, productive activity; on the other hand, dissolution of the moral and political structure. In the special privileges of coercion and compulsion which unions have gained, there breeds a rotten growth which corrupts the whole moral and political structure of society.

The same thinking which is producing the Welfare State has also been largely responsible for the special privileges accorded trade unions. Furthermore, the welfare-state ideology has given the State so many diverse jobs to perform that it can no longer properly perform the basic job for which it was designed. That job was to insure domestic tranquility by protecting honest citizens against thugs and criminals. Proper performance of that basic function requires, obviously, a primary and predominant preoccupation by government with the police force and the administration of justice.

While we expend our substance in granting special

privileges and subsidies to the strong pressure groups, encouraging idleness and unproductiveness, we underman our police forces and pay them poorly, so that they have neither the numbers nor the quality of men necessary to do what is, after all, the basic job of civilization: keeping the peace.

While recognizing, then, that Senator Ives had hold of a piece of the truth in observing that the crime disclosed in the McClellan Record is a part of the larger problem of law enforcement created by the welfare-state distortion of the role of government, his view is not on the whole accurate. At least it is not the whole truth if he means to say that there are no independent causes for the prevalence of crime and corruption in trade unions. *It is not the whole truth because it fails to explain why, among all the other private associations of society—the business firms, the bar associations, the medical associations, and the thousands of other private associations in this country—violence, crime, and corruption do not prevail as they do among trade unions.*

Violence, crime, and corruption prevail among trade unions to a degree unmatched in any other private association because trade unions have acquired from society and the law special privileges allowed to no other private association. There is every reason to believe that any other private association accorded the same privileges would manifest the same characteristics which the McClellan Record discloses in trade unions.

If, for example, businessmen were allowed to compel the purchases of their customers, to assault them when

they showed any intention of removing their patronage, and to block access to competitors—there is very little reason to believe that such conduct would not become common business practice, leading to more and more of the same as the selective process wore on in business in the way that it has in trade unions: with the productive and the ingenious giving ground before the thugs, the bullies, and the master strategists of large-scale organized violence.

Businesses compete in a civilized way partly because the law compels them to do so and partly because the law's compulsion has created a selection process which grinds out the thugs and the lawless and advances the able and the industrious. Among trade unions, precisely the contrary process of selection has been going on, with, as might be expected, precisely the contrary results.

The sources of the special privileges which trade unions enjoy are to be found in the policies and conduct of the federal government over the past thirty years, beginning in 1930 and continuing to this date. The responsibility is nonpartisan, with Republicans and Democrats sharing it, although not in equal proportions. It is distributed in another way. Rather than being confined to one or another of the three branches of the federal government, it is shared, instead, by all three: the legislative branch, the executive branch, and the judicial branch.

Unwise laws have been made worse by the administration and interpretation they have had, while socially beneficial laws have been reduced to impotency by re-

luctant administration, on the one hand, and dubious interpretation, on the other. Without exonerating Congress from its share of the responsibility, one still must acknowledge in the interests of accuracy that its record is not as defective as that of the other parties: the National Labor Relations Board, representing the executive branch; and the United States Supreme Court, representing the judicial branch.

Accuracy calls for further qualification. There have at all times been on the Supreme Court some justices who resisted valiantly and with great legal ability the errors and excesses of that Court. Again, some of the justices who earlier participated in the most dubious decisions of the Court have shown since then that theirs were good-faith errors; and, as all good and learned men will do upon finding themselves in error, they have taken steps toward correction.

It should also be noted that at frequent intervals between 1935 and 1953 there were some members of the NLRB who recognized and dissented from improper decisions of the Board. Moreover, the majority of the Board since 1953 has been guilty of nothing comparable to the outrageous misinterpretations of the Taft-Hartley Act handed down by the majority which prevailed from 1949 to 1953, although the more recent majority has been very slow to correct some and has failed completely to reverse the most serious of its predecessor's misinterpretations.

Whereas the NLRB and the Supreme Court have preponderantly contributed decisions heightening the abusive powers of trade unions and negating the efforts of

Congress to reduce such powers, the record of the Federal Circuit Courts of Appeals has been one, preponderantly, of the kind of excellence in legal scholarship, fair-mindedness, and fidelity to law and precedent which is to be expected of all judges. The Circuit Judges, with some exceptions, have neither tried to give trade unions and their officials more privileges than the laws of Congress intended, nor have they negated, except by direct mandate of the Supreme Court, the laws of Congress which were intended to limit abusive and monopolistic trade-union conduct.

Little need be added at this point on the kind of corruption at all levels which we have witnessed in the preceding chapters. . . . But we must bear in mind that moral and political corruption of the varieties recounted there rot integrity at all levels and thus weaken the fiber of society, making it prone to further corruption of a million kinds in a million ways, every day. Nonunion men treated brutally as outlaws and union members as serfs, the infiltration of unions by professional gangsters, extortion from businessmen, bribery and corruption of public officials, the theory that trade unions are *entitled* to special privileges from government—no society can survive much of that for very long.

All these put together, however, probably do not equal and certainly do not exceed the danger inherent in the necessary course of monopolistic unionism. As much as trade unions may protest their virtue and distort the truth, it is the opinion of the most competent economists in this country, and of the greatest economists in the

world, that monopolistic trade unionism will destroy any free enterprise system if it is allowed to proceed unchecked. Many of America's ranking economists have come to more or less this same conclusion—Fritz Machlup, Milton Friedman, David McCord Wright, Edward H. Chamberlin, Philip Bradley, Henry C. Simons, and many others of equal ability and disinterested devotion to truth.¹ Their conclusions are shared by economists of unsurpassed international reputation, including Friedrich A. Hayek and Wilhelm Roepke, as well as the man who has in our time achieved the greatest stature of all in the social sciences, in my opinion, Professor Ludwig von Mises.²

All these men agree, not only as to the fact, but as to the process by means of which trade unions will, if unchecked, bring about the destruction of the free society. First, compulsory membership leading to dictatorial con-

¹ For some of the books in which these men have expressed their conclusions and explained their reasoning, see: Henry C. Simons *Economic Policy for a Free Society* (Chicago: The University of Chicago Press, 1948), pp. 121 ff.; Fritz Machlup, *The Political Economy of Monopoly* (Baltimore: The Johns Hopkins Press, 1952), pp. 333 ff.; David McCord Wright, editor, *The Impact of the Union* (New York: Harcourt, Brace & Co., Inc., 1951) (containing a paper by Professor Friedman); *Labor Unions and Public Policy* (Washington, D. C.: American Enterprise Association, 1958) (which carries the articles by Professors Chamberlin and Bradley cited elsewhere in this book). See also Charles Lindblom, *Unions and Capitalism* (New Haven: Yale University Press, 1949).

² One of the chapters of Professor Friedrich A. Hayek's forthcoming book, *The Constitution of Liberty*, is a masterful analysis and summation of the opinion of economists as to the consequences of unlimited union power. Professor Mises' great work is *Human Action* (New Haven: Yale University Press, 1949), although he deals with the destructive tendencies of monopolistic trade-unionism also in *Socialism* (New Haven: Yale University Press, 1951), pp. 457-84.

trol of all workers; second, through the ensuing monopolistic regimentation of all industry, the securing of wage structures higher than the market will bear; third, in inevitable consequence, drastic and severe unemployment of great numbers of workers; fourth, clamorous insistence that government, through deficit spending, create jobs and other subsidies for the men thrown into unemployment by the union monopolies; fifth, loose money policies by the monetary arm of a government politically committed to "full employment" policies; sixth, a crack-up inflation; seventh, consequent mangling of the lives of all those who have attempted to save; eighth, increasing chaos and dislocation; ninth, the rise of vicious demagogues playing upon the confusion, chaos, and dissatisfaction of the populace to secure for themselves dictatorial powers which permit them to apply totalitarian remedies which the Constitution of the United States inhibits; tenth, dissolution into the jungle.³

The McClellan Record demonstrates the fundamental culpability of the federal government for the intolerable conditions which exist in labor relations. Attacks on thugs, racketeers, and power-hungry union leaders miss the real point. The real problem, the real fault, lies in a theory of government which insures an awful paradox: a virtual anarchy within a plethora of laws. We have thousands upon thousands of rules and statutes, millions upon millions of government employees. Yet we have no *law*.

The ultimate responsibility falls to the public. But this

³ See Mises, *Socialism*, pp. 457-500.

fact does not absolve the members of the government from all responsibility. It is their job to inform the public that they cannot deal with all the things which the special privilege groups are seeking and still run a decent government in the *general* welfare. Then it is the job of the public to understand that government, like all other human institutions, has very narrow limits. It may be able to do a fair job of providing for the national defense, of keeping the peace, of enforcing the laws, and of administering justice in the courts—if it devotes all its time and energy to those difficult tasks. But it cannot do those things at all, as the McClellan Record so vividly demonstrates, if its energies are expended on every pet project upon which every pressure group from the National Education Association to the National Committee for the Protection of Tropical Fish comes running to Washington for help.

I do not know of any short way to bring about limited and therefore effective government in this country; that will come only when large numbers of people appreciate its value and insist upon it. Yet I am convinced that the jungle, retrogression, and decay are the necessary result of unlimited government, just as they are the necessary result of unlimited power in trade unions. No civilization can long survive unlimited power in any hands. The greatest contribution of the McClellan Committee lies in its overwhelming documentation of that truth.

WHY PROTECTION IS EASIER TO SELL THAN COMPETITION

by R. C. Hoiles



THERE must be a reason why protection or the Welfare State is so popular and has made such headway in our country and throughout the world.

Undoubtedly it is because many people believe it is the best way to relieve poverty and promote more general prosperity.

If that is true, then why do they so believe? Could it not be because the material results of protection, in whatever form it takes, are both concentrated and obvious, while the costs, the consequences, are diffused, concealed, spread out in small amounts? Force is usually quicker and more noticeable than persuading—getting a person to think and reason.

When the State gives a man material assistance or protection from competition, it relieves him immediately and temporarily of part of his problems. It is so concentrated and concrete, it is easy to see, while the taxes for this particular protection are diffused and indirect in most cases. Or when labor unions protect a worker from

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competition of other workers and he gets an increased money wage, it is easy to see. It is also immediate. In short, the benefits are concentrated and present and thus easy to see, while the costs, the disadvantages, are diffused and paid for in small amounts by many other persons and are thus harder to see. Superficially, the costs may seem to be postponed, as though the redistribution were yielding a societal advantage for a time; but this is strictly an illusion stemming from inadequate cost accounting methods. The actual costs, if they could be seen, are as real and as immediate as are the presumed benefits.

The Consequences of Retaliation

The union member sees he gets more dollars in his envelope and thus believes he is benefited. What he does not see is that if he can get temporary material benefits by striking, many other workers will do the same thing. Nor does he see that the employer has to get all the money he pays in wages from his customers—other workers. If he is not able to collect all costs, including wage payments, and if there are no profits or no hopes for profits, there are no jobs. This unemployment reduces production and increases prices. On the other hand, the more profits, the more competition between employers to hire help, the higher real wages will be. Also, the more competition in selling the product, the lower prices the employees have to pay. This is continuous and diffused and thus harder to see.

So all these extra labor costs are passed back to other

workers, past or present, along with any extra costs that stem from lower production, unemployment, feather-bedding, seniority, strikes, nonproductive business agents, lack of individual responsibility, and so on.

But these costs are diffused—a penny here and there on the hundreds of different items everyone uses—and they are thus harder to see. Besides, they are lumped with all other costs so that it is difficult, if not impossible, to know how much they total.

The same diffusion that takes place in labor unions' added costs takes place in every protection or subsidy by the government—federal, state, county, city, or board of education. The added costs in the form of taxes are diffused and scattered over thousands of articles and are not as noticeable as the subsidies or the gain resulting from government or labor union protection.

Most people look at immediate wages or prices they get for what they sell under protection as all benefit, and fail to see the little additional prices added to the hundreds of items they buy. Nor do they see that these added costs continue as long as the cause continues.

It is also difficult to see how a free and unhampered market benefits the worker because the benefits are on everything he buys though small on each item. The benefits are not in one lump sum. Nor are they temporary, as are arbitrary wages, but continuous and cumulative.

The benefit of personal charity also is concentrated and easy to see because it is a lump sum.

Many people believe the donor is benefiting mankind more than the person who puts the same wealth into

tools that increase production, thus raising real wages and lowering prices in a continuous process.

The benefits from more tools are so diffused that many people think continuous charity is more beneficial to mankind than furnishing tools that benefit everyone.

The duty of every person is to try to understand what means must be used if we are to have peace and more and more prosperity for all.

Those with practical experience in producing the comforts of life are convinced that the best way is for each and every person and the government to have respect and reverence for the creative energy of all mankind.

Free, private enterprise is not as spectacular nor as easy to see as the socialist way of temporarily diffusing poverty by eating up the seed corn—the tools—which will increase poverty in the long run. Free enterprise is the surer and so far the only known way of constantly improving the well-being of mankind.

What we need is not to be blinded by the transitory benefits of protection but to see the blessings that continuously follow the free, private enterprise system, even if it is harder to see—that the gain of one in creating wealth is the gain of all.

VALUE JUDGMENTS IN THE CLASSROOM

by *Patrick M. Boarman*



It took Sputnik to awaken Americans to the noxious effects on American secondary schools of a quarter century of "progressive education." Increasingly, we are recognizing that a wrong-headed emphasis on "life adjustment" courses to the neglect of standard disciplines such as mathematics and languages has enabled the Soviet Union to equal and even to overtake us in various crucial areas of science and technology. But in all the ferment about the deficiencies of our secondary education, relatively little attention has been given to the *moral aimlessness* of much of American higher education.

While the Soviets are bending every effort to disseminate the values of communism both at home and abroad, not a few professors at American institutions of higher learning are showing increasing concern at the intrusion of values of any kind into the classroom. Once again we are hearing the well-worn cliché about the exclusion of value judgments from the lecture hall and the need to preserve the scientific objectivity, i.e., the moral neutrality, of higher education.

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"Too many of us [teachers]," opined a colleague of mine in a student newspaper, "are frustrated preachers, frustrated world-savers, forgetting we are not hired for our values (hiring criteria which would violate academic freedom). A teacher who seeks converts from his captive, receptive audience is bullying, however kindly. In shaping values he is doing somebody else's job (probably the student's) while neglecting his own. . . . Should the historian advocate democracy, or the sociologist deplore segregation? Even when the instructor is confronted point-blank with an answer-demanding student, the answer is NO; education and propaganda differ in goals and therefore in techniques. Having political, economic, and religious views is everyone's right, but not a teacher's classroom privilege."

What Are Those Fearful Values?

What precisely are the "values" which are so feared? Values involve commitments to *a priori* moral positions. To have values means to have standards in terms of which things or events or persons are judged as good or bad. To believe in the inviolable dignity and worth of every human being, for example, is to make a value judgment. To believe that man has certain inalienable rights such as life, liberty, and the pursuit of happiness is to accept without further argument certain "values." To be in favor of honesty, fair play, and respect for parents, to be opposed to murder, robbery, involuntary unemployment, and unnecessary suffering, to stand for hu-

man freedom and against totalitarianism—all these constitute value judgments or moral judgments.

Is it possible or even desirable to exclude such values or value judgments from classroom discussion?

Historically, the movement to eliminate value judgments from scientific inquiry is associated with the flowering of the physical sciences in the Renaissance and post-Renaissance periods. Advances in the physical sciences required an open mind and a willingness to throw overboard unproved hypotheses in the light of new evidence. At the same time, certain cosmological doctrines inherited from the past (e.g., the earth is the center of the universe) proved extremely difficult to dislodge because of their association in the minds of many with the theology and the system of values of Western Christianity. A disastrous and thoroughly unnecessary conflict between science and religion was provoked by the refusal of some ecclesiastical authorities to relinquish the erroneous idea that the truths of Christianity are somehow bound up with Ptolemaic cosmology (witness Galileo's difficulties).

There is, of course, no logical or essential connection between physical phenomena or physical laws and a given set of values, but this realization came only after a period of frustration for the pure scientists—hence, the early and persistent animus in scientific circles against value judgments and value systems. On the other hand, not a few of the most competent scientists of the modern era (the names of Max Planck and Pasteur come to mind) were devout Christians, that is to say, they held strong

opinions about man, his place in the universe, his ultimate destiny. These men lived and worked within the general framework of their Christian assumptions though they did not regard these value premises as immediately relevant to the investigation of physical phenomena. They saw, at any rate, no incompatibility between their belief in science and their acceptance of the idea that there are some values which are valid for all men, as men. It was left to nineteenth century positivism to attack value judgments *per se*, to claim that all values are relative, and to spread the false and irrelevant notion that the ideal scientist is one who makes the fewest possible value judgments.

Now if there are sound reasons why value judgments should be banished from the pure scientist's laboratory (if not from the other areas of his life), this is certainly not true of the social sciences. For the social sciences do not deal with inorganic materials nor primarily with biological functions nor even with the organization of ant colonies. They deal with man, the source and subject of values. Man must have values; the "valueless" man is a monstrosity and he does not, in fact, exist. Consequently, the social scientist cannot be indifferent to what is "good" or "bad" for man.

Indeed, the premises of social scientists are themselves value judgments. The sociologist who endeavors to trace the causes of disintegration of the family assumes that "integration" of the family is "good." The economist who probes the causes of business cycles assumes throughout that the involuntary mass unemployment generated

by cyclical fluctuations is a social evil. It is the latter assumption, indeed, which gives point and significance to his inquiry. The political scientist who contrasts democracy with totalitarianism, or slavery with freedom, assumes in his premises that the human situations these words describe are either good or bad. In short, the point of departure for the social scientist is a value judgment of some kind.

To say that the social scientist necessarily begins with value-loaded premises does not mean, of course, that he has *carte blanche* to indulge in an emotional orgy of mere opinion, for if he did, his activities would cease to deserve the name of science. His obligation as a scientist is to state his premises, i.e., his value judgments, clearly and explicitly and then to construct syllogisms from whose second and third terms, at least, value judgments have been excluded. In the social sciences, this is sometimes hard to do (which doesn't excuse us from making the effort).

To illustrate: one way of solving the problem of poverty in old age (note the value premise) is to enact an all-embracing federal welfare program for this purpose. A plausible case can certainly be made for this type of program. But there is an alternative solution, viz., more effective mobilization of the resources of the private sector of the economy (by increasing the scope of private insurance programs and of private pension plans, and the like). If we assume that both types of solution, the governmental and the private, are equally economical and efficient, then the economist who generally favors big

government and takes a dim view of private enterprise will tend subconsciously to favor the governmental solution. A value judgment will enter his syllogism even in that portion of it which he believes to be "value free." Likewise, the economist who supports an increase of private activity in the welfare field because he fears the ultimate consequences of unrestrained growth of central government, will have admitted a value judgment to his conclusion as well as to his premises.

It might be added that economic science itself is meaningful only within the context of a value, to wit, freedom. The laws of supply and demand presuppose the freedom of producers and consumers to respond to the stimuli of the market and thereby to make effective their respective value judgments. The economist's diagrams of the elasticity of demand and the marginal efficiency of capital posit freedom just as the physicist's equations posit a finite universe.

Students May Agree or Not

The point of all this is that it is hardly possible to exclude values or value judgments from the social sciences. Obviously, every effort should be made to prevent their intrusion into the stages of argument which follow initial premises. Where this cannot be easily done, the values in question should be made explicit and their relevancy justified.

It is far more insidious for a teacher to present his arguments and his position in a classroom as if these

were completely value free (when in fact they are not) than for a teacher to state his premises frankly and openly and then go on to seek the truth that flows from these premises. A teacher who prides himself on his ability to leave his values outside the classroom, who tries to pretend that he is indifferent to infanticide, wife-beating, racial intolerance, and involuntary unemployment is probably either a monster or a hypocrite.

When values are clearly stated, students are free to agree or disagree with them. But where values are concealed in the name of a specious objectivity, students will be brainwashed without being aware of it; they will be hoodwinked, even though unintentionally.

It is, indeed, disturbing to find increasing numbers of social scientists acting as if values had nothing to do with them. The explanation is to be found, partly, in the social scientists' deep sense of inferiority vis-à-vis the physical sciences (physicists produced an atom bomb, after all, but economists can't even cure a mild recession). This inferiority complex impels the social scientists to ape the wholly inappropriate techniques and attitudes of the physical scientists (including the latter's ability to ignore value judgments, at least in the short run). But not all the abracadabra of mathematical formulae and esoteric jargon with which we fondly imagine we are conferring exactitude on the social sciences can turn man into a molecule or an atom. Behind the curves and graphs and equations and the mysterious terminology stand free human spirits, incomparable and unique. And while we can estimate with some precision what man will do as a

member of the herd, we cannot, no matter how hard we try, argue away his values. Values are a part of man and therefore a part of the study of man.

The idyllic period is past (if it was ever justified) in which we can abstract from value judgments in the social sciences. If we persist in our ostrich attitude, we may discover all too soon that, like Archimedes, we have been drawing geometrical tables in the sand while conquering hordes have been breaking into the city. Even the "purest" of our scientists, the atomic physicists, have been doing rather considerable moralizing of late as they awaken to the horrendous possibility of their "science" being used to exterminate the human race.

If a list of the most inspiring and influential teachers of the past could be drawn up, it might well show that the majority were men who were strongly and even passionately committed to certain values and who communicated these values both in the classroom and outside it. Education is, after all, not a one-sided process aimed exclusively at the communication of facts and the development of skill in correct reasoning. Education of the whole man is also moral, that is, it involves the inculcation of values. To abdicate this responsibility in the name of a spurious scientific objectivity is to create a moral vacuum in the minds and hearts of our youth.

It was the cult of a misplaced objectivity in the German universities which was partly to blame for their being the *first* instead of the last bastions of freedom to fall before Hitler's onslaught. And the behavior of a not inconsiderable segment of American youth today has fur-

nished some pretty shocking evidence as to the kind of "values" that can and do fill the moral vacuum. It is time that we learned afresh the truth that if liberty, justice, and human dignity are to survive in the world or even in this country, they cannot be ignored—either outside the classroom or in it.

FEDERAL AID FOR EDUCATION OR, FISCAL LEGERDEMAIN

by H. P. B. Jenkins



It was a cloudy afternoon
At story-telling time.
Old Kaspar chose a fresh cigar
And poured a rum-and-lime,
While Peterkin and Wilhelmine
Looked at the television screen.

They saw a crowd of laughing men
Go through an open door,
And dump their loads of dollar bills
Upon the Senate floor;
Then all at once without delay
They fought for loads to take away.

"Now tell us what it's all about!"
The little children cried.
"It's Federal Aid for public schools,"
Old Kaspar soon replied;
"It pays for schools in every town,
And keeps the local taxes down."

"There was a time," Old Kaspar said,

 "When folks from east to west
Could not afford a decent school,

 But now they have the best;
For when they're short of cash, you see,
They get their federal subsidy."

"But all the cash those people got
Was what they brought today!"

"There are some folks," Old Kaspar sighed,
 "Who think of it that way;
But most believe that Federal Aid
Is larger when received than paid."

A CHILD'S DIARY

by Rose Grieco



MONDAY:

Mommy looks awfully tired tonight. She really had a time, putting on a play for the Brownies. She worked on it for weeks, and today they finally gave it. Everybody said it was nice, and that Mommy was doing a wonderful job with the Brownies. I'm glad because she spends so much time with them . . . and talking on the telephone with their mothers, and always trying to find out interesting things for them to do.

On account of the play, we had scrambled eggs again tonight, and Daddy said something about it . . . and how he thought a man who worked all day certainly ought to get something better than scrambled eggs when he came home . . . and he was getting awfully tired of it . . . and if she couldn't cook her family a decent dinner, then he'd eat in New York before he came home. Then Mommy started to tell him about the Brownies, and Daddy yelled

In addition to free-lance writing, Miss Grieco teaches PTA-sponsored dancing and creative dramatics classes and works with the Recreation Department of Montclair, New Jersey.

out, "Your Brownies be damned!" And Mommy gasped because Daddy doesn't use that kind of language. And then they were quiet for the rest of the night.

I hate it when they're quiet.

I was hoping I could start reading *Little Women* tonight . . . but with Mommy and Daddy so quiet, I can't think about anything else. I'll close now because I want to go to bed. Maybe when I fall asleep, I'll forget how quiet it is.

TUESDAY:

I wish I could go to the library today with my best friend, Nancy. But we can't because today is Girls' Day after school. Last week, when I tried *not* going to Girls' Day, Miss Markey, my teacher, called up Mommy and told her I needed more exercise and I should play more with the other children. So Mommy made me promise I'd go to Girls' Day and play games because Miss Markey was so nice to take a special interest in me. We'll have to wait till some Tuesday when it rains and then Nancy and I can go to the library. It's a wonderful place, our library . . . just hundreds and thousands of books and each book is a different world . . . and we can take out as many books as we like . . . all at the same time. Imagine carrying home *five* different worlds under your arm.

It was bacon-and-eggs tonight and Daddy didn't say anything at all. Mommy explained about the meeting she had for the card party so the PTA could buy new draperies for the activities room to make it more cheer-

ful for the Brownies and Scouts when they meet. But Daddy didn't say a word. He finished eating and went to his paper. And it got quiet again.

After a while I couldn't stand the quiet, so I went over and sat on the stool beside Daddy's chair and put my head on his knee. He stopped reading the paper and put his hand on my cheek. When he did that, it felt like the whole world was warm and pink. I put my hand over his, and I didn't mind the quiet anymore. There was something inside me I wanted to say to Daddy, but I wasn't sure just what it was . . . so instead, I held his hand on my cheek . . . and the quiet changed. It wasn't black anymore.

Then Mommy called me into the kitchen to dry the dishes because she had to go to a Board Meeting. When she said she was going to the Board Meeting, she looked at Daddy as if waiting for him to say something . . . but he didn't. When she kissed me good night, she looked so pretty in her new spring hat . . . then she went out without saying anything to Daddy. I wish she had at least said good night to him. I guess Daddy doesn't understand how hard Mommy works at school. That's why she can't cook us a good dinner at night. Why, if she ever dropped out of the PTA, I think the whole thing would collapse . . . because she's over at school almost every day, for one thing or another . . . and what would happen to the school without the PTA?

One time Daddy said that when he was a boy, his mother didn't belong to any PTA and he didn't notice anybody going to the dogs because of it . . . and Mommy

explained to him that times have changed and life isn't that simple anymore. And Daddy said it would be a helluva lot simpler if all those women would go on home and just look after their own little family. I never saw Mommy look so much like she didn't know what to say . . . after Daddy said that. And because she didn't know what to say, she cried. So I guess tonight when Mommy said she was going to the Board Meeting, maybe Daddy thought she would cry again . . . and so he didn't say anything.

When I finished drying the dishes, I thought maybe I'd start reading *Little Women*. But Daddy asked me if I wanted to play chess with him, and it has been so long since we played a game together, that I just ran to get it. I love playing with Daddy . . . he talks to me softer than anybody in the world . . . and he never tells me what's good for me . . . he just makes me happy. I'm so sick of doing things with children my own age . . . they're all alike, mostly. But there's nobody in the whole wide world like Daddy, and even though he isn't in my "age-group" whenever I'm with him, I feel as though I'm half way to Heaven.

We played for an hour and a half. Daddy smoked his pipe, and the smell that filled the room was just wonderful. I wonder why Mommy doesn't like it. Then I had my bath and when I yelled out good night to Daddy, he came upstairs and we said our prayers together. When we finished, he didn't go back downstairs but sat in the chair next to my bed like he does when I'm sick. It was nice to see his face the last thing before I closed my eyes.

WEDNESDAY:

I love Wednesdays because Wednesday is piano lessons. When I go to Miss Danke's all by myself with nobody around me to bother me with questions and silly talk about boys, I feel just like skipping. Because when I walk alone I get a chance to talk to myself. There are always so many things to do with Scouts and Girls' Day and Dancing School that I hardly ever get a chance to talk to myself. I don't think grownups know much about us eleven-year-olds, because if they did, they'd leave us alone a little more.

Sometimes I feel sad when I see how hard they work for us . . . especially Mommy. I'd like it so much better if Daddy got a good dinner instead, but I don't think I could make Mommy understand. And it *is* nice when my teacher or the principal says to me, "Your mother is a wonderful woman. I don't know what we'd do without her." Only I'd rather hear Daddy say it.

Anyway, I like Miss Danke because she never asks me which music I want to learn, like Mary Lou's teacher does. Miss Danke *tells* me. And the music she tells me I have to practice touches something inside me that nothing else in the world does. That's why I like her . . . because I wouldn't know which music could tell me things and which couldn't. But she knows . . . and even though she makes me practice scales, I don't mind. Because after the scales, she lets me play the piece of Beethoven . . . that sounds like the quiet of Mommy and Daddy after we have scrambled eggs for dinner and neither one

knows what to say. Maybe next time we have that kind of quiet, I'll play this sad music of Beethoven . . . and the quiet won't be only sad, but beautiful . . . because maybe it's the sad quiet that everybody has and Beethoven found out about it.

THURSDAY:

Nancy and I thought we might go to the library today, but we can't because Mrs. Thorpe, who has a housekeeper to do all her housework, needed something to fill in her time, I guess, so she organized what she calls a Cultural Workshop at school . . . and today she's bringing some woman who's going to talk on music appreciation and we all have to go. We don't really *have* to go . . . I mean nobody will put us in jail if we don't, only our teacher told us that after all the time and effort Mrs. Thorpe is giving to the school, it would be a shame indeed if we didn't cooperate and listen to her guest . . . who was coming out from New York especially to talk to us. So because Mrs. Thorpe is a nice woman and tries to do things for us to keep us "occupied," we'll go.

Later: Mommy helped supervise the children during the talk on music appreciation because to tell the truth, most of the children didn't seem to really care if music is appreciated.

We got home in time for Mommy to cook a steak and heat some French fries and frozen peas. She bought a cheese cake on our way home because she knows both Daddy and I love it. Daddy enjoyed the steak and said so.

Mommy smiled and they began to talk . . . nothing important . . . just nice talk, like some of Chopin's happy music.

As I got into bed, the sound of their voices warmed up the house.

I didn't read *Little Women* again because I got so tired listening to the lady tell us all the things we should listen for in music . . . when really, I wanted to be at the library . . . that I went right to bed after drying the dishes.

FRIDAY:

Today was Dancing School party. I hate Dancing School because I can't stand it for boys to put their arms around me. Daddy is the only man I want to hold me . . . and his brother, my Uncle Jim. Because when they hold me, I know that nothing in the world can harm me. But with the sixth grade boys, it's different. I didn't want to go to Dancing School. I wanted to stay with the class in Creative Dancing because there we did dances to match the music that talked to us. But everybody else goes to Miss Purdy's Dancing School, except Joe Blake . . . and when I said I didn't want to go, Mommy had a "conference" with my teacher about it, and I heard Miss Markey use funny words like "antisocial behavior" and it frightened me. And because I wanted her to stop using those ugly words, I said all right, I'd go. And Mommy looked so relieved that it was worth it. And Miss Markey patted my head and said to Mommy that maybe if they cut my

braids, it might help me grow out of my "child's world." I said nobody was going to cut my hair until I said so . . . (I've loved my long hair ever since Daddy told me the story of Rapunzel and compared me with the lovely maiden) and that if they cut my hair before I said so, I'd go up to the Pond and drown myself. Miss Markey looked at Mommy for a long time, then she said two more ugly words, "emotionally disturbed." Anyway, I went to Dancing School so Mommy wouldn't have Miss Markey using all those odd words about me . . . and today was the last day of the term . . . so Mrs. Burns, who hasn't "done anything for the children" yet, decided to have us all over to her house for a party after class.

There were quite a few mothers on Mrs. Burns' committee to see that we all had a good time. And since the party went right on till after six o'clock, I wondered how many of *their* husbands were getting scrambled eggs for dinner. When I saw all of Mrs. Burns' beautiful furniture in soft pretty colors, I think I knew why she hadn't "done anything for the children."

Tom Smithers, who always likes to make people laugh, somehow managed to drop his chocolate ice cream on Mrs. Burns' beautiful white circular couch. All the boys laughed and the girls squealed at the top of their lungs. Mrs. Burns came into the room just as Tom Smithers was yelling, "Hey . . . look at my black-and-white soda." And the boys laughed some more. I looked at Mrs. Burns . . . and her lips were quivering. I don't know about anybody else, but I could see just as plain as daylight the tears that were behind Mrs. Burns' eyes. She didn't dare

let them fall . . . because the other mothers were there, I guess. On our way out, I watched Tom Smithers tell Mrs. Burns what a good time he had and how sorry he was about her couch. And though he said it seriously, I could tell he was laughing.

I tried to start *Little Women* tonight, but I couldn't because I kept seeing Mrs. Burns' trembling lips and the tears that didn't come out.

SATURDAY:

Today we packed a lunch and Mommy is taking our Scout Troop down into the Glen for a picnic. I love the Glen. It's so wild and mysterious . . . and Joe Blake told me the violets are growing like crazy down there. He knows . . . because he played hookey from school yesterday. When I asked him what he did, he said he walked the railroad tracks for a while and then he went into the Glen . . . all by himself. He told me about the violets because he knows I love them. He said he didn't think of it yesterday, but next Tuesday, when he plays hookey again, he'll pick some for me. Joe is the "problem boy" in the sixth grade. But I like him better than anybody in the class, except Nancy. He's the only one who refused to go to Dancing School and got away with it. There are six children in his family. It must be nice to go home to a house full of sisters and brothers.

Miss Markey sent Joe to see the school psychologist, on account of the way he likes to play hookey. Joe said he likes to go see the school psychologist because he gets a

kick out of the way Dr. Heyward looks at him. He said he'll probably have to go see him again next Wednesday if he plays hookey on Tuesday. One day Miss Markey told the class we should be kind to Joe because he's "mal-adjusted." Anyway, Joe still gets the best marks in the class, maladjusted and all, so I guess it can't be as bad as Miss Markey makes it sound.

About the picnic today, Mommy said it was very strange that I wanted to go into the Glen last Sunday afternoon by myself, but that I didn't have a good time with the Scout Troop today. I couldn't help wandering off among the trees, away from the noise and talk of fifteen Girl Scouts, and Mommy kept telling me to stay with the crowd. I don't think she understands that when you're alone in the Glen and the only sounds you hear are the birds and the brook and you take off your shoes and run through the violets, it's like the beginning of the world. Maybe next Tuesday I'll play hookey with Joe.

The only trouble is if I play hookey, then I'll be a problem child, too. I don't mind at all being a problem child if it means being like Joe Blake. Only it would hurt Mommy so . . . because she's president of the PTA. Joe doesn't have to worry because his mother doesn't even *belong* to the PTA. She told Mommy over the telephone that the only organization she belongs to is her family. Mommy couldn't make it out . . . but when she told Daddy about it, he said somebody ought to pin a gold medal on Mrs. Blake . . . and Mommy didn't talk to him for the rest of the night. It was like the nights when we have scrambled eggs for dinner.

Tomorrow is Sunday and maybe in the afternoon when Daddy is having his nap and Mommy is talking on the telephone to one of her committees, I can sneak down into the Glen and pick violets. There's nothing in this whole world I'd rather do in the spring than go down into the Glen and listen to the sounds while I pick violets.

Only it's so hard to do . . . the way things are.

THE CATASTROPHE OF CONFUSION

by *E. Merrill Root*



EVERY error in action begins with a fallacy in philosophy.

Let us trace juvenile delinquency from the roots of intellectual confusion to the fruits of social catastrophe.

One can scarcely open a paper without reading of some unholy little tyke who has just shot his grandmother because she graciously asked him to help with the family chores. In a single issue of a paper, just a little while ago, I read of a youngster who had liquidated his father because his dad had asked him to mow the family lawn; and of a second boy who hanged himself because his allowance of four dollars a week was not enough to buy him cigarettes.

Now such actions, worse for the teen-agers involved than for the adults who involve them by the fallacies of their teaching, are the logically inevitable result of the prevailing social philosophy of the last three or four decades—the philosophy that we have a “right” to everything and a “responsibility” for nothing. As Christ knew, if

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you assume that you can reap figs from thistles, you must not be surprised to find your hands full of thorns.

Let us look at some of the social axioms that help to condition youth into fallacies of philosophy and error in action. The prevalent social fallacy has been that all individual evil has been caused by "social conditions"; if "conditions" are changed, the evil will disappear. Juveniles go bad because they live in "slums," because their parents are "poor," because they are "underprivileged"; if you put families in housing projects, raise their wages, give them "social security" and "economic privileges," you will automatically make Johnny a good boy.

This, of course, is pure economic determinism. Moral standards, a sense of responsibility and honor, religious faith, an allegiance to a Kingdom not of this world, are not necessary and indeed futile—this social philosophy says. The seeds you sow, or the weeding you do, are unimportant; the only necessity is to heap fertilizer on the land (especially synthetic chemical fertilizer), and the good grain will grow. The modern economic determinist has never seen—and does not want to see—the acorn that falls into a cupful of earth on top of a boulder, yet grows and splits the boulder and lifts its might into the century-scoring oak!

You can scarcely talk to students just out of contemporary high schools without discovering that these axioms of social conditioning and economic determinism are uncritically wedged in their heads. Is it any wonder that such fallacies in philosophy lead to errors in action?

Judge Samuel S. Liebowitz, a distinguished jurist of

King's County, New York, said recently that on the basis of his observations at home and abroad he considered the family the "all-important weapon" in combating juvenile delinquency. "We could build playgrounds on every corner and dot the landscape with camps," he said, "but we couldn't make an appreciable inroad on juvenile crime without family guidance."

Economic Determinism

Such is the fact-founded and spiritually wise diagnosis of an outstanding mind. But our sociologists and psychologists by their questionnaires often incite doubt and even hatred between parents and children, and question the family while they uphold the Big Brother of the State. And the fallacy that economic determination—that social and economic environment—must condition and determine, and that individual responsibility and vital determination are unimportant, is prevalent everywhere. Where is there the same realization that an increase of wealth, instead of satisfying the desires of youth, tends to increase their predatory instincts?

On the contrary, educationalists tend not merely to ignore but to oppose all attempts to enhance the moral and spiritual training of youth. It has been reported that by a vote of 6 to 1 last fall the school board of the village of New Hyde Park, Long Island, agreed to post in the classrooms of its elementary schools a version of the Ten Commandments. This was carefully phrased to avoid any peculiar religious instruction or to offend any faith or

church. Yet New York State Commissioner of Education, James E. Allen, Jr., forbade this, ruling that "the display of an item which cannot be freely explained or discussed is unsound educational practice."

Thus the use, in education, of classic and world-reverenced moral and spiritual wisdom is prohibited in the State of New York! What wonder that juvenile delinquency, based upon the free teaching of economic determinism and the prohibition of spiritual determination, grows like weeds in a garden where synthetic fertilizer is spread, and good seeds are not sown, and hoes are prohibited.

Disrespect for Private Property

Take a second dogma (and fallacy) that helps to cause error in action. "Social idealists" constantly attack "private property" and uphold "collective ownership." This, they say, will lead to a truly social use of resources, to co-operative and gracious action, to brotherhood and happiness. If "all" equally own and share property, individuals will be happier in its use and more gracious in its preservation. This, of course, is based upon an ignorance of human nature. Those who wander state-owned land scatter papers when they eat their lunch, toss lighted cigarettes down carelessly, and in general treat the use of property as a "right" but never as a "responsibility." Only private ownership leads to love, to care, to wise and thoughtful use. That is simply human nature.

Take the flagrant example of the fact that public own-

ership does not lead to happy use or gracious care of "collective" property. What is less "private property" than a public school? What is more idealistically devoted to the group or the community as a whole? Yet if there is no training in the rights of property—private property first of all—will even public property be safe? The answer is sadly clear. The City of Dayton, Ohio, is a highly cultured community with some of the finest schools in the country and a very high standard of living. Yet in the City of Dayton the problem of public property, the problem of preservation of its schools, is serious.

The *Dayton Daily News* (a quite liberal paper) for July 19, 1957, reports that teen-age vandals, the captive victims (they think) of the educational masterpieces of the finest schools, ran amok in fantastic riot, "just" (in their own words) "for the hell of it." The article says:

"Just this month, a gang of boys tossed rocks through the Huffman school windows at the same time workmen were replacing panes broken in a previous stone-tossing binge.

"Youngsters like these smash 6,000 to 8,000 Dayton school building windows a year. They've been going at that rate for the last three to four years now, and the annual replacement tab runs to \$24,000. . . .

"Vandals also do other things to schools beside break glass. Things like running a fire-hose inside Cleveland school all night and causing thousands of dollars in damage. Like climbing on the roof and filling vent pipes with gravel. Like touching fire to a storage room at Whittier school and causing \$3,000 damage. Like hurling

ink bottles and art paint containers against walls. Like breaking into food storage areas and smearing catsup and mustard over desks and walls."

Such is the way that, in one of our most civilized and cultured cities, young people act toward public property.

Why do they so act? A clear reason, surely, is that once a reverence for property—private property and so public property—a sense of responsibility, and a standard of moral right were successfully taught. But the modern "social" emphasis makes a falsely antithetical contrast between "human rights" and "property rights," as if property rights are not necessarily human rights. If property is scorned and attacked, how can hasty youth distinguish between "private" and "public" property—and what reverence or care will youth have for any property? The senseless vandalism, "just for the hell of it," that smashes windows, fills vent pipes with sand, turns a fire-hose loose in schoolrooms, or splashes ink, paint, catsup, or mustard over the walls, will be a natural result. If "property" is something to be treated as the group wills, and perhaps something evil in itself, why not use it as you will?

The Social Gospel

Has anyone noticed the strange paradox that indicates a fundamental falsity in our thinking? The prevailing philosophy of the last three or four decades has stressed the "social"—history is now "social studies"—education is designed to make young people "social-minded"—

religion is to lead to "social justice." We have had three to four decades of an education that agrees wholly with Adolf Hitler, who said: "True idealism is nothing but subjecting the individual's interests and life to the community."

But what has been the result of this emphasis on the social? The upsurge of the most asocial or antisocial groups that we have ever known in America!

The catastrophes of the modern world began with the confusions of the modern mind. Relativism, economic determinism, intellectual nihilism (i.e., the assumption that a spiritual void or nothing underlies the material phenomena of the world), collectivism as an ideal, becoming social coercion in practice, are fallacies. Therefore, a society built upon the quicksands of such axioms and postulates will, with logical inevitability, collapse through debacle into ruin—like all that we build upon a lie. The absolutes of truth, right, and beauty; the energy of vital determination; the intellectual assurance that the visible universe is based upon invisible spirit; the self-reliance of the heroic individual whose little life is founded upon the great Life of God: these are realities. Therefore, a society founded on such axioms and postulates will, with vital certainty, stand firm on the planetary granite of truth.

But relativism, economic determinism, and intellectual nihilism have been and still are the favorite social dogmas of the day—in the "free" West even more than in communist countries; and they all, by their disintegrating and lethal effect, weaken us against, and prepare us for,

collectivism. How can we understand and withstand even the horror called communism, when relativism, economic determinism, and intellectual nihilism have subverted our faith?

The fallacies of our philosophy are most lethal for youth. Youth, generous in its idealism but immature in its realism, is easily precipitated—by its own zest and enthusiasm, or by its own dreams and desires—into confusion in thought and calamity in action. At its best, through its idealism, it can be misled into a support of cruel men who parade ideals of peace and social justice in order to win their own sordid power over a world they made their satellite; at its worst, through its dreams and hot desires, it is misled into asocial or antisocial action because it is taught that it has a “right” to grab and get, but no “responsibility” to build and give.

The errors in action are factual, clear, and certain. Is it not time that we eradicated the fallacies in philosophy that lead to them?

ENGINEERING EDUCATION

by Ben Moreell



IF all the things that have been said and written in recent months about scientific and engineering education were assembled in one place, they would constitute the most resplendent "crazy quilt" of diverse views the world has ever seen. At one extreme are those who contend that there are glaring deficiencies in the quality of our educational processes, beginning in the grade school, and that our procedures are such that the least competent are not improved while those with latent talent remain undeveloped. Others hold that what we are doing is without fault but that we need more of everything, more students, more teachers, more classrooms, more equipment, and that all of these deficiencies can be eliminated by massive applications of that traditional American cure-all—

Admiral Moreell, formerly Chairman of the Board, Jones & Laughlin Steel Corporation, was wartime chief of the Bureau of Yards and Docks and Chief of Civil Engineers of the Navy. Organizing, recruiting, training, equipping, and directing the activities of the Seabees, an engineering force of some 10,000 officers and 240,000 enlisted men, afforded him a rare opportunity to appraise the relative values of their educational equipment as measured by quality of performance.

This article is from an address to the Western Society of Engineers at Chicago, May 9, 1958.

more money. Many also seem to believe if it is *public* money, made available by the federal government, it will be even more effective. Between these two extremes are an almost infinite number of gradations of opinion.

The educational controversy gains heat from the realization that the solutions reached might spell, ultimately, the difference between living as a free people and national extinction.

It seems to me that the first essential is to define our long-range objective. Certainly we need more scientists and engineers; *but we are equally in need of superior talents in all other areas of learning*. To say that all of our problems, current and prospective, can be solved merely by educating more scientists and engineers is to close our eyes to the lessons of history. "Man shall not live by bread alone," said the Master Teacher; and he asked, "Is not the life more than food and the body than raiment?"

What, then, is the ultimate objective, the long-range target? I would say that it is the enhancement of human values as measured in terms of *spiritual* and *material* progress. The real worth of every human action must be appraised in those terms. And, the most important instrument available to us for achieving progress toward that ultimate objective is education. We must then face this question: What are the basic essentials of an effective total educational structure?

It seems to me that they are four in number.

First: Good teachers

Second: Good raw materials, i.e., a highly selective sys-

tem for determining those upon whom the educational effort is to be expended

Third: Proper curricula

Fourth: Bricks and mortar—suitable equipment for use in instruction

An adequate discussion of these four foundation stones would take more time than is available, but I venture to set forth certain brief observations in light of my experiences and studies.

The education of a scientist or engineer begins when he enters grade school. I subscribe wholeheartedly to the poet's judgment:

'Tis education forms the common mind:
Just as the twig is bent, the tree's inclined.

In this light, let us examine our current situation, first, with respect to teachers. Without good teachers we are sure to waste our "raw material," the students. The good teacher is not self-designated; he is designated by the student. It is not enough that he be learned; he must have learning that can be drawn upon. If I want to learn something, I look for someone who knows more about the subject than I do. And the more his knowledge exceeds mine, the greater his attraction for me. Good teachers always attract those most eager to learn, and they also inspire. Teaching is an art, and every genuine teacher is a special kind of an artist.

When one has something of value, it is natural for him to safeguard and protect it. Have we done this with our teachers?

Teaching Talent Wasted

I shall not discuss in detail our profligate waste of teaching talent. It is notorious that we have failed to compensate even our best teachers for their labors. Also, we have failed to accord them the respect and standing in the community to which they are entitled. Coupled with this, we have, in many instances, restricted their freedom to teach by confining them in academic strait jackets, devised by the entrenched educationist hierarchy. Many of our most able teachers abandon the profession each year for more rewarding fields. Many who stay do so only for love of the service, and to our own detriment, we take advantage of that devotion. It is well-known that many of our teachers spend a large part of their energies devising ways and means of making ends meet, energies which could be better used to increase their knowledge and their service to the community. Unless the American people are willing to pay a fair price in terms of money, esteem, and academic freedom for the services of our teachers, the quality of education will deteriorate at a time when we can least afford it!

I do not mean to imply that there are no deficiencies in the training and talents of those upon whom we depend to teach our children. I shall have more to say about this later. But I do feel that the standards of compensation are set for the least competent rather than on the basis of individual worth. This is indeed profligate waste!

The second essential is the raw material, i.e., students

who are able to learn, to mature in understanding, and to develop a sensitive appreciation of the true, the good, and the beautiful. Here in America we have as fine a supply of raw material as can be found anywhere. Our children have a cultural heritage equal to that of any others and superior to many. We have the potential if we can but avoid the error of assuming that all men are born with the same talents and the same capacities to learn and to grow in wisdom. The law of human variation is not man-made, it is God-made—a fact of nature. Just as there were never two human beings born with the same fingerprints, so do no two humans have the same mental, physical, or moral capacities.

If we concede that individualities and inequalities in the physical, mental, and moral characteristics of mankind is God's intent (and there is every reason to believe this), it is evident that any effort to repeal this natural law of variation by means of educational procedures is attempting the impossible. We might as well try to repeal the law of gravity.

It is clear that no two students have the same capability of learning; and if we treat them as though they do, we will waste the talents of one or the other or both. The insistence that every educational system take account of individual differences is not to relegate certain people to an inferior status. Every person has aptitudes which permit him to excel in something. An engineer would probably make a poor metaphysician and vice versa, but it is improper to label one man inferior to the other on this ground.

Let me quote here from an authority on this subject, Dr. Roger J. Williams, Director of the world-famous Biochemical Institute of the University of Texas. He said: "It is my confirmed opinion based upon diverse considerations and upon prolonged thought, that one of the most constructive and harmony-producing moves that we, as inquiring human beings can make, is to get acquainted with, in the most scientific manner possible, the inherent differences that exist among members of the human family. . . . Why choose our own schools, our own amusements, our own books, our own church? Why not have someone tell us what to eat, what to drink, whom to marry, and when we can have children? The fundamental reason is that each of us is a different individual—with profound differences—and each of us wants to live his own life. . . . There is not the slightest danger that humanity will put up indefinitely with any scheme which involves thoroughgoing regimentation. It is not human nature to tolerate this. There are too many potential Patrick Henrys, and they will continue to reproduce."

Proper Curricula

And what of the third essential, the curriculum, with which I include the method of expounding the curriculum?

Specifically, what is our present situation with respect to preparatory processing of the raw material for our schools of higher learning? Even before the hysteria engendered by the Sputniks, those interested in engineering

and scientific education, many educators, and industrialists who have to use the products of our high schools generally conceded that something is amiss in our primary and secondary educational systems.

I shall not enter into the details of the hotly contested controversy over the worth, or lack thereof, of so-called "progressive" education. I have been studying this subject for the past ten years. My conclusion is that many, but fortunately not all, of our preparatory schools are not only failing to improve the raw material which comes to them, but also in many instances they are actually spoiling it.

It is impossible to do justice to such a difficult, complex subject in a short time. Perhaps I would do well merely to summarize my views and those of some others. They are that the preparatory schools have in large part abandoned their emphasis on specific academic disciplines designed to develop the capacity of the student for creative thinking, and they have substituted an emphasis on social activities with attractive labels, such as group awareness, life adjustment, and something frequently referred to as "togetherness."

Commenting on the deterioration of standards of learning in our public schools, Felix Morley, noted educator, author, and editor, had this to say in a recent article: "There is no lack of demand for competitive education in the United States—the failure is in the supply. Several factors have combined to create this anomalous situation. Perhaps the most influential is the extreme to which the plausible theory of progressive education has

been carried. Starting from the reasonable thesis that schooling should be enjoyable, the trend in public education has gone on to eliminate all coercion, all task-work, and almost all sharply competitive training. Unfortunately, this misguided kindness has altogether failed to make the lives of teachers, pupils, or parents happier. We do not need psychologists to tell us that the child whose will is never crossed is the one who makes himself and others miserable."

The results are inevitable and might well have been foreseen. The pupils have acquired smatterings of much unrelated information of little value as mental training and, for the most part, they have failed to acquire a capacity for that self-discipline which is essential to learning.

As for the teachers, the emphasis has now shifted from proficiency in their subjects and is directed toward acquiring a handiness with teaching *methods*, with corresponding neglect of the substance and content of knowledge. As Dr. Morley has stated so well: "The whole public school system is top-heavy with educationists who know how but not what to teach. Talent is no longer as important as the mere number of credits which teachers achieve in mandatory courses concerned with procedures rather than with content. Undoubtedly techniques are useful, but they do not of themselves make teachers any more than typing ability of itself creates authors. . . . In the assembly line production of mechanically qualified educationists is found one of the primary reasons for the malaise in our public schools."

Four years ago, I participated in a seminar on scientific education. An assistant high school principal and teacher of science in one of our largest cities asserted that in his state, one of the most populous, only 10 per cent of the high school teachers of science had received training in the science subjects they taught while all had received extensive training in the methodology of teaching!

"Crowd Culture"

Canon Bell, the great Episcopal scholar, and my dear friend, in the chapter on "The School" of his book, *Crowd Culture*, has this to say: "There is no getting around the fact that while our present teachers, and any we are likely to get, may be fairly competent to work in old-fashioned subject-matter and mind-training schools, they are simply not up to acting as preceptors, fathers and mothers, priests or rabbis or other ministers of religion, skilled counselors, trained nurses and psychiatrists, all these rolled into one. It is not honest, not intelligent, for professional theorists to talk as though this is not the case, thereby leading the general public to suppose that the public schools ought to do, are doing, what in fact they cannot do; encouraging teachers to neglect what they are able to do in order to dabble about in any number of tasks at which they are necessarily incompetent."

Father Bell quotes a West Coast high school teacher, one of many hundreds who wrote to him, as follows:

"What do we teach here? Scraps of literature and art, some unsystematic applied math, bits of history and geog-

raphy, in fact, smatterings of almost all things academic and otherwise. These we try to 'integrate around vital central interests' such as how to date and mate and, if possible, avoid divorce; how to reform the City Hall; how to run the United Nations; how to plan cities; how to provide adequate housing; how to solve economic problems. All of this when the pupils are fifteen years old!"

There are a great many similar statements from conscientious and worried teachers. Perhaps I can indicate what appears to be a fair consensus by quoting from a letter recently received from my sister. She is a graduate of the University of Missouri with degrees of B.A. and M.A. Over an elapsed period of fifty years she has had a total of sixteen years of teaching experience in public and private high schools. Her subjects are the now largely discarded or neglected ones—English, Latin, German, Spanish, history, and government. This is what she said:

"The high school youngsters of today are anything but the ones we knew in our high school days. The teen-ager of today is so aggravatingly opinionated, irresponsible, uninhibited, and completely devoid of ambition that you feel as though you are talking to the Tin Man of the Wizard of Oz when you try to instruct him. This philosophy of 'Don't frustrate them, don't give them complexes, and don't hem them in' has bred a gang of uncontrollable and undisciplined brats. I hope the pattern will change before my grandchildren reach the teen age. . . ."

Confirmation of these views indicating a deterioration of moral standards comes to me from two sources. Dur-

ing the entire war period, my Deputy was Rear Admiral L. B. Combs who since 1948 has been head of the Department of Civil Engineering at Rensselaer Polytechnic Institute. Some five years ago he told me that he was deeply disturbed by the attitudes of many of his students who needed financial help. When he suggested that they borrow from the Loan Fund at the Institute, at a nominal rate of interest and with long pay-back period, he was told almost invariably, "I don't want a loan. I want a gift."

The other incident occurred several years ago during a visit of Dr. Frank Sparks to Pittsburgh. At that time he was president of Wabash College and was promoting the work of the Council for Financial Aid to Education. Among other things, he mentioned that the total of the unused loan funds of all American colleges was approximately \$52 millions and that they had great difficulty placing them because the young folks wanted gifts, not loans!

Finances No Problem for Good Students

We have heard it said by advocates of huge federal government appropriations for scientific and engineering scholarships that too many of our top high school graduates fail to go to college for lack of funds. Let me quote some figures from a recent bulletin of the Engineering Manpower Commission of Engineers Joint Council and the Scientific Manpower Commission (January 13, 1958):

Of the 1,196,500 senior class population of the coun-

try in 1956, the top 5 per cent were selected to take the first competitive examination for the National Merit Scholarship Corporation's awards. Of the 58,158 participants, 556 were granted scholarships. An additional 4,226 for whom funds were not available were awarded certificates of merit in recognition of their abilities.

The 4,226 recipients of certificates were surveyed ten months later. Of the 73 per cent who replied, only 40, or less than 1 per cent of the total eligibles, reported that they were not then attending college, and of these, 19 expected to attend in the near future!

The bulletin states: "Although we are not in any way suggesting that these statistical findings have direct extrapolatable national implications, it is remarkable to note that where a valuable mechanism of talent identification was provided, *considerable evidence was accumulated showing the highest possible current rate of utilization of our most talented high school students.*"

Dr. H. S. Turner, our vice-president of Research and Development, commented on this bulletin as follows: "I have always contended that a student who really 'hits the books' in high school and comes up with good marks can find a way to go to college. . . . We don't need a massive U. S. government scholarship program. We do need to build more motivation toward academic excellence and higher education into those students who have the basic mental machinery."

And Dr. J. C. Warner, president of Carnegie Institute of Technology and a Director of Jones & Laughlin Steel Corporation, made this statement: "I have a feeling that

too much is being said about the economic barrier to higher education. In my opinion, lack of motivation is a much more serious barrier. I believe it is just as possible now as it was when I entered college 42 years ago for an able young man, strongly motivated toward a career in science or engineering, to find a way to obtain an education. Furthermore, there has been a tremendous increase since the war in the scholarship and loan funds available to give financial aid to students. Let me say it this way: A strongly motivated and gifted student can usually find a way to get an education."

Adequate Plant Facilities

The fourth essential is adequate plant facilities. It is true that our physical plant is now inadequate to meet the demands made upon it. As our population increases and our industrial operations become more complex technically, the number of technical personnel measured as a percentage of the total working force increases. But I wonder whether we are making efficient use of the educational plant we already have. Certainly, we must give our teachers the equipment they need to do their jobs. But we have become so addicted to the "numbers game," i.e., the need for vast numbers of engineers and scientists that in many instances we have lost sight of the importance of quality. Let me quote here again from Dr. Warner. In a recent address, he said:

"I have spoken of numbers because we obviously need these numbers of well-educated engineers and scientists

to keep going our technology-based economy of ever-increasing complexity. . . . But we need to think about quality, too. An adequate number of truly creative scientists and engineers educated to highest levels of competence may be more important to America than numbers. Actually, the great new ideas, the break-throughs, in both pure and applied science and in other scholarly fields, come from a relatively few individuals. How many ordinary physicists would it take to make a contribution equivalent to that made by Fermi? It simply does not make sense to expect a reply. As I have often said, this is an area in which two half-wits do not make a wit."

Permit me to digress here for a moment to raise a question which has been discussed with far more heat than light, namely, the place of the humanities and social sciences in an engineering curriculum. I have long believed that while a knowledge of *things* is important, it must fall far short of achieving its fullest value unless it is accompanied by a knowledge of the *meanings of things*. Science and engineering are devoted to the pursuit of the knowledge of things while the humanities and social sciences, and especially religion, can be used to learn the meanings of those things. True values are measured in terms of the growth and development of humanity, and to achieve those values we must be aware of the meanings of the facts which science and engineering reveal.

The Seabees, which I had the honor to head during World War II, were called upon to build, maintain, and operate naval bases of all kinds throughout the world. It

was inevitable that they should have to meet challenges in fields far different from those in which they had received specialized training. It was my experience, often repeated, that those officers, who had a broad training in the humanities and social sciences to supplement specialized engineering training, were far better equipped to grapple successfully with new and unpredictable circumstances.

No Need To Panic

My considered judgment is that before we yield to the panic engendered by the Sputniks and other claimed advances in Soviet capabilities, we should make a thorough and unhurried appraisal of the adequacy of our entire educational structure in the four areas I have mentioned, beginning with the grade school and proceeding through the graduate schools. Decisions made under the stress of hysteria are usually wrong.

There is no denying the fact that there is room for improvement in the things we are now doing. We might even learn something from Russia. The Soviets, early in their history, adopted the so-called progressive system of education, probably because it is egalitarian and socialistic. But when it comes to military matters, at least, they are hardheaded realists. And it did not take them long to learn that the essential characteristics of the American system, as formerly practiced, would yield the best results.

There is no doubt that Russia is using education as an instrument of national policy with emphasis on quality

as well as quantity. In the curriculum which all must follow, the courses required during the ten years of elementary and secondary schooling between the ages of seven and seventeen place great weight on mathematics, physics, chemistry, biology, geography, Russian language and literature, foreign language, history, and physical culture. As far as I have been able to ascertain, there is no mention of courses in co-educational cooking, personal grooming, automobile driving, the social graces, esthetic dancing, band, and similar diversionary subjects which now infest many of our high school curricula.

I do not intend to imply by anything I have said heretofore that we should attempt to imitate the Russian system of education, which cannot be wholly divorced from the brutal authoritarianism of their political and social institutions. Our concept of the nature of the universe and of man's place therein is far different from theirs, and therefore our social institutions must necessarily differ from theirs. I firmly believe that every social order derives its sanctions from the prevailing concept of the cosmic order.

Our American society is based on individualism. But it is not an undisciplined individualism. The Founding Fathers held that individual freedom must be exercised within the limitations imposed by the moral code which, as a minimum, I would define as the Ten Commandments and the Sermon on the Mount. If we are to charge individuals with the responsibility for voluntary self-discipline, we must do our utmost to see that they have sufficient education to achieve understanding in order

that they may grow in wisdom. It is only in this way that each of us can make his maximum contribution to that enhancement of human values which is the ultimate goal of our efforts.

Our entire social structure at one time was erected on the concept of the need for individual incentive, competition, and commensurate reward. Americans have always been great competitors; and they have been anxious to see those who excel receive the fruits of their labors. This was the incentive for extraordinary effort. The Russians have now adopted this concept for their educational system in which the competition is intense but the rewards for excelling are very great.

We Americans have taken the other road in much of our educational work. We have abandoned the concept of individualism and concentrated on the group. We have largely eliminated incentive; we are educating our youth to be content to live in an egalitarian society like the ants and the bees.

That process produces no giants. Rather it produces a race of intellectual pygmies.

CAMPAIGN PROMISES

by Rae C. Heiple, II



INFLATION

THE forgotten man. . . . A cross of gold. . . . Greenbacks for all. . . . Yes, down through the years we have heard the calls.

Calls mouthed by even the stammering tot. . . . A car in the garage; a chicken in the pot.

French, Spaniards, Phoenicians, and Greeks—all knew the shortcut to abundance. Simple? Of course! Clip the coin, dilute the metal, issue script, and roll the presses. Money buys things, doesn't it? Well, make money! More money to circulate to stimulate trade, for better distribution, and employment for all.

Oh, yes, we've heard the call. The promises sparkle; they always sound new.

But the story is as old as time, as unchanging as human nature. No matter how many times it has been tried, what name was given to it, who administered the plan, or what the honesty and good intentions, inflation has always brought poverty, not abundance. It always will. It is as simple as ABC. It is sure as rain.

Mr. Heiple is a young attorney from Washington, Illinois. These are some of the messages he used to win a 1958 Primary fight for State Representative.

The reason: man responds to incentives. He will work if rewarded. He will not work without reward. He will save if it is profitable to save. He will not save if it does not profit him to save. He will not save if he can get no interest on his money, or if his money deteriorates in value. We don't save old pancakes, and we won't save dollars either if they are going to be less and less valuable every year.

Saved money is what bought every diesel railroad locomotive in the U. S. today. It bought every lathe, broach, and milling machine. Yet, the men, widows, and children who loaned the money to buy these machines to produce our abundance were fools. Inflation made them fools. \$2,500 in 1939 would have built a house; now it will barely buy a good automobile. How long will people save if this continues? How long before they "wise up" and stop providing new locomotives and lathes? It will be when the savers realize inflation is here for good. We will then have had it.

Inflation destroys ambition and creativeness. It defrauds the honest and punishes the thrifty. It is caused by government living beyond its means, by deficit, by manipulation and manufacture of money, by tampering with interest rates and credit expansion, by confiscation and redistribution.

FREEDOM OF CHOICE

Someone figured it out. . . . We have 143,791 laws to enforce the Ten Commandments.

Suppose you should want to shoe a horse tomorrow. The policeman won't let you. If your neighbor wants to haul your garbage to the dump, he isn't permitted. If your cousin Rachel, on the old farm, should continue her egg and cream route, just bring her next birthday present to the jailhouse. Ridiculous, you say? Yes! Ridiculous because it is true.

It used to be that if you were a good horseshoer, you were in business; and if you sold ripe eggs, you weren't. But not anymore. Nowadays it seems that people aren't as smart as they used to be. All the smart ones must be in the legislature.

No longer can we tell for ourselves whether an egg is rotten, whether the garbage man can haul garbage, or whether the shoe stays on the horse. Whether there ought to be a law or not, there is.

It would be comical if it were not so pathetic.

The rationale of this "big brother" philosophy is based on a faulty premise and constructed of fallacious reasoning. Its absurd reasoning is this: (1) Most people are so dumb that they don't know what is good for them; (2) The elected officials and appointed bureaucrats are so smart that they know what is good for others; (3) That by regulation, license, and code, everyone is going to get what the officials think the people should have. So runs their argument. Ridiculous? Yes! To say that you and I don't have the judgment to choose a competent garbage man, horseshoer, barber, or plumber is an insult to our intelligence. Yet we are permitting ourselves to be so insulted in each of these fields.

To say that 235 men in Springfield can pick every competent and discard every incompetent barber, plumber, horseshoer, and garbage man in the whole state of Illinois is a statement of absolute and supreme arrogance. Yet every time a license is granted or refused, it is state-pronouncement of competency or incompetency.

To say that regulation and license guarantee good work is incredible. Just ask your barber or plumber sometime about their inspection and supervision. Ask them if it assures competent men and qualified work. They'll tell you it's a joke. All it does is create a lot of political jobs.

Our country is built on freedom—on the right of each individual to choose for himself what he wants—even though we might have made a different choice. You cannot protect people from their own ignorance. You cannot, by legislation, abolish mistakes. Freedom includes the right to make a mistake as well as the right to make a wise choice.

ALL THINGS TO ALL PEOPLE

It seems to be the popular trend nowadays to proclaim your devotion to everyone. A candidate just *isn't* unless he is for business, for labor, for farmers, for producers, for consumers, and for everything that costs money. No one is content to grow up and admit there is no Santa Claus.

For a good many years we have been kidding ourselves that the government should and could guarantee every

employment and economic group a better deal than the next. That crackpot scheme worked OK for awhile. It worked just about as long as the chain-letter-get-rich scheme. It goes over big for the first ones to get in the promotion, but pretty soon everyone is promoting and there aren't any "fall guys" left. The idea of an *above average* standard of living for everyone is, of course, a contradiction and impossible on its face, if you should think about it.

What I am trying to say is that individuals create their own success and prosperity. If you get the government to give you something it has taxed away from another, that fellow and countless others are going to get theirs by taxing you. And you can't blame them. It's a matter of self-defense.

The farmers may be receiving benefits, but they are in turn being taxed to benefit labor, consumer, business, banking, and so on. The same is true for each of the other groups. It is all just a lot of wasted effort applied to a very inefficient machine. You never get out what you put in.

RIGHTS OF THE INDIVIDUAL

In the progress of history we have had the Stone Age, the Iron Age, and the Machine Age. We are today living in what some have called the Age of Conformity . . . the age in which the quest for security has displaced opportunity. The accent today is on the group. The individual is of little concern. The mass is all that matters.

This false doctrine is shot through our whole society. Schools are geared in accordance with the norm and ignore individual ability and special talent. Law puts social responsibility ahead of individual rights. Politicians cry for the good of the greatest number without a thought of the individuals who suffer. Economists study institutions, not people.

The end result of this kind of thinking is the worship of the government as an idol—to believe that it can do anything except something wrong—that the unfailing way to find right, truth, and justice is to take a popularity poll. We act as if the State can feed us when we are hungry, heal us when we are ill, raise wages and lower prices at the same time, educate our children without costs, give us electricity by passing laws, and improve the game of baseball with regulations. We need just pass a law and then stand back and be overwhelmed with all the goodness of life.

Let's try to be sensible for awhile. It is the differences in people that make possible our progress. The object in education is to develop your own special abilities to their utmost, not to conform. We as individuals have rights that the majority cannot take away from us.

It is time we used our common sense. Hard work, not legislation, makes production. Production, not regulation, makes prosperity. The legislature cannot amend the laws of economics anymore than it can the law of gravity.

EXECUTIVE SALARIES

by Hans F. Sennholz



A FAVORITE point of attack against capitalism is the impressive height of the salaries of top business executives. Labor union leaders especially tend to be critical of executive salaries and bonuses amounting to a hundred thousand dollars or more. People unfamiliar with the principles that determine wage and salary rates are apt to become envious and receptive to ideas that are hostile to our free economy.

The selection of corporate management confronts stockholders with choices similar to those we all must face in our daily purchase decisions. Should they look for management at bargain rates? Should they shop for medium-priced management, or search for the best possible men who demand top salaries? As in everyday life, the best is often the cheapest in the long run.

The stockholder must hire the men who do the actual work for him. He is aware that the mistakes of corporate executives can consume a large percentage of net income or even eliminate it altogether. On the other hand, the right men may earn large profits and greatly enhance the value of the corporation. Depending on the size of the business, the selection of management may mean a differ-

ence of millions of dollars in profits or losses, which emphasizes the importance of the right management.

In the history of the automobile industry the stockholders of dozens of independent companies had this choice to make. Many of them chose management at bargain rates—and lost their investments when the companies fell by the wayside. The managerial salaries in those cases, no matter how low, proved to be no bargains after all. At the same time, the obscure and failing Maxwell-Chalmers Corporation hired Walter P. Chrysler who built it into one of the big three of the industry. His compensation, no matter how high, constituted a real bargain to the corporate owners.

Not only the owners but also the workers gain from superior management. Contrary to much union propaganda, the workers' interests are served best under superior management. Wages tend to be higher in a profitable and expanding enterprise than in a failing one. Fringe benefits are higher and jobs more secure. Rejoicing about cheap management can be very shortsighted—and shortlived.

Finally, there are the consumers who, indirectly at least, demand efficient management. Production efficiency makes for better and cheaper products which can meet the pressures of competition.

The important problem of executive remuneration is to attract and hold the best men. The value of a company is determined by the men who run it and work for it. The corporation need not necessarily pay the total amount which good management adds to net worth.

What must be paid to attract and hold the men may constitute merely a fraction of the amount they actually earn for the corporation.

Corporations Compete for Management

In bidding for managerial services in the executive labor market, each corporation acts in competition not only with all other existing corporations but also with the opportunities for the manager to organize a business of his own. Of course, this competition is reflected not only in salaries but also in pensions, bonuses, and other benefits. And the calculations are in terms of *net* salaries and *net* benefits after taxes.

In order to attract a man from other employment a corporation usually must outbid its corporate competitors. And in order to hold its man the corporation must pay him at least as much as he could earn in other employment.

To move from one employment to another involves a serious decision. It often entails a change of residence which is both inconvenient and costly. The home may have to be sold, perhaps at a loss. Children may have to change schools, and many other problems arise through resettlement. It is obvious that the *net* inducement in the form of higher salary or advancement must be great enough to exceed the disadvantages of such a move.

Let us assume that a net salary improvement of \$5,000 annually will induce an executive to move to a different community to work for a different company. And assume

further that the man is in the 80 per cent income tax bracket. Therefore, his \$5,000 net raise will cost the company \$25,000, with \$20,000 going to the government and \$5,000 to the executive. If he should be in the 90 per cent tax bracket, the corporation would have to boost his gross salary by \$50,000 in order to attract him. The question is whether or not the new executive will add at least the gross amount of his remuneration to the company output. A skilled executive who adds millions to the net worth of his company undoubtedly meets this condition.

The large salary figures often criticized by labor union leaders are the inevitable result of the progressive taxation of large incomes. Without this taxation the net salary that suffices to attract and hold the executive would constitute the total salary. The government share in the executive salary would remain in the company as profit. Of course, such an economy without income taxes would allow rapid capital accumulation and business expansion which in turn would intensify corporate bidding for executives and thus raise their remunerations. But it is doubtful that salaries soon would reach the present figures which are so largely conditioned by progressive taxation.

We are assuming here that capable executives who are the entrepreneurs in a corporation add far more to the output of the business than their own employment costs. This assumption seems justified in the light of corporate experience. Walter P. Chrysler's salary, for instance, undoubtedly was merely a fraction of the net worth he added to the company.

As we have said, competition largely determines how much the corporation has to pay for a good manager. When an executive is hired, his future contribution can merely be estimated. Economic prudence therefore requires that he be paid merely the amount that suffices to induce him to accept employment. This minimum is determined by competition in the executive labor market. Once he proves to be a capable entrepreneur who adds profits to the company, his remuneration tends to go up. For the corporation now must increase his remuneration lest he accept employment with a competitor who also recognizes his ability to create profits.

To avoid the leverage effect of confiscatory taxation on executive salaries, often involving tax rates higher than the corporation otherwise would have to pay on profits, many companies resort to forms of remuneration that are taxed at lower rates. For instance, they may grant purchase options that give executives the right to buy from the company a certain number of shares of stock at prices that are lower than the market price. Besides the tax advantage, this method has an additional attraction. The executive becomes co-owner, giving him new incentives for doing his utmost in the service of the company.

The upper limit of an executive salary ultimately is determined by the profits which his employment yields to the company. The executive's productive contribution minus his employment costs constitute this profit on his employment. This explains why an executive is apt to be replaced as soon as another executive can be found whose

productive contribution minus his employment costs yields a larger profit to the company. The new man may be more productive for the same money, or equally productive for less money, or in some other way afford the company the maximum profits on his employment, which is the major factor that determines the executive selection.

Of course, these economic principles of the determination of executive salaries are moderated and may be frustrated by personal factors, such as ignorance, inertia, friendship, hopes and illusions, and other feelings.

The Case of Poor Management

We have been discussing superior management and its compensation, but must not neglect the cases of poor management which undoubtedly exist. Inferior management is apt to make costly mistakes and inadvertently inflict losses on the company. It is obvious that the services of such executives are not worth the salaries they are paid. In other words, their productive contributions are worth less than their costs. Prudent corporate owners will dismiss them without delay.

To unseat an inefficient management of a huge corporation is difficult when hundreds of thousands of stockholders are involved. It may be that no one man or group owns enough shares to exert working control. In this case, stockholders seem to have only the choice of selling their securities. Such selling or shunning of shares may result for the time being in lower price-earnings

ratios and higher yields on the stock. But in that event, various promoters and speculators may see an opportunity for unseating the inefficient executives through soliciting the support of dissatisfied stockholders. They wage costly proxy fights and occasionally succeed in obtaining working control.

But modern interventionism with its confiscatory taxation even hampers this last safeguard for efficient management. Proxy fights are very costly. Without assurance of success they may consume hundreds of thousands of dollars of a man's own funds. Few men still can dare to lose these sums for the sake of corporate control, the eventual fruits of which they must again share with the government. Therefore, proxy fights have become relatively infrequent, and inefficient management may stay in office indefinitely. Thus does interventionist government encourage and perpetuate inefficient management.

Executive salaries ultimately are determined and paid by the consumers. Through buying or abstention from buying, consumers determine which corporations are to earn profits or suffer losses. They determine the remuneration of Frank Sinatra, Marilyn Monroe, and Rocky Marciano. And they also determine and pay the workers' wages as well as the executive salaries at General Motors and U.S. Steel.

HUMAN RIGHTS ARE PROPERTY RIGHTS

by Murray N. Rothbard



MUCH IS HEARD these days of the distinction between human rights and property rights, and many who claim to champion the one turn with scorn upon any defender of the other. They fail to see that property rights, far from being in conflict, are in fact the most basic of all human rights.

The human right of every man to his own life implies the right to find and transform resources: to *produce* that which sustains and advances life. That product is a man's property. That is why property rights are foremost among human rights and why any loss of one endangers the others. For example, how can the human right of freedom of the press be preserved if the government owns all the newsprint and has the power to decide who may use it and how much? The human right of a free press depends on the human right of private property in newsprint and in the other essentials for newspaper production.

In short, there is no conflict of rights here because property rights are themselves human rights. What is

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more, human rights are also property rights! There are several aspects of this important truth. In the first place, each individual, according to our understanding of the natural order of things, is the owner of himself, the ruler of his own person. Preservation of this self-ownership is essential for the proper development and well-being of man. The human rights of the person are, in effect, a recognition of each man's inalienable property right over his own being; and from this property right stems his right to the material goods that he has produced. A man's right to personal freedom, then, is his property right in himself.

A Question of Ownership

But there is another sense in which human rights are really property rights, a sense which is much obscured in our time. Take, for example, the human right of freedom of assembly. Suppose that a certain group wants to demonstrate for a particular idea or bill in a street meeting. This is an expression of the right of assembly. On the other hand, suppose that the police break up the meeting on the ground that traffic is being disrupted. Now, it is not sufficient simply to say that the right of assembly has been abridged by the police for political reasons. Possibly, this was the case. But there is a real problem here, for maybe traffic was disrupted. In that case, how is one to decide between the human right of free assembly and the "public policy" or "public good" of clear and unobstructed traffic? In the face of this ap-

parent conflict, many people conclude that rights must be relative rather than absolute and have to be curbed sometimes for the common good.

But the real problem here is that the government owns the streets, which means that they are in a virtual state of no-ownership. This causes not only traffic jams, but also confusion and conflict over who should use the streets at any given time. The taxpayers? In the last analysis, we are all taxpayers. Should the taxpayers who want to demonstrate be allowed to use the street for that purpose at the time they choose, or should it be reserved for use by other groups of taxpayers as motorists or pedestrians? Who is to decide? Only government can decide; and whatever it does, its decision is bound to be a wholly arbitrary one than can only aggravate, and never resolve, the conflict between the opposed forces. Consider, however, a situation where the streets are owned by private individuals. In this case, we see clearly that the whole question is one of property rights. If Jones owns a street and the Citizens United want to use it for a demonstration, they may offer to hire the street for that purpose. Then it is up to Jones to decide whether he will rent it out and at what price he will agree to the deal. We see that this is not really a question of the human right of the Citizens United to freedom of assembly; what is involved is their property right to use their money to offer to hire the street for the demonstration. But, in a free society, they cannot force Jones to agree; the ultimate decision is Jones', in accordance with his property right to dispose of the street as he sees fit.

Thus, we see how government ownership obscures the real issue—how it creates vague and spurious “human rights” that seemingly conflict with each other and with the “public good.” In situations where all the factors involved are owned privately, it is clear that there is no problem or conflict of human rights; on the contrary, only property rights are involved, and there is no vagueness or conflict in deciding who owns what or what is permissible in any particular case.

In short, there are no human rights that are separable from property rights. The human right of free speech is only the property right to hire an assembly hall from the owners, to speak to those who are willing to listen, to buy materials and then print leaflets or books and sell them to those who are willing to buy. There is no extra right of free speech beyond the property rights that we can enumerate in any given case. In all seeming cases of human rights, then, the proper course is to find and identify the property rights involved. And this procedure will resolve any apparent conflicts of rights; for property rights are always precise and legally recognizable.

Consider the classic case where “freedom of speech” is supposed to be curbed in “the public interest”: Justice Holmes’ famous dictum that there is no right to cry “fire” in a crowded theater. Holmes and his followers have used this illustration over and over to proclaim the supposed necessity for rights to be relative and tentative rather than absolute and eternal.

But let us further analyze this problem. The fellow who brings on a riot by falsely shouting “fire” in a

crowded theater is, necessarily, either the owner of the theater or a paying patron. If he is the owner, then he has committed fraud on his customers. He has taken their money in exchange for a promise to put on a movie; and now, instead, he disrupts the movie by falsely shouting "fire" and breaking up the performance. He has thus welshed on this contractual obligation, in violation of the property rights of his patrons.

Suppose, on the other hand, that the shouter is a patron and not the owner. In that case, he is violating the owner's property right. As a guest, he has access to the property on certain terms, including an obligation not to violate the owner's property or disrupt the performance that the owner is putting on for his guests. His malicious act, therefore, violates the property rights of the theater owner and of all other patrons.

If we consider the problem in terms of property rights instead of the vague and woolly human right of free speech, we see that there is no conflict and no necessity of limiting or abridging rights in any way. The rights of the individual are still eternal and absolute; but they are property rights. The fellow who maliciously cries "fire" in a crowded theater is a criminal, not because his so-called right of free speech must be pragmatically restricted on behalf of the "public good"; he is a criminal because he has clearly and obviously violated the property right of another person.

THE DECLARATION OF INDEPENDENCE AGAINST ITSELF

by Edmund A. Opitz



DURING the nineteenth century the world of the defeated and the oppressed looked to America as a land of liberty and justice for all. In large numbers people came here to find freedom for themselves and their children. It goes without saying that they didn't always find what they were seeking; reality, here as everywhere, fell short of the professed ideal. But even when the ideal failed to show through the practice, it was never wholly without influence; for this ideal was inscribed in a basic national document for all to see and many to memorize. The document contains a dangerous ambiguity, to be discussed later, which eventually drained away its main strength. But until that happened the Declaration of Independence was a beacon of liberty.

The actual writing of the Declaration was Jefferson's work, but his purpose as drafter was not, he wrote, "to find out new principles, or new arguments . . . but to place before mankind the common sense of the subject."

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The document was intended, he said, "to be an expression of the American mind." And indeed it was. The basic political ideas embodied in the Declaration—inherent natural rights and consent of the governed—have a long ancestry and were the common coin of eighteenth century political discussion. Nevertheless, Jefferson must be credited with the originality of phrasing and composition which gave a creative thrust to ideas which, till that time, had lacked momentum.

This momentum carried over into the next century as well. Abraham Lincoln spoke for the consensus when he declared, "The principles of Jefferson are the definitions and axioms of a free society." Many American reformers and social critics expressed similar sentiments. They were sensitive to social ills and injustices, but they traced them to infractions of the principles laid down in the Declaration—inherent, individual rights, and a limited government set up solely for their protection. Freedom was the remedy they advocated, and they knew that somebody's freedom was being impaired the moment government exceeded its proper limits. The first reform, on which all others hinged, was to confine government within the boundaries defined in the Declaration. Only so could the rights of all persons be secured.

The Declaration of Independence refers, in paragraph one, to "the laws of Nature and Nature's God." In paragraph two, the signers say that, as far as they are concerned, they believe, or accept as axiomatic, the proposition that the Creator endowed men with certain rights. Other men might hold that "rights" are granted by the

State, or else have a purely naturalistic basis. "We hold" that these rights have a supernatural derivation, i.e., they are God-given. The Creator is sovereign! In other words, our Declaration has a built-in religious dimension; and the importance of this fact is underscored by the absence of a similar dimension from a comparable document issued in 1789—the French Declaration of the Rights of Man and of Citizens.

The French Declaration wishing to set forth "these natural, imprescriptable, and unalienable rights" says: "The National Assembly doth recognize and declare, in the presence of the Supreme Being, and with the hope of His blessings and favor, the following sacred rights of men and of citizens." It will be noted that, although the Supreme Being is mentioned, he is invoked as a mere gesture of formality; he is not acknowledged as the source of human rights. What then is this source, according to the French Declaration? Paragraph three tells us. "The nation is essentially the source of all sovereignty; nor can any individual, or any body of men, be entitled to any authority which is not derived from it." The French and American Revolutions are, in short, based on contrary principles.

The philosophy back of the Constitution of the United States is substantially the same natural rights doctrine that is set forth in our Declaration. And social critics in the early Republic, accepting this doctrine, traced social evils to the door of government; because it was government which either legitimized violations of equal liberty—as in the case of slavery—or sanctioned violations by re-

fusing to enforce the laws against predation. The remedy they urged was to cut government back to the limits prescribed in the Declaration—defense of the lives and property of all men alike.

But if this was our ideal, it must be admitted that our practice was different, even from the beginning. We set up a no-privilege government—equality before the law, no politically dispensed special favors for some at the expense of others—and the first law of the First Congress (after the motion organizing itself as a body) was a tariff law!

Political Favors

Now, whatever else may be said about a tariff, no one can deny that it has the effect of penalizing certain consumer interests, and by the same token advantaging certain producer interests. It denies to some people the right to buy in the markets of their choice, i.e., to make any peaceful use they choose of their resources. And to others this political intervention grants a monopoly of certain markets by excluding foreign competition, thus forcing customers to pay a price above the market price which free and fair competition would determine. In short, a tariff enables its beneficiaries to get something for nothing; it is a political subvention giving some people an income for which no equivalent services are rendered.

A political principle may be adduced from such practice: It is one function of government to intervene in the

affairs of men so as to benefit a segment of the nation at the expense of the nation as a whole, or to sacrifice a portion of the people so that another portion may prosper. This was not the kind of government we thought we were setting up, and although government intervention steadily proliferated during the nineteenth century—the necessity for each succeeding intervention being sold as a means of correcting the evils caused by prior interventions—we could still think of ours as “a government of liberty and justice for all,” i.e., a government shorn of the power to dispense privilege.

As an ideal we still looked to the equal rights doctrine of the Declaration, and this doctrine filtered down through popular oratory and literature. Granted that we didn’t practice what we preached, at least we had a plumb line of sound principle by which we could measure our deviation from the norm. But there came a time when we acquiesced in deviations from the norm and cast about for a political principle to justify them. When we took this tack, such a principle was easy to find because it was enshrined in the Declaration itself, as a technique, along with the natural rights philosophy. It was the consent of the governed idea.

The “consent of the governed” idea is an implementing principle, not a primary one. Deriving the just powers of a government “from the consent of the governed,” as the Declaration does, is a natural means of implementing the “self-evident” truths “that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Lib-

erty, and the Pursuit of Happiness." This is the primary principle, the axiom about rights. But when these truths are no longer self-evident, when the belief in God-given rights dies out, leaving "consent of the governed" as the sole political expedient, the road ahead leads to tyranny. The tyranny will not conform to the pattern of a divine right monarchy or an enlightened despotism which needs a different sanctioning principle; it will be a democratic tyranny.

"Consent of the governed" introduces the majoritarian principle into politics. However useful this may be as a device for choosing personnel, it is vicious when it expands into the delusion that the majority has competence in the realms of faith and morals, and has therefore a right to rule unrestrained except by prudential and expedient considerations. This delusion is crassly put by a University of Chicago political scientist: "For in a democracy right is what the majority makes it to be." Consent of the governed, without the restraining influence exerted by the belief in God-given rights, which disappeared as religion lost its hold on the modern mind, has led logically, directly, and implacably to totalitarianism and the so-called People's democracies.

Democratic despotism is the inevitable consequence of the "consent of the governed" idea—unless it be accompanied by a virile doctrine of rights which derives them from a source beyond society. From the classical world to the time of our Declaration of Independence, this source was God. But about the time the God concept found a meaningful political expression in the Declara-

tion, the concept itself lost its hold on the minds of men. The relationship between the explicitly articulated concept of equal rights in the Declaration and the God concept was that of effect and cause. When a cause ceases to operate, trace effects or an after-image may persist for a time; and in the modern world the idea of inherent rights moved men even after they had cut themselves adrift from its religious moorings. The eighteenth century de-natured God and deified Nature; the nineteenth century mechanized Nature, and the twentieth century depersonalized man. If the universe and man correspond to such a picture, there is no place in it for anything resembling the traditional doctrine of rights.

Traditions of Civility

The poet, Coventry Patmore, observed that we are the inheritors of

The fair sum of six thousand years
Traditions of civility.

In the course of this long human experience of living together under relatively stable conditions there gradually evolved an awareness that man is more than a thing, that there is a dignity and grandeur in the human soul because it is a portion of the divine in man, coterminous with that aspect of the divine interpreted as the moral order or the Natural Law. To the extent that such beliefs took hold of ancient peoples they attempted to base their political structures on the explicit consent of those in-

volved—"those involved" numbering less than the total population which included slaves and unassimilated foreigners. Conquest and subjugation do not supply a principle of rule; rule is always based on some degree of implicit consent. Consent, in a republic, is deliberately courted. Such was the case in the Hebrew commonwealth, in the Greek city-states, and in the Roman republic. It is even more true of Christendom which fell heir to these three strands of tradition. Christian doctrine, writes Wilhelm Roepke, "starts from man as an individual endowed with an immortal soul striving for its salvation. Before the State there is now the Person, whereas above the State there is God, His love and His justice common to all men."

Judging by the record of history, man seems to have a natural tendency to seek a cosmic foundation for his social way of life; no culture of record has been wholly secular. Men posit a divine order of reality transcending the natural world which meets the senses. A relationship to this divine order gives added meaning and significance to the natural order, and the divine law furnishes the norms by which the different patterns of behavior in society are coordinated.

These moral norms, in other words, are believed to be anchored in the nature of things; they exist independently of men's interpretation of them, and neither individual persons nor majorities can flout them with impunity. This was the concept of the Natural Law, by virtue of which man was believed to possess inherent rights, as our Declaration of Independence explicitly states. Such

a conviction kept the "consent of the governed" idea in secondary spot.

The Founding Fathers hung their case from a theological premise, although their own religious philosophies were anemic affairs and the eighteenth century ideology which they partly shared was not hospitable to theism. The colonists, however, were a theologically minded people, and the Church played an important part in their affairs. Thus they were easily appealed to with the idea that they were supernaturally endowed with inherent rights. It is one of the end products of the religious heritage of Christendom to claim natural rights for every human being as such, and to proclaim God's sovereignty over the social and political affairs of men. These religious beliefs are reflected in the Declaration. But withdraw these religious elements from the philosophy of the Declaration and we are in trouble. The concept of God-given rights goes when belief in God is suspended. This was happening even as the Declaration was being written; it has happened at an accelerated tempo since that time. It started as far back as Hobbes and Locke, in the middle and latter part of the seventeenth century.

There was a state of nature, Locke argued, of "peace, good will, mutual assistance, and preservation." Fully endowed human beings existed in this presocietal condition, each one possessing a natural right to protect himself and his property. After a rational weighing of the personal gains to be derived from living in civil society, individual men contracted with other individuals to form one, "by barely agreeing to unite into one political

society, which is all the compact that is, or needs be."

As history, this is, of course, pure moonshine; men, by virtue of their genes, are biologically anthropoids; it is only by assimilation of their social legacy that they become fully human and members of a particular society. But social contract theories, which linked the ideas of natural rights and consent, were useful fictions during the political revolutions of the seventeenth and eighteenth centuries which were aimed at monarchy, and Locke furnished much of the ammunition used by our Founding Fathers. All this was fine when it came to deposing the kings—the only kind of authoritarianism which seemed to frighten the men of those centuries. But if we depose the kings only to set up a more far-reaching tyranny—parliamentary absolutism or the despotism of a majority—where's the gain?

Actually, the seeds of majoritarian democracy are in John Locke: "And thus every man, by consenting with others to make one body politic under one government, puts himself under an obligation to every one of that society, to *submit to the determination of the majority*, and to be concluded by it; or else this original compact, whereby he with others incorporates into one society, would signify nothing, and be no compact. . . . The body (of the community) should move that way the greater force carries it, which is the *consent of the majority*." (Italics supplied)

Jefferson himself blows hot and cold in these matters. No one talked more than he about "our natural rights," or was more aware than he of the potential tyranny in the

"consent of the governed" idea when reduced to mere majority rule. "An elective despotism is not the government we fought for," he wrote in 1781. But in 1787 he wrote to Madison, "It is my principle that the will of the majority should always prevail." And a year later, also to Madison, "I readily suppose my opinion wrong, when opposed by the majority." It is this phase of his thought which enabled Lord Acton to speak of "Jefferson's determined aversion to every authority which could oppose or restrain the will of the sovereign people."

Jefferson Wasn't Sure

But in 1816 the tide came back in with the "natural rights" idea, and he wrote, "Our legislators . . . true office is to declare and enforce only our natural rights and duties and to take none of them from us. . . . The idea is quite unfounded that on entering into society we give up any natural right." But then he veered again, and in 1824 said, "All power is inherent in the people." And in his last extant letter, written ten days before his death in 1826, when the idea of inherent rights had all but been abandoned by the learned, he affirmed his belief that "all eyes are opened, or opening, to the rights of man."

He was quite mistaken in this, even of his own country. Seven years earlier in the epoch-making Supreme Court decision in *McCulloch vs. Maryland*, John Marshall had written: "The government of the Union is emphatically and truly a government of the people. In form

and in substance it emanates from them. Its powers are granted by them, and are to be exercised directly on them and for their benefit."

Jefferson may have been right in affirming that we didn't fight for an "elective despotism," but given the situation which existed in the eighteenth and nineteenth centuries, it is obvious to hindsight that that is what we were going to get. The tyranny of the majority is simply the unhindered application of the "consent of the governed" idea, with no restraining influence which might come from virile belief in Natural Law and inherent rights. Edwin Corwin writes that "'Natural Law' in the sense of 'the observed order of phenomena' has tended in recent years to crowd the earlier rationalistic conception to the wall, thus aiding the triumph of the idea of human and governmental law as an expression solely of will backed by force."

John Stuart Mill uttered many timeless truths about liberty on the basis of the utilitarian standard that liberty provides conditions conducive to the greatest happiness. But although his rhetoric was gorgeous, he didn't make his case. Who will decide which one of several alternative courses of action should be adopted so as to maximize happiness? Majority rule again! The decision is based on "the judgments of those who are qualified by knowledge of (the consequences), or, if they differ, that of the majority among them, must be admitted as final." And Herbert Spencer, who in his early writings defended the rights of man against the State, concluded somewhat sadly in his *Autobiography* (1904) that "the unlimited right of

the majority to rule is probably as advanced a conception of freedom as can safely be entertained at present; if indeed, even that can safely be entertained."

"The unlimited right of the majority to rule" can, in practice, mean only one thing: that a determined and articulate few will create *ad hoc* majorities for the sole purpose of ratifying minority demands. Such is the inevitable end result of popular sovereignty, as Francis Lieber foresaw a century ago:

Woe to the country in which political hypocrisy first calls the people almighty, then teaches that the voice of the people is divine, then pretends to take a mere clamor for the true voice of the people, and lastly gets up the desired clamor.

"Consent of the governed" was an altogether inept phrase in the Declaration, out of step with the main body of the American political vision. The dream was that if men knew the right principles of social integration, no one would be governed, i.e., the creature of another man's will. The society would be free, i.e., comprised of self-governing units whose social agency of arrest and restraint served individual liberty by maintaining the inherent rights of each person. But remove the idea of inherent rights and this structure collapses.

When the idea of inherent rights is abandoned, people will still go on using the word "rights," after distorting its original meaning. On the one hand, "rights" will be used as if it were synonymous with "desires" or "privileges." Thus we are presented with long lists of "human rights" to such things as housing, education, medical

care, a job, and so on. The source and dispenser of these "rights" is, of course, the sovereign state. On the other hand, the air is filled with talk about "civil rights," which means certain patterns of conduct permitted or enforced by the sovereign majority. The conduct in question may be ethically desirable, provided it is voluntary; but the majority has power, and is willing to use it on minorities. Members of minorities have no inherent rights, so of course they have no "civil rights" either until they join forces with the majority.

Can we recover the idea of inherent rights? Only if we can rehabilitate the belief that man is not wholly resolvable into a social being, that part of him is inviolable, shielded always from the prying hands of either majorities or rulers.

Two main lines of argument have been used to support this conviction, one religious, the other secular. According to the former, rights have a reference above and beyond society, in a transcendent order. The individual is a creature of God and therefore he is sovereign as a person in relation to his fellows. When religious belief waned, and the concept of a transcendent order was abandoned, many thinkers sought support for the idea of "natural rights" in theories of an original social contract. Locke, for instance, thought he could deduce rights from the nature of abstract, ideal men who were imagined to have existed as isolates before they got together and formed themselves into societies.

These two approaches exhaust the field; abandon these and the idea of inherent rights is no more than a

pious wish. And we have to abandon one of them, for social contract theories are no longer believable. This means that the preservation of the idea of inherent rights depends on a contemporary restatement of the ancient truth that "in the center of his being, in that knower who is never known, man is in touch with God and even in his most wretched wandering in the wilderness of this world, is always rooted in the eternal being of God." Sovereignty must locate in the Creator or liberty has no roots.

A National Ambiguity

Americans, Lord Bryce observed last century, have "an aversion to the investigation of general principles as well as to trains of systematic reasoning." Perhaps it may be more accurate to say that Americans have been uncomfortable with the ambiguity in their own political heritage. They have an apprehension that something is wrong without being aware of just what it is. With one part of their being they have looked to the Creator as the source of their rights; with another part, they have lavishly abused those rights at the behest of now this majority, now that. The split in principles is becoming more painful, and soon the choice will have to be made to ride one or the other.

It is possible for a people to live without clear-cut principles for a time, sustained by the forces of habit, custom, and convention. A man may live according to his father's code, even after abandoning the faith which gave the

father his code. But the grandson will have neither faith nor code. Such is, roughly, our predicament, and there is no guarantee that even a determined effort will get us out of it. But the first step in solving a problem is to face a bleak statement of it; for where there is no understanding, there can be no intelligent response.

ON BEING PRACTICAL

by *Leonard E. Read*



WHEN an engineer aims at being practical, he seeks consistency with sound principles so that his structures will endure. But when politicians or businessmen plead, "Let's be practical," they are suggesting some sort of a "middle way"—that sound principles be tossed overboard. They are thinking only of the moment with a disregard for the basic rules of the social structure in which they operate. (Perhaps this explains why the pyramids have outlasted so many societal designs!)

All of us at FEE try to be intensely practical at our self-assigned chore of free market, private property, limited government education. Yet, because "being practical" is so often associated with momentary expediency as distinguished from adherence to sound principle, we constantly run the risk of *appearing* impractical—even esoteric or mystical—when we argue for and explain our idea of what is practical in educational endeavors.

The above is but a preface to my own belief that most of the "practical" schemes for reforming the masses are utterly impractical, and my acknowledgment that our concept of the practical will appear to many persons as mere fine-spun theory.

Libertarianism—a label we use to identify the free way of life—is an ideal; *it is not dogma*. It hasn't a single rule that even suggests how any individual shall act creatively. On the contrary, libertarianism stands only for the unobstructed release of the creative human spirit, regardless of the form this may take. The creative spirit, as it manifests itself through individuals, cannot, prior to its manifestation, be predicted or imagined—let alone dogmatized. Who can make dogma out of what yet is to be discovered, thought of, invented, produced, exchanged?

Aspiring libertarians, however, unless they are cautious, can easily become cultish and doctrinaire. Some become intellectual authoritarians and regard all individuals to be in error who do not precisely share their views. Many become reformers and attempt to shape others in their own fallible images.

Few persons can sustain a pure libertarian position without constant self-scrutiny. For once a person is aware of freedom's significance—creative energy release—his impatience with those who remain unaware becomes difficult to subdue. The urge to force everyone else up to one's own level of "enlightenment" is strong, indeed.

The question that has to be scrutinized is: "What can I really do about those who remain unaware?" The answer to which both reason and carefully observed experience drive one is extremely humbling.

Many persons—good friends and intelligent, too—are blissfully unconscious of freedom except as some abstruse subject that classifies as academic trivia. What can be done to open the eyes of those who will not see? Let's

face what at first blush appears to be a discouraging fact: Nothing can be done with them—until they themselves *ask!*

Too many of us make the error of trying to *pry open* these minds which are oblivious to freedom and its meaning. Impatiently we pry with our cajolery, disparagements, cantankerousness, harangues—all of which repel the very inquiry on which the awakening depends.

What we can do to cause these “sleepers” to ask is both different and less than most of us think. The limitations of our own powers in this respect can be estimated by reflecting on those rare and high qualities in others which cause us to seek enlightenment from them—particularly in the realm of abstract thought.

A spirit of inquiry is not too difficult to evoke in sensible matters, that is in areas dealing with things which can be seen, heard, felt, smelled, tasted. Any number of persons will drink at the fountain of personal excellence in golf, music, cookery, mechanics, art, science, and the like. But move into areas of the suprasensible—into an investigation of those realities which lie beyond the purview of the five senses—and the difficulty of stimulating inquiry increases enormously. This, I suspect, is a good trait. Skepticism or disinterest here is man’s innate protection against a level of ideas that is characterized more by confusion than precision. Nature has endowed most men with a built-in reluctance to venture too far into the abstract so that they may “keep their feet on the ground.”

This protective device should not, however, blind us to the possibility that the most important realities of life

are to be discovered over and beyond anything the five senses can reveal. Nor does it relieve us of exploring, understanding, and explaining them. *This obstacle only announces that the task is difficult.* As related to freedom—a subject clearly in the suprasensible area—this obstacle suggests that nothing short of one's very best effort will open dormant minds to freedom's significance.

How few there are who can say "Yes" to the question, "Am I doing my best in understanding and explaining freedom?" Nearly every honest person will openly confess to not even half trying. This apathy explains, more than anything else, why freedom is losing ground in our country.

There is an unbelievable power of attraction in doing one's best—I.Q. is a secondary matter. Instinctively, most of us make light of, or even regard as "phoney," the counsel of those who have only half tried to master any subject. And the higher the I.Q. the more likely are we to pronounce such an unfavorable judgment. Within my personal acquaintance are many individuals—brilliant when compared to most of us—who profess an interest in freedom but regard the matter casually. They appear to be ineffective workers in the freedom vineyard. On the other hand, I know of some who are not brilliant but who are serving freedom's cause to the limit of their capacity. Their successes border on the miraculous. It's the dedication that counts! *The dimmest glow in the darkness makes a bright and attractive light.*

If doing one's best is the key to attractive influence, then those of us who would widen an understanding of

freedom and its significance need only discover the method for doing our best. When put in these terms, the secret is self-revealing. It is as simple as the answer to the question—How do I learn more than I now know? *I turn to those who know more than I do.*

In what direction should the eye be cast? Toward those whom we think so sorely need our teaching? Or toward those whose teaching we so sorely need?

FEE receives many inquiries about organizing seminars and study groups. A suggested reply comes from the Middle Ages. According to legend there were gangs of students who went in search of teachers—good teachers being exceedingly scarce—and upon finding one worthy of that title they would “shanghai” the learned one and keep him captive in order to gain undersanding. These medieval seminars or study groups were of sound design, with eyes cast in the right direction, as right today as then. Merely substitute a gentle invitation for the rough and tumble of shanghaiing, and there’s the pattern and our answer to these inquiries.

Reverse the above procedure. Imagine a gang of self-designated “teachers” shanghaiing “students” in order that the “ignorant ones” might be blessed with their wisdom. The folly of this is obvious. But such is the “practical” way now in vogue. This is the way of the reformer.

Should we not work with those whose minds have been opened to the meaning of freedom, and first of all, with those whose minds are ahead of our own? We can, quite properly, disregard the “sleepers.” Paradoxically: To dis-

regard the unaware in the interest of our own perfection is the only means we have of influencing them to come awake.

Now, what fault will be ascribed to this line of reasoning? None except, "It isn't practical. It won't work. The 'sleepers' will not ask." True, most will not ask nor is it important that they do. A few will. To deny this is to say that no one will draw on sources of understanding that exist and, by implication, to suggest that persons can be attracted to sources that do not exist. No more is required to correct this erroneous conclusion than to test the policy of "doing one's best" by giving it a fair trial.

Let us model our efforts after the hard-headed practicality of the engineer who constantly refers to fundamental principles. It follows then that the task of spreading an understanding of freedom or of moving toward the libertarian ideal—the only antidote to political authoritarianism—is a *project in learning, not selling*.

THE HELPING HAND

by Vollie Tripp



HUMAN nature often is revealed in jokes, such as the one about the businessman seated in his office, when his excited secretary burst in.

"There's a man here named Bill Simpson, and he says he's come to beat you up!"

"Bill Simpson," reflected the businessman. "That's odd. I can't recall ever doing him a favor."

Whether the businessman got beaten up by his irate visitor, the narrator neglected to say. But we can infer that the man in the office was quite familiar with that strange aspect of human nature which has both puzzled and saddened many others.

What of this perverse trait in human beings that impels people so often to turn against their benefactors? A man who has labored into the twilight of his life on behalf of others, observes without bitterness or regret: "I have always tried to help the underdog. And the underdog has always turned around and bitten me."

Why is this so?

Having been on the receiving end of this kind of re-

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verse gratitude for sundry favors rendered, and having lost a few valued friends through well-meaning efforts to help them, I set about to resolve this interesting phenomenon. Nothing, it seems, takes place without cause.

We should realize, first of all, that every normal person has an instinctive need to think well of himself. He must appear in his own eyes as a fairly satisfactory human being, all things considered. He has no practical way to escape from that clinging, all-pervading self. A contrary view of self, a disparaging view, would be intolerable, and would likely result in insanity or self-destruction. 'Tis well that we cannot "see ourselves as others see us," the old bard to the contrary. In fact, psychologists and criminal authorities say even the most depraved refuse to think of themselves as such. In a literal sense, they make excuses for themselves in order to live with themselves.

Now this instinctive inborn need of man to look upon himself with favor, to minimize his faults and magnify his virtues, implies a capacity to meet certain difficulties and challenges imposed by the very act of living. In other words, he *must* believe in himself to this extent. If he did not believe in himself to some extent, it is doubtful that he should ever reach maturity, let alone success.

This being so, we can see that it flatters man not at all to suggest that he is too weak, too stupid, too lazy, to meet life's minimum terms. And, should we force this conclusion on him, woe to us! We have wounded that man in a vital spot. Small wonder, then, that his resentment should be directed at him who offered the insult; at him who has disturbed his favorable view of himself.

Help, aid, of whatever sort, must be given, if at all, with the foregoing well in mind.

It should be made quite clear that those partially or totally unable to help themselves, through accident, illness, advanced age, idiocy, or other circumstances beyond their power to remedy, are beyond the scope of these discussions. They must have care, tenderness, and affection, according to their need. Nor need any odium attach to this kind of charity.

It is realized that the line grows faint at times between those who are in need through no fault of their own, and those who are in need as a result of too prolonged and too easy "aid." Perhaps no completely satisfactory delineation between these groups can ever be made.

Admission of Inferiority

But help, aid, assistance of whatever sort, can hardly be administered without running afoul of a fundamental part of man's nature. Those who must accept help, or who think they must (it comes to the same thing), are in consequence obliged to admit a certain inferiority to the helper, in those spheres to which the assistance relates. We should be naive indeed not to expect reactions of resentment, even bitterness, as the victim seeks redress in the only way he knows.

There is a practical way to escape the fury of those receiving wounds to their self-esteem. Experienced philanthropists distribute their alms anonymously. While this technique is useful to those who seek to do good

works, it probably does not lessen the damage to the recipient. Though deprived of the opportunity to strike directly at the author of his injury, his displeasure is bound to manifest in other ways.

It should be admitted that insult, injury, calumny do not always follow assistance to those in need or trouble. Sometimes the receivers of help are intelligent enough to analyze their deep, primordial feelings, welling up from the fierce mysterious depths of the human ego, drive them away, or banish them from consciousness. At other times, the unfortunate are decent enough to hide whatever feelings of acrimony the acceptance of help may breed. But the type of people most frequently in need of help are seldom able either to analyze their own feelings or to stifle those which urge reprisals upon their benefactors.

Those who have given of their time, money, and strength in behalf of the underdog must have sensed this curious paradox, or seeming paradox, in the behavior of human beings. Few, perhaps, have taken the trouble to try to understand it. Sociologists generally would agree that the best possible way to help anyone is to help him to help himself. The theory is right, but the carrying out poses problems.

All experience bears out the futility, not to mention the danger, of too easy charity to those in need. There is not just the danger that the person so aided will slacken efforts in his own behalf, which is serious enough, but that he will react with savage fury whenever he is caused to lose face in his own estimation. When this happens, as it always has, and always must—when individuals or

nations are compelled to make unfavorable comparisons between themselves and others, through accepting help—resentment and pique will follow those primitive drives for vengeance.

Those who insist on helping others have no right to expect gratitude. Isn't it enough that the helped restrain whatever umbrage may result, in consequence of it? As a matter of fact, this requirement of gratitude, explicit or implied, can only aggravate a relationship which is difficult at best. Perhaps if we could eliminate all such claims on the subject of our largess, we might neutralize some of the irritation with us for our doing of good. With tact and patience we might learn to help people without incurring their open enmity.

Those who would buy friends, not to speak of dependable allies, by such euphemisms as "foreign aid," are uninformed both in psychology and in the lessons of history. By our outpouring of wealth into such nations as India, we have accomplished nothing except to point up the vast difference between our economic status and their own. This is like flashing jewels in the face of a starving beggar. These unfortunate peoples have reacted true to form. They despise and hate us. It should surprise no one.

Our popularity as a nation and a people is in reverse ratio to the amount of "help" we have advanced foreign nations. In Canada, where an offer of "aid" would receive the rebuff it deserves, we are treated well, and (I think) generally respected.

Getting back to the personal level, to the problems of millions of persons whose egos have been deeply hurt by

state and federal aid, it must be admitted that many thousands have lost all power to help themselves. The State, having rendered them impotent, will now have to take care of them. But we need not continue this blind waste of human resources.

Perhaps it is going too far to say it is the deliberate, calculated design to soften up the moral fiber of the people by such enervating devices as aid to farmers, grants-in-aid to states, or social security, where the recipients are made to feel they "have it coming" to them. But whatever the true motive, no course could be more effective if it were intended to produce a race of spineless serfs.

By appealing to man's weakness, in a word, making him feel sorry for himself, he is all too easily persuaded that the State, or someone, "owes him a living"; and like an overgrown suckling past weaning time, he will yell to Heaven in defense of his "rights."

Punitive Taxes on Industry and Thrift

But the State, the government, not content merely to seduce the citizen by all manner of unearned bounties, seems determined to force the thrifty and self-respecting into a condition of supine beggarmdom through its tax on thrift and initiative. The punitive taxes on industry and solvency present increasing difficulties to those who most despise the idea of dependence and all it implies.

True charity must never be confused with subsidized pauperism. Charity and force are as different as fire and water. Real charity, as the Reverend Russell J. Clinchy

so well defines it, is "an act of loving all men as brothers because they are sons of God." But neither true charity nor the spurious brand put out by the Welfare State can ever be a satisfactory way of making a living.

An important requirement of giving help is that it be terminated the moment the "case" is able to do without it. This may require, at times, a little gentle suasion. Indiana has shown us one way this can be done. Publishing the names of those drawing relief checks has helped several thousand Hoosiers get along without any aid. It is safe to say that many of them, pride restored, faith rebuilt, have found gainful and dignified employment once more.

The problem of the poor, the ineffectual, the "underdog," will remain with us always, I fear. There has never been anything even remotely resembling a solution. George Bernard Shaw once proposed to solve it by shooting everyone who didn't make at least 5,000 pounds sterling a year. Others would shoot everyone who did. Though interesting, these witticisms bear but remotely on the matter under discussion: the wrath, active or passive, which usually follows attempts to help those in need.

Once we understand the underlying causes, we will save ourselves much moaning and wailing in self-pity, when having extricated the underdog, he shows his appreciation by rending our flesh. After all, it is but a droll human trait, no more to be assessed against man than many other regrettable limitations.

And since we are going to have to keep right on helping people—some people, anyway—this knowledge of hu-

man nature ought to be useful to us. For one thing, we may learn how to assist another with a minimum of "flashback." We may also learn how to parry it when or if it comes.

If we could restore a concept of "aid" in vogue fifty years ago, much good would result. This was the idea, generally accepted, that help was extended with the sole purpose of getting the helped back on his feet and producing as quickly as possible. There existed a tacit understanding between helper and helped on this score. And the helped, fully expecting to regain quickly his former status, helping others in his turn, suffered no galling traumatic injury as he does today.

One of the homely "institutions" of a bygone time was the woodpile, with quantities of uncut wood, a chopping block, and an ax. Applicants for "aid," sometimes bums, often men honestly seeking work, were habitually referred to the woodpile for a square meal.

It was a point of pride at our house that no man was ever turned away hungry, whether or not he elected to pay for his dinner by cutting a few armloads of wood. Indeed, most of them did so gladly. This early version of "trade, not aid" helped the down-and-outer in two ways. It gave him a better appetite, and it left the fellow with ego intact, knowing that he could help himself if he chose. I do not recall that we ever made an enemy by offering a man a chance to work in exchange for a good nourishing farm meal, though many were the kicks in the face from people given outright help.

Certainly the logical plea of debtor nations for "trade,

not aid," if heeded, would result in vastly better international relations than can ever be bought with "foreign aid." And we all should benefit by the natural exchange of goods.

The most helpful man in any community is not the man who dispenses the most charity. On the contrary, he is the one who makes any kind of charity or aid unnecessary. He is, if I may say so, the man who gives the most people self-respecting gainful employment. The *least* helpful are those who seek to harass, penalize, and ruin men willing to risk their time and capital in venturesome pursuits.

When we understand better the immense complications of the human soul—when we better appreciate the extreme tenderness of the human psyche—we shall no longer offer a man insults in this clumsy fashion. Nor will we be puzzled and chagrined when he strikes back at his would-be benefactors.

If it were ever true that we grow strong by bearing burdens, it's true today. It follows, and is equally true, that we grow weak and flaccid when our burdens are taken away.

Satisfying one's compassion for others with the fruits of one's own labor is no easy way to win friends. But a certain way to make enemies is to indulge in political "charity" where the motive is political power instead of compassion and where the donations are forcibly taken from stockpiles other than our own.

To millions, these police-grants-in-aid offer weakness rather than strength, dependence rather than indepen-

dence, faith, security, and freedom. In the doing, we are hurting man in a tender and vital spot. We insult his pride when we invite him to degrade himself in his own eyes. This cannot continue without the gravest consequences to him as well as to those who render the "aid."

A MORAL GOAL FOR BUSINESS

by Gaylord A. Freeman, Jr.



IT seems unbelievable today that with our large industrial corporations, many with thousands of employees and hundreds of millions of dollars of capital, there could be any uncertainty as to the basic purpose of such organizations—yet there is.

What is the purpose of a business?

I was interested when the builder of one of the country's greatest corporations declared that the purpose of his company was service to its customers. I was interested but not convinced. I could not imagine that practical-minded leader commencing his annual report: "This has been our most successful year; we served an additional million customers. Incidentally, we lost \$20 million, but we consider this our finest year."

I have listened to some of my more idealistic friends say that the purpose of a business corporation is, or should be, the common good of customers and employees. I have listened and been disturbed.

Mr. Freeman is Vice-president of The First National Bank of Chicago. This article is an excerpt from his address of October 15, 1958, before an Instalment Lending Conference sponsored by the Illinois Bankers Association at Peoria.

I was also impressed by reading in two recent publications of a management association the statements of the corporate goals of several of our leading businesses. The most frequently mentioned aims were:

1. Making the company a good place to work
2. Serving the customers well
3. Being good citizens, and, incidentally,
4. Making a profit

Although several mentioned profits, it was only as a necessary condition to the continuation of employment and service. Of those which considered profits as one of several goals, most referred to a "reasonable" or "fair" profit, or one "sufficient to finance our normal healthy growth," or provide "a fair return on investment," or "safeguard our investment in order to enable the company to attract new capital in order to expand its services." Many failed to make any reference to profits.

Yes, I was impressed by those statements of corporate goals—but still unconvinced. Do investors (the actual owners who risk their capital in organizing or purchasing the stock of a hazardous business) make such an investment in order to provide a nice place to work for some unknown employees, or to provide a good product to unknown customers, or to earn a return only sufficient to obtain additional capital from other investors?

I have talked to many business leaders, and to them I have expressed what seems to me to be the very obvious single goal of business. I have been told afterwards by some that I was wrong and by others that I was right but that I should have said it another way.

What I said is simply that the *only goal* of a business corporation is to make a *profit*.

Expressed more fully, this means: the only goal of a business corporation is to make the *maximum possible profit*.

And said completely: the only goal of a business corporation is to make the maximum possible profit *over a long period*.

Competition for Profit

Our economic and social system, whether referred to as a capitalistic system, or a system of private enterprise, or a system of free enterprise, is based upon the concept of competing units seeking maximum possible profits. We know that! Indeed, we have always known it; but, buffeted over the past twenty or thirty years by the philosophy of the "new deal" and its many offshoots, we now feel that to acknowledge such a goal is somehow immoral or at least selfish. We have lost confidence in the original bases of our economic system and feel that perhaps profits should be subordinated to some other goal that would be socially more acceptable, more moral, or somehow "higher." Some do this with their tongue in their cheek; some do it confusedly but honestly.

Are we so timorous that we will permit ourselves thus to be misled? Do we give up our known goals merely because someone criticizes them? The expenditure of effort for profit has done more good for our society than any other effort, except that expended directly for education.

Yet because an articulate few imply that this is a selfish goal, are we to give up the compass that has led us so far and follow the will-o'-the-wisp they propose to substitute?

If we said that short-range profits or immediate profits were our goal, then the morality of such a purpose might well be challenged. Maximum short-range profits, achieved at the expense of our employees or of our customers or of our community, would not be a *proper* goal, for it would sacrifice the interest of others. But it would not be a *wise* policy either, for such a course, by injuring others on whom the company is dependent for future profits, reduces the opportunity for profits in subsequent years.

Maximum possible profit *over a long period* of time is neither moral nor immoral, but the effect is beneficial to the community. To achieve this end of maximum profits over a long period (of 100 years or more, and the life span of a corporation should be measured in no shorter periods) requires that we treat our employees in such a way that they are happy both at work and at home; that their minds are relieved of fear, that their working conditions are pleasant, and their status and contribution are respected. Without these conditions present, they cannot be as productive as they must be if a business is to achieve maximum long-range profits.

To achieve such a goal requires that we treat our customers well; that we provide the goods or services which they want at a price which they are willing to pay, and that they be delivered under satisfactory conditions.

Beyond that, to achieve profits over a long period of time requires that business operate in a society that is just and equitable, for if the majority of the people are dissatisfied with the economic or political system, they will change that system. There is no divine guarantee of private ownership or the permissibility of profits. If business management wants to preserve a system of private property and the right to make profits, it should see to it that the rewards, the living conditions, the status and the dignity of our people—*all* of our people—are such that the great majority are happier in the “private property, profit system” than they believe they would be in any other system.

Thus to achieve maximum long-range profits, a corporation must treat its employees right, it must treat its customers right, and it must make a continuing contribution to society. It is therefore only in this indirect sense that the goal of business can be said to be social betterment. Its direct goal is properly maximum long-range profits, and to substitute any other for it is to fail to understand the essential nature of business or the society which it ultimately benefits.

ETHICS IS PERSONAL

by William Henry Chamberlin



THERE has been a strong trend among some religious groups in the modern age to invoke religious sanctions for advocating secular decisions of policy and theories of social change, usually in the direction of socialism and collectivism. This trend, it may be noted, is in complete disregard of the spirit of all the great religions and ethical teachings. Common ground in the teachings of the Old and New Testament, of the Koran, of the Buddhist sacred writings, of moralists such as Marcus Aurelius, Epictetus, and Seneca, is that the relation of man to God and man's own ethical responsibilities is personal and unconnected with the political, social, and economic institutions of any given time. Ethics is deeply and unconditionally an individual concern.

A striking example of an attempt to give a religious coloration to a secular decision in the field of foreign policy was the recent action of the members of a World Order Study Conference, sponsored by the National Council of Churches of Christ, in passing a resolution calling for United States diplomatic recognition of the communist regime in control of mainland China and its admission to the United Nations. This proposal was

prefaced by the sentence: "With reference to China, Christians should urge reconsideration by our Government of its policy in regard to the People's Republic of China."

The clear suggestion here is that there is something un-Christian in the United States policy of refusing to open diplomatic relations with a bloody atheistic despotism which has never submitted its power to the verdict of a free election, which has subjected many Protestant and Catholic missionaries to cruel tortures, which is still technically in a state of war with the United Nations, which is responsible for the death of many thousands of Americans in Korea and the savage maltreatment of thousands more who were unfortunate enough to be captured.

It is not surprising that Secretary of State John Foster Dulles, as good a churchman as any of the signatories of this resolution, was not impressed. What makes this episode still more puzzling is that the vote in favor of this resolution, which also included much more criticism of American than of communist policies, was adopted unanimously. Yet the Congress of the United States, a reasonably representative cross section of the American people, has twice put itself on record by virtually unanimous votes against the recognition of Red China or its admission to the United Nations.

The tie-up between purportedly religious agencies and advocates of radical social and economic change is also a familiar spectacle. A man who for many years was the leading spirit in a church "federation for social action"

was a vehement, polemical apologist for the political and economic institutions of the Soviet Union.

This and other groups which uphold what they call "the social Gospel" proceed on the assumption that management is always wrong and trade unions are always right in labor disputes, that there is something inherently wrong and immoral in the capitalist—or individualist—economic system, that the realization of socialist aims is an obligation of the professing Christian.

But it is interesting to note that no great religious or moral teacher has set as his primary aim the changing of economic and social conditions according to a doctrinaire set pattern. The first aim of such teachers has always been the changing of men's hearts, minds, and souls. There can be no good society without good men. The cure for social evils is to train individuals to follow the path of righteousness.

Again and again enthusiastic leaders of revolutions have promised their followers a new heaven and a new earth as a result of substituting new institutions for old. Again and again these great expectations have been disappointed.

Jean Jacques Rousseau and some of the less remembered French intellectuals of the nineteenth century, whose thinking preceded the French Revolution and influenced its course, were convinced that man is nothing but a product of the laws of the State and that there was nothing a government could not accomplish in the forming of man; vice in society is not the result of corruption in human nature, but of defective laws.

Side by side with this mechanical conception of man being made happy by the instruction of all-wise preceptors and the legislation of omniscient legislators went Rousseau's mystical notion of something he called "the general will," which must take precedence over all selfish individual wills and interests. This was an idea made to order for a band of dedicated fanatics like the Jacobins, who dominated the extreme phase of the French Revolution. Identifying the "general will" with their own, Robespierre and his associates condemned all dissent as counterrevolutionary and experienced no qualms of conscience about sending to the guillotine all who disagreed with them as counterrevolutionaries who were trying to lead the people astray.

The Despotism of the Mob

Anticipating and perhaps inspiring Lenin with his theory of the "dictatorship of the proletariat" (which meant in practice the dictatorship of the Communist Party) Robespierre declared: "The Government of the Revolution is the despotism of liberty against tyranny."

This conception of a virtuous revolutionary elite minority bringing liberty and happiness to the people ran its bloody course and ended when Robespierre himself was overthrown and executed in July 1794.

But a very similar idea returned in a somewhat different economic setting when Lenin and his band of fanatical, disciplined communists swept into power in Russia amid the chaos and disintegration that overwhelmed

Russia in 1917. The communists, more lucky or more skillful than their French Jacobin predecessors, maintained continuity of power, although Stalin's purges during the thirties were even more lethal than what happened to the more extreme Jacobins after Robespierre was guillotined.

Communism added to the old idea of a revolutionary elite governing the people for their own good until the millennium, when the State is supposed to "wither away," the newer idea that private ownership of wealth is the root of all evil. Nationalize factories, mines, railways, stores, abolish private profit—so ran the theme song of Lenin, Trotsky, and their associates—and the sins and frailties of human nature will automatically disappear.

But this promise has proved a mirage, like the promises of the Jacobin agitators of the French Revolution. In order to make the wheels of their economic machine turn, the communist rulers of the Soviet Union were compelled to throw out of the window the early slogans of material equality with which they had appealed to the envy and class hatred of the politically illiterate Russian masses. Differentiation by status, differentiation by the pocketbook are the rule, not the exception, in Russia today.

As for the claim that a socialist or communist system would eliminate certain traits of fallible human nature, this has proved complete humbug. The Soviet newspapers, the speeches of Soviet leaders, are full of denunciations of hoodlumism, drunkenness, juvenile delinquency. Corruption scandals are at least as common in

Moscow as mink (or vicuna) coats have been in Washington. To refer to these things as "remnants of the capitalist past" is rather ridiculous, as everyone under fifty in the Soviet Union today has spent his formative years under Soviet rule. Indeed, characteristics of oppression that had been moderated by the growth of a liberal public opinion before the Revolution have been repeated, often in aggravated form, under the communist dictatorship.

One is reminded of the words, bitter yet true, with which Joseph Conrad ended a preface to his novel, *Under Western Eyes*, referring to the Russian Bolshevik Revolution: "The ferocity and imbecility of an autocratic rule rejecting all legality and in fact basing itself upon complete moral anarchism provokes the no less imbecile and atrocious answer of a purely utopian revolutionism encompassing destruction by the first means to hand, *in the strange conviction that a fundamental change of hearts must follow the downfall of any given human institutions.* These people are unable to see that all they can effect is merely a change of names. The oppressors and the oppressed are all Russians together; and the world is brought once more face to face with the truth of the saying that the tiger cannot change his stripes or the leopard his spots." (*Italics supplied*)

Changes in the West

This same truth, that a fundamental change of hearts does not follow even a profound modification of institu-

tions, is evident, in a milder way, in the United States and Great Britain. Fifty years ago in these countries, and throughout the Western world, the government laid what would now seem negligibly light taxes on the individual—and expected the individual to look out for his own well-being.

Now Great Britain, partly as the result of a crushing burden of direct and indirect taxation, provides cradle-to-the-grave security, i.e., subsistence livelihood to all. The United States has not gone quite so far in this direction as Great Britain; but the trend in the same direction is unmistakable.

And the results should be disillusioning to those who have believed that poverty is the main cause of crime and that a notable improvement in public behavior would follow the enactment of legislation calculated to eliminate or alleviate poverty. The American material standard of living has never been higher than in the postwar years. Unemployment has been sparse and very liberally cushioned. Little or no crime can be attributed to such a cause as a man stealing a loaf of bread or a bottle of milk to feed a starving family.

Yet the figures of crime have soared with prosperity. Juvenile delinquency or criminality has reached heights never remotely approached in the past in spite of, or perhaps because of, the fact that young criminals have never received so much sympathetic attention from social workers, psychiatrists, and assorted do-gooders.

Slum housing is often regarded as a cause of crime. Yet it often happens that modern housing projects to which

slum dwellers have been moved turn into dens of vice, filth, criminality, and juvenile delinquency. This suggests that perhaps people make slums, at least as much as slums make people.

There has been a similar experience in England, where the old law-abiding tradition has seriously declined, although the Welfare State has certainly removed the old excuse that poverty is the cause of crime. British "Teddy boys" have been as obnoxious as the gangs of young hoodlums who make life and property unsafe in large areas of American cities. Some British students of this problem believe that part, at least, of the explanation is that adolescents, earning comparatively high wages, have more money than they are able to spend wisely.

The Individual Is the Key

All these experiences after violent and gradual revolutions indicate that the true hope of improving the worth and dignity and moral and cultural level of the human being lies in changing men, not in changing external conditions. That sonorous old moral code, the Ten Commandments, is put in terms of what "thou" shalt or shalt not do. There is not a word in it to suggest that the individual can shuffle off his moral responsibilities onto some vague entity called society.

And this is characteristic of the spirit of both the Old and New Testaments. The Psalms and the Hebrew Prophets always lay stress on individual right thinking and right doing, irrespective of what may be the political

and economic conditions in which the individual finds himself. Says Micah: "What doth the Lord require of thee but to do justly, and love mercy, and to walk humbly with thy God?"

And there is this same concern with individual righteousness in other verses of the Old Testament:

"The way of transgressors is hard."

"Righteousness exalteth a nation."

"He that is slow to anger is better than the mighty; and he that ruleth his spirit than he that taketh a city."

This is equally true in regard to the New Testament. Many Jews were discontented with the "colonial" status of their country under the rule of Rome. But Jesus sounded a call not to armed revolt but to personal right living and preparation for life everlasting. "Render therefore unto Caesar the things which are Caesar's" was his reply to those who tried to tempt or provoke him into what would now be called a "nationalist" demonstration. There is the same emphasis in the teachings of the great Apostle of Christianity, Saint Paul:

"I have learned, in whatsoever state I am, to be content."

"Let us not be weary in well-doing."

"Prove all things; hold fast that which is good."

It is not that Jesus and Paul were ignorant of or indifferent to abuses of tyranny and slavery; but it was their conviction that the best and surest way to eliminate these abuses was by changing the sinful heart of the individual man.

This is also the teaching of other religions that have

won many millions of followers. Buddhism, with its central creed that the highest happiness lies in overcoming passion and desire, is a completely individual-centered faith, with its Four Truths and its Eightfold Path: rightness in views, intentions, speech, action, livelihood, effort, mindfulness, concentration.

Mohammedanism also places the burden of responsibility on the individual believer. There is a like spirit in the *Meditations* of Marcus Aurelius Antoninus, the great Stoic philosopher who became Emperor of the Roman world, one of the very few men whom absolute power did not corrupt in the least. His ethical message is emphatically and exclusively personal:

"Thou wilt find rest from vain fancies if thou doest every act in life as though it were thy last."

"A man should *be* upright; not be *kept* upright."

"Blot out vain pomp; check impulse; quench appetite; keep reason under its own control."

Bit by bit, one may be confident, the wisdom of the great religious leaders and sages will prevail, and the truths will gain recognition that without basically good men no tinkering with institutions will be of much avail and that the only significant revolution would be one in the spirit of men.

JOBS FOR ALL

by *Percy L. Greaves, Jr.*



LIFE is an unfinished series of wanting things. From the day we are born to the day we die, we want things we don't have. If we didn't, we wouldn't be normal human beings. We would have no reason to eat, work, or get married. All life is a struggle to satisfy more of our wants.

As our society is organized, the normal way to get more of what we want is to take a job. Then we can use the dollars we earn to buy more of the things we want for ourselves and our loved ones. Without a job, or a business of our own, we would all have to grow our own food and make our own clothes as well as anything else we wanted. Taking a job where we can use tools supplied by savers is the easiest way for most of us to satisfy more of our wants.

So most men want a job. To be without a job is most depressing. Continued unemployment, through no fault of one's own, is probably the darkest future any man can face. Such longtime mass unemployment is one of the great curses of our age.

The human misery, degradation, and moral temptation are not all. Besides these setbacks to the human

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spirit, there is the great unseen loss of the wealth the idle might have produced if they had been employed. This loss is shared by all. In a market economy every dollar holder can buy a share of the total wealth offered for sale. The greater the wealth produced and offered for sale, the more anyone can buy with each of his dollars. So we all have a stake in reducing unemployment and encouraging the production of more of the things men want most.

Yet millions of able and willing men have recently remained unemployed for months on end. What is the answer?

Let's use our heads. When we want to sell something, we sell it to the highest bidder. He buys it for the lowest price he can. That is what happens at auctions every day. It happens at the corn and cotton markets as well as the stock exchanges. Even the grocer with perishable fruits and vegetables reduces his prices until the highest bidder buys them.

That way, the seller gets the highest anyone is willing to pay, while the buyer pays the lowest price any seller will freely accept. Both buyer and seller get the highest possible satisfaction from every transaction. That is the way of the free market.

There is no reason why these same free market principles can't be applied to the services of working men. It would be very simple, requiring only two things. First, let every job seeker choose that job which offers him what he considers the best returns he can get for the services he has to sell. Second, let every prospective employer

choose those job seekers who offer what he considers the best services he can get for the wages he can pay. Competition would soon see to it that no one was paid too much or too little.

Of course, such a simple solution would put an end to all privileges for those now overpaid. No union would then be able to hold up employers and consumers for more than they need pay in a free and competitive market. By forcing some wages above free market rates, some unions now get higher wages for their members than such workers would receive in a free society. But these forced higher wages for some mean that others must accept lower wages or unemployment (unless the government resorts to inflation). These lower wages and unemployment (as well as this pressure for inflation) would disappear if every man, including the unemployed, were free to compete for every job. As long as some of men's wants remain unsatisfied, there will be enough jobs to go around.

A free job market would provide "full employment" and greater production of the things men want most. Competition might drive down some dollar wage rates, but living standards would have to be higher. With more goods and services competing for every dollar, prices would be lower and everyone with a dollar would be entitled to a share of the increased production. Those now overpaid might temporarily suffer, but in the long run we would all be able to satisfy more of our wants.

With a free market in jobs, every man would be free to take the best offer available. Every employer would

also be free to hire the applicants that pleased him most. No one would remain long unemployed. There would be jobs for all, more wealth produced, and a greater satisfaction of everyone's wants. What is more, the economic loss and dread of unemployment would evaporate.

I, PENCIL

by Leonard E. Read



I am a lead pencil—the ordinary wooden pencil familiar to all boys and girls and adults who can read and write.¹

Writing is both my vocation and my avocation; that's all I do.

You may wonder why I should write a genealogy. Well, to begin with, my story is interesting. And, next, I am a mystery—more so than a tree or a sunset or even a flash of lightning. But, sadly, I am taken for granted by those who use me, as if I were a mere incident and without background. This supercilious attitude relegates me to the level of the commonplace. This is a species of the grievous error in which mankind cannot too long persist without peril. For, as a wise man observed, "We are perishing for want of wonder, not for want of wonders."²

I, Pencil, simple though I appear to be, merit your wonder and awe, a claim I shall attempt to prove. In fact, if you can understand me—no, that's too much to ask of anyone—if you can become aware of the miraculousness

¹ My official name is "Mongol 482." My many ingredients are assembled, fabricated, and finished by Eberhard Faber Pencil Company, Wilkes-Barre, Pennsylvania.

² G. K. Chesterton.

which I symbolize, you can help save the freedom mankind is so unhappily losing. I have a profound lesson to teach. And I can teach this lesson better than can an automobile or an airplane or a mechanical dishwasher because—well, because I am seemingly so simple.

Simple? Yet, *not a single person on the face of this earth knows how to make me.* This sounds fantastic, doesn't it? Especially when it is realized that there are about one and one-half billion of my kind produced in the U. S. A. each year.

Pick me up and look me over. What do you see? Not much meets the eye—there's some wood, lacquer, the printed labeling, graphite lead, a bit of metal, and an eraser.

Just as you cannot trace your family tree back very far, so is it impossible for me to name and explain all my antecedents. But I would like to suggest enough of them to impress upon you the richness and complexity of my background.

My family tree begins with what in fact is a tree, a cedar of straight grain that grows in Northern California and Oregon. Now contemplate all the saws and trucks and rope and the countless other gear used in harvesting and carting the cedar logs to the railroad siding. Think of all the persons and the numberless skills that went into their fabrication: the mining of ore, the making of steel and its refinement into saws, axes, motors; the growing of hemp and bringing it through all the stages to heavy and strong rope; the logging camps with their beds and mess halls, the cookery and the raising of all the

foods. Why, untold thousands of persons had a hand in every cup of coffee the loggers drink!

The logs are shipped to a mill in San Leandro, California. Can you imagine the individuals who make flat cars and rails and railroad engines and who construct and install the communication systems incidental thereto? These legions are among my antecedents.

Consider the millwork in San Leandro. The cedar logs are cut into small, pencil-length slats less than one-fourth of an inch in thickness. These are kiln dried and then tinted for the same reason women put rouge on their faces. People prefer that I look pretty, not a pallid white. The slats are waxed and kiln dried again. How many skills went into the making of the tint and the kilns, into supplying the heat, the light and power, the belts, motors, and all the other things a mill requires? Sweepers in the mill among my ancestors? Yes, and included are the men who poured the concrete for the dam of a Pacific Gas & Electric Company hydroplant which supplies the mill's power!

Don't overlook the ancestors present and distant who have a hand in transporting sixty carloads of slats across the nation from California to Wilkes-Barrel!

Complicated Machinery

Once in the pencil factory—\$4,000,000 in machinery and building, all capital accumulated by thrifty and saving parents of mine—each slat is given eight grooves by a complex machine, after which another machine lays leads

in every other slat, applies glue, and places another slat atop—a lead sandwich, so to speak. Seven brothers and I are mechanically carved from this “wood-clinched” sandwich.

My “lead” itself—it contains no lead at all—is complex. The graphite is mined in Ceylon. Consider these miners and those who make their many tools and the makers of the paper sacks in which the graphite is shipped and those who make the string that ties the sacks and those who put them aboard ships and those who make the ships. Even the lighthouse keepers along the way assisted in my birth—and the harbor pilots.

The graphite is mixed with clay from Mississippi in which ammonium hydroxide is used in the refining process. Then wetting agents are added such as sulfonated tallow—animal fats chemically reacted with sulfuric acid. After passing through numerous machines, the mixture finally appears as endless extrusions—as from a sausage grinder—cut to size, dried, and baked for several hours at 1,850 degrees Fahrenheit. To increase their strength and smoothness the leads are then treated with a hot mixture which includes candelilla wax from Mexico, paraffin wax, and hydrogenated natural fats.

My cedar receives six coats of lacquer. Do you know all of the ingredients of lacquer? Who would think that the growers of castor beans and the refiners of castor oil are a part of it? They are. Why, even the processes by which the lacquer is made a beautiful yellow involves the skills of more persons than one can enumerate!

Observe the labeling. That’s a film formed by applying

heat to carbon black mixed with resins. How do you make resins and what, pray, is carbon black?

My bit of metal—the ferrule—is brass. Think of all the persons who mine zinc and copper and those who have the skills to make shiny sheet brass from these products of nature. Those black rings on my ferrule are black nickel. What is black nickel and how is it applied? The complete story of why the center of my ferrule has no black nickel on it would take pages to explain.

Then there's my crowning glory, inelegantly referred to in the trade as "the plug," the part man uses to erase the errors he makes with me. An ingredient called "factice" is what does the erasing. It is a rubber-like product made by reacting rape seed oil from the Dutch East Indies with sulfur chloride. Rubber, contrary to the common notion, is only for binding purposes. Then, too, there are numerous vulcanizing and accelerating agents. The pumice comes from Italy; and the pigment which gives "the plug" its color is cadmium sulfide.

Does anyone wish to challenge my earlier assertion that no single person on the face of this earth knows how to make me?

No One Knows

Actually, millions of human beings have had a hand in my creation, no one of whom even knows more than a very few of the others. Now, you may say that I go too far in relating the picker of a coffee berry in far off Brazil and food growers elsewhere to my creation; that this is

an extreme position. I shall stand by my claim. There isn't a single person in all these millions, including the president of the pencil company, who contributes more than a tiny, infinitesimal bit of know-how. From the standpoint of know-how the only difference between the miner of graphite in Ceylon and the logger in Oregon is in the *type* of know-how. Neither the miner nor the logger can be dispensed with, any more than can the chemist at the factory or the worker in the oil field—paraffin being a by-product of petroleum.

Here is an astounding fact: Neither the worker in the oil field nor the chemist nor the digger of graphite or clay nor any who mans or makes the ships or trains or trucks nor the one who runs the machine that does the knurling on my bit of metal nor the president of the company performs his singular task because he wants me. Each one wants me less, perhaps, than does a child in the first grade. Indeed, there are some among this vast multitude who never saw a pencil nor would they know how to use one. Their motivation is other than me. Perhaps it is something like this: Each of these millions sees that he can thus exchange his tiny know-how for the goods and services he needs or wants. I may or may not be among these items.

There is a fact still more astounding: The absence of a master mind, of anyone dictating or forcibly directing these countless actions which bring me into being. No trace of such a person can be found. Instead, we find the Invisible Hand at work. This is the mystery to which I earlier referred.

THE INVISIBLE HAND

By directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain. . . . He is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. . . . By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.

ADAM SMITH, *The Wealth of Nations*

It has been said that "only God can make a tree." Why do we agree with this? Isn't it because we realize that we ourselves could not make one? Indeed, can we even describe a tree? We cannot, except in superficial terms. We can say, for instance, that a certain molecular configuration manifests itself as a tree. But what mind is there among men that could even record, let alone direct, the constant changes in molecules that transpire in the life span of a tree? Such a feat is utterly unthinkable!

I, Pencil, am a complex combination of miracles: a tree, zinc, copper, graphite, and so on. But to these miracles which manifest themselves in Nature an even more extraordinary miracle has been added: the configuration of creative human energies—millions of tiny know-hows configuring naturally and spontaneously in response to human necessity and desire and *in the absence of any human master-minding!* Since only God can make a tree, I insist that only God could make me. Man can no more direct these millions of know-hows to bring me into being than he can put molecules together to create a tree.

The above is what I meant when writing, "If you can become aware of the miraculousness which I symbolize,

you can help save the freedom mankind is so unhappily losing." For, if one is aware that these know-hows will naturally, yes, automatically, arrange themselves into creative and productive patterns in response to human necessity and demand—that is, in the absence of governmental or any other coercive master-minding—then one will possess an absolutely essential ingredient for freedom: *a faith in free men*. Freedom is impossible without this faith.

Once government has had a monopoly of a creative activity such, for instance, as the delivery of the mails, most individuals will believe that the mails could not be efficiently delivered by men acting freely. And here is the reason: Each one acknowledges that he himself doesn't know how to do all the things incident to mail delivery. He also recognizes that no other individual could do it. These assumptions are correct. No individual possesses enough know-how to perform a nation's mail delivery any more than any individual possesses enough know-how to make a pencil. Now, in the absence of a faith in free men—in the unawareness that millions of tiny know-hows would naturally and miraculously form and cooperate to satisfy this necessity—the individual cannot help but reach the erroneous conclusion that mail can be delivered only by governmental "master-minding."

If I, Pencil, were the only item that could offer testimony on what men can accomplish when free to try, then those with little faith would have a fair case. However, there is testimony galore; it's all about us and on every hand. Mail delivery is exceedingly simple when

compared, for instance, to the making of an automobile or a calculating machine or a grain combine or a milling machine or to tens of thousands of other things. Delivery? Why, in this area where men have been left free to try, they deliver the human voice around the world in less than one second; they deliver an event visually and in motion to any person's home when it is happening; they deliver 150 passengers from Seattle to Baltimore in less than four hours; they deliver gas from Texas to one's range or furnace in New York at unbelievably low rates and without subsidy; they deliver each four pounds of oil from the Persian Gulf to our Eastern Seaboard—half-way around the world—for less money than the government charges for delivering a one-ounce letter across the street!

The lesson I have to teach is this: *Leave all creative energies uninhibited.* Merely organize society to act in harmony with this lesson. Let society's legal apparatus remove all obstacles the best it can. Permit these creative know-hows freely to flow. Have faith that free men will respond to the Invisible Hand. This faith will be confirmed. I, Pencil, seemingly simple though I am, offer the miracle of my creation as testimony that this is a practical faith, as practical as the sun, the rain, a cedar tree, the good earth.

WHO SETS THE PRICE?

by M. E. Cravens



OFTEN, someone says, "They set the price too high." He pictures a mythical "they" as controlling the particular product and, somehow, saying what consumers must pay for it. But, just how true is this picture?

Most folks have attended an auction. Perhaps it was the sale of pies or boxes at a bazaar, or of farm products or household goods. Who sets the price at such auctions?

Many factors affect these auction prices, but they are finally determined by the amount and the quality of goods for sale, the size of the crowd, the bidders' supply of money, the mood of the occasion, and similar situations. Sometimes the auctioneer will announce that if he cannot get a certain price, the owner will not sell an item. If none of the bidders will pay this price, the owner has set a price that is above the market, and no sale is made. However, the owner has only postponed the sale—if he wants to sell—in hopes that at a later time he will obtain his price.

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If the owner does not get his price, he may keep the item or sell it at a lower price. In either case, his setting the minimum price did not force a sale at the set price. The bidders placed their own value on the item.

This simple auction method of price setting is in many ways similar to that of most American businesses today. A good example is the supermarket.

The supermarket operator decides his retail prices—sometimes at near the wholesale or farm prices and sometimes at much higher prices. Anyone who has observed the relationship between retail and wholesale prices has seen this in both individual retail and chain stores.

Here is how this pricing system works for an individual commodity. By December, each year, producers and food handlers can estimate fairly accurately the quantity of apples available for sale until the next crop. Few consumers are aware of the size of the apple supply. On the basis of experience, farmers and handlers who own apples decide to sell or not to sell at the current price. Their decisions may cause this price to fluctuate, according to the number of apples reaching the market.

The retailer bases his price on this wholesale price. The consumer looks at the retail price and decides whether or not to buy. If her purchases are at a rate too slow to move all of the apples from storage, handlers must somehow speed up the sales.

Usually a lowering of the asking price will bring a consequent increase in sales. It is a continual trial and error process in which the owner of apples keeps one eye on his apple stocks and the other on the rate of purchase

by the consumer. He tries to get the highest possible price for his apples, but he must sell them at a price that will move the entire crop out of storage before another harvest.

Each day's price is tentative—it is based on opinions as to the current and future actions of the consumer. If she buys at a rapid rate, the price stays firm or rises. If she does not buy, or buys at a slow rate, the price will fall. These actions, multiplied by the millions of potential sellers and consumers, set apple prices.

This example shows briefly how prices are set for one product. The method is simply supply and demand at work. The individual consumer does not and cannot know all the factors of supply and demand for each product. However, her influence is the main price-setting force; her rate of purchase forces changes in price.

Pricing Industrial Products

This same basic procedure determines the price of almost every marketed commodity. It even applies to refrigerators or pots and pans, items for which the consumer believes the manufacturer sets the selling price where he wants it. The manufacturer does set the price at which he will sell his product, but he cannot force the consumer to buy. More and more manufacturers are basing their prices on accurate information about production costs and probable consumer purchases at prices based on these costs.

For instance, a company may estimate that at \$22 a

unit, it can sell 1,250,000 units. At \$25, it could sell 1,000,000 units and at \$28, it could sell 750,00 units. Of course, these figures are based on what the competition will probably do.

On the basis of estimated per unit costs of production and probable competitive prices, the company must decide at which price to start. Actual production costs may vary from the estimate. In any case, the company must decide on the price and production schedule it believes will best suit its aims.

If the company has correctly estimated the reaction of the competition and the customers to these prices, it will reach its goal. If it has estimated 1,000,000 unit sales at \$25, and actual sales are only 750,000, something must change. The company may either sell the remaining 250,000 units at a loss or stop production short of its 1,000,000-unit goal. The decision may involve laying off workers and losing customers to other companies or to other products. In any case the company will either lose money or make less than its aim. Of course, if sales run ahead of expectations, the reverse would be true.

The net effect of this action and reaction is similar to that for pricing agricultural products, except for the length of time between the realization of the need for adjustment and the actual adjustment. The difference is largely in the degree over which the producer has control of his production.

Even though a single grower produced the entire United States crop, the method of pricing apples for a particular season would remain much the same as it is

today. The apple producer cannot know until near harvest time how many apples he will market. On the other hand, the appliance producer can more closely control production schedules to meet changing situations.

In our competitive marketing system, anyone can set a price, but he cannot force the customer to buy, nor can he force others to set the same price. The customer is free to select what he, or she, considers the best buy from the many choices available. The exceptions to this principle are almost all due to governmental policies.

THE SOURCE OF MONEY

by *George Winder*



THE Right Honorable Mackenzie King, when Prime Minister of Canada, once made the following statement: "Until the control and issue of money is *restored* to the the government, and recognized as its most conspicuous and sacred responsibility, all talk of the sovereignty of Parliament and of democracy is idle and futile."

Now I believe that there is no greater danger to democracy than for the source of its monetary supply to be in the hands of the government, and in this article I will give some reasons for thinking as I do in this matter; but the chief fault I find with the above assertion is the suggestion contained in the word "restored."

The rest of the statement is, I suppose, a matter of opinion, but by the use of this word it is turned into an averment of fact. It implies—and appears to take for granted—that money has its source in the State, and that its issue was a government prerogative of which, at some period of history, it has been deprived, either by the people or perhaps by the private banks.

This is a presumption which can be completely re-

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futed, for the known facts indicate quite clearly that money was in circulation even before any settled organization resembling our conception of the State came into existence.

If we go back to the earliest times, we find that no State controlled the supply of cattle, knives, spears, furs, salt, or ornaments which were among the first forms of money of which we have any record. In the Book of Genesis (chapter 24, verse 22) we read: "It came to pass, as the camels had done drinking, that the man took a golden earring of half-a-shekel weight and two bracelets for her hands of ten shekels weight of gold," and gave them to Rebekah. It seems most unlikely that these ornaments, which were then the favorite form of gold money, and were measured by weight, were either produced or weighed by a state-owned industry.

Sir George Macdonald—perhaps the greatest authority on coinage—attributes the invention of coins in Europe to Greek merchants to facilitate the circulation of their stock of metals. The first known instance of the State venturing into the monetary field occurred when the Kings of Lydia stamped their seal on coins made of electrum, a natural amalgam of gold and silver. Croesus, who came to the throne of Lydia in 560 B.C., melted this electrum down to produce gold and silver coins.

Sir George Macdonald also tells us that the original object of the impression made on coins by a merchant was to indicate its purity and not its weight. It was only later, when coins came to be manufactured in uniform sizes so that their value could be ascertained by tally,

that the State came into prominence in the monetary field by stamping coins to attest to both their purity and weight.

One of the first duties of any government is to see that citizens keep faith with one another; and, if merchants issue coins, this aim is furthered if the State cooperates by placing its imprint upon them as warranty that they are what they profess to be. So long as the State keeps to this function, there is every hope that a sound coinage will be the result.

It is only when the State goes further than this, and becomes responsible for the whole production and issue of coins, that corruption occurs and baser metals are passed for genuine gold and silver.

Debasement of the coinage is nearly as old as the State itself. Macdonald mentions that, in ancient Greece, the democratic States preserved the value of their coinage rather better than those ruled by tyrants, while someone has observed that in Rome the good Emperors issued good coins and the bad Emperors bad ones.

In the Middle Ages, the debasement of coinage by governments was so general that, when Venice struck an honest "ducat" and Florence an honest golden "florin," they were used for commerce over the greater part of Europe.

In the sixteenth century, the Africa Company gave England her most reliable gold coinage. The sound principle was at that time accepted that anyone who possessed gold could take it to the mint and have it converted into coins stamped with the state insignia to guarantee

their weight and purity. No seigniorage or charge of any kind was made. The Africa Company made use of this service to convert the gold it obtained from Guinea into coins of a nominal value of twenty-one shillings. A small elephant—the Company's trade-mark—was also impressed upon them, perhaps as an additional assurance to the public. This golden guinea became so popular that men gradually used it to value all other commodities, and so it became the national unit of account in place of the silver shilling. In this way the country moved from a silver to a gold standard without conscious effort.

When the guinea was superseded by the pound in the early part of the nineteenth century, it left behind it the ineradicable habit of all professional men to charge for their services in guineas instead of pounds, a custom which plagues the British people to this day.

Paper Money Began with Goldsmiths

There is certainly nothing in the history of primitive money or of coinage to support the supposition that the State was the original source of the supply of money. It is, of course, possible that when Mr. Mackenzie King made his statement, he was thinking only of modern paper money; but if this be so, he is again quite wrong. The note issue was not the invention of a state official, nor has its development taken place at the instance of the State; quite the contrary.

Paper money was evolved from the receipts given by goldsmiths for coins and bullion deposited with them

for safekeeping. Depositors found that when they wanted to make a purchase, it was sometimes easier to hand over the goldsmith's receipt than to collect and transfer the gold. To facilitate this custom, the goldsmiths eventually made their receipts with the space for the depositor's name left blank. Later, instead of giving only one receipt for the gold deposited, they issued a number of receipts in convenient denominations. By the time of Charles I, these receipts were recognized by merchants as the secure promises of honest men to produce gold and silver money on demand. They passed from hand to hand in the ordinary course of business in payment for goods and services. The goldsmith's receipt had evolved into the forerunner of the bank note.

The State had nothing to do with this development, but, in the reign of Charles II, it did try to imitate it. In 1667 Parliament granted Charles the right to issue paper notes promising to pay money from the revenue. These were issued in denominations as low as £1, £2, and £5 and were used to pay the contractors who supplied the dockyards and other public works. They are the first known examples of an English government actually issuing paper money.

Had the experiment proved a success, it might have changed the whole history of modern money and given at least a partial justification for Mr. Mackenzie King's suggestion that governments were once responsible for the monetary system. But it was not a success. This state issue of money was repudiated by Charles in 1672, and Great Britain did not see state-created paper money again

until the outbreak of war in 1914 when Treasury notes were issued. The State no more originated paper money than it did any other form of money. There are, however, a few countries in the New World which can claim that their right to create money, including paper money, is practically contemporaneous with the State itself.

Continental Currency in the United States

The most important of these exceptions to the general rule is, of course, the United States itself. Mr. Marriner Eccles, Chairman of the Board of Governors of the Federal Reserve Board, probably had this in mind when, at a dinner given by the Ohio Bankers Association in 1935, he said: "The power to coin money and to regulate the value thereof has always been an attribute of a sovereign power." As a general statement this is quite wrong, but we will take it that Mr. Eccles was thinking only of his own country. He went on to say: "It was one of the first powers given to the federal government by the Constitutional Convention." True, but it is a little surprising that Mr. Eccles mentions it. The grant of power to which he refers was made in 1775 by the Continental Congress which met at Philadelphia. It issued notes in denominations of $\frac{1}{3}$ to 8 dollars. On each side of their text the words "Continental Currency" were boldly printed.

But what happened to this first issue of United States dollar notes? It was their fate to provide the English language with that expressive phrase: "Not worth a Continental,"—thus crystallizing, as it were, in the very lan-

guage itself, a warning against the follies of all government-created currencies. A subsequent experience with the famous greenbacks gives us another example of the dangers of government-created money in America.

I think it is safe to say of the United States that far more wealth has been taken from owners without their consent as a result of government-inflated currencies than has ever occurred through the occasional fraud or failure of private bankers.

But why confine my case to showing the dangers of state-created money? These are, after all, negative arguments. Let me now give an example of money created by private enterprise which became the most useful currency the world has ever known, and the very symbol of honesty and worth.

The word "sterling" originally meant nothing more than "little star," and referred to the symbol on ancient Norman coins. By being constantly associated, however, with the British pound, it has absorbed a reflected glory; and now, according to the Oxford Dictionary, means "genuine, of standard worth or purity."

There is little doubt that the "pound sterling" owes a great deal of the respect in which it was once held to the long record for honesty and security earned by the Bank of England, so that to say that anything was "as safe as the Bank of England" became proverbial.

In the great days of the pound sterling, before the outbreak of war in 1914, this great bank was a private company beyond the control of the State. In that year its control passed to the British Treasury, where it has remained

ever since, although it was not nationalized until 1946. The Bank, like the Suez Canal, was one of those great projects which owe their existence to the imagination and energy of a company promoter.

The man responsible in this instance was William Paterson, a Scotsman. He was not a banker; he possessed the typical drive and optimism which characterizes the entrepreneur. Another of his promotions was the Hampstead Water Works. Most of his schemes were vast and magnificent, but he brought a capable brain to work on his attempts to implement some of them. Like that other great projector, Ferdinand de Lesseps, he was interested in canals. One of his ideas was to cut through the Isthmus of Panama, and he actually examined the terrain for this purpose, but decided that the times were a little premature for such an undertaking. He did, however, form a company to establish a British settlement on the Isthmus, which he hoped would break the Spanish monopoly and open up the trade of South America to the world. The failure of this famous "Darien Scheme" wrecked his health and was the commercial scandal of the century.

Early Problems of the Bank of England

Such was the man who secured a Charter from the Crown to form the Bank of England. In 1694 the Bank was safely established with a private capital of £1,200,000, after which Paterson sold his shares to devote his energies to his Darien Scheme. Fortunately, his co-directors—or Governors, as they were described in the

Charter—were typically hardheaded businessmen, with less imaginative minds than the founder of the firm. They were also highly respected—a great advantage to the Bank when it ran into trouble, as it did within two years of its inception.

As always in its subsequent history, it was the government which was the author of its misfortunes. One of the objects of the Bank was to lend money to the government, but this time it lent more than it could afford. By May 1696, the Bank was unable to meet its notes. Strange as it may seem, the holders of these notes had such confidence in the integrity of the Bank's governors that they were satisfied with payments on account. The bank tellers recorded on the backs of the notes presented the amount paid and promised to find the balance later.

The Bank was then able to persuade the government to repay part of its loan by regular monthly installments, and, by the end of the year, it was able to meet its notes in full.

From this time forward the Bank flourished. It appeared to have learned the great lesson that the more it could keep itself free from the influence of the State the more secure it would be. However, such a bank has sometimes no option but to advance money to the State, and this led to another unhappy experience.

Toward the end of the eighteenth century, the bank was required to finance the war against Republican France and to supply the Emperor of Austria with money to keep his troops in the field. This led to its gold being drained away. On February 18, 1797, the Bank suspended

gold payments. The final rush on the Bank had occurred when it was announced that the French Fleet was off Beachy Head. Later, the French landed in Wales but were easily defeated. This French expedition to Wales is one of the mysteries of history. It had no possible chance of success. The explanation sometimes offered is that its sole purpose was to bring about the failure of the Bank of England. The French believed that the Bank's notes would be valueless without gold backing.

However, after the first shock of the suspension, the Lord Mayor and four thousand London businessmen signed a declaration that they would accept payment of debts in notes, and it soon became apparent that the Bank's inconvertible notes had become the chief medium of exchange in the country, and for the carrying on of the war.

Inflation did ensue, but it was mild compared with that which occurred during the last two world wars. The important point, however, is that, after Napoleon had been banished to St. Helena, the Bank of England took steps to meet all its liabilities in full and by May 1821—twenty-four years after it had suspended gold payments—it was able honorably to meet all its notes in gold.

Thus Great Britain returned to the gold standard. From that date to the outbreak of war in 1914, banking in England was free from state control, except for those general laws which govern the honesty of all men alike.

It is true that, in 1844, the Bank Charter Act was passed in an attempt by the government to restrict the quantity of money by controlling the note issue. This

Act, however, completely failed in its object, for bank notes had by this time become merely the small change of commerce. Bank credit money—the medium by which the far greater part of the country's business was carried on during the Industrial Age—completely escaped the government's legislative net.

This Act of 1844 also gave the Bank of England a monopoly of the note issue. But for the same reason, this again made little difference.

During this period, as a result of the repeal of restrictive legislation, several great joint stock banks, all with the power of issuing credit money, grew up and flourished. These treated the Bank of England as a central bank with which they kept an account and deposited their gold. They did this not from compulsion but because the Bank provided reliable service.

In the British Dominions this same type of private banking developed, each bank issuing its own notes. The result was as satisfactory as in Great Britain itself. Seldom have undeveloped countries been developed so quickly.

World Expansion with Private Banking

It must be remembered also that the nineteenth century was, for England, the period of her greatest expansion. The whole weight of this development was borne without difficulty by this private banking system. Not only did the pound sterling become the securest form of money which a trading people have ever possessed, but

it also became so widely respected that it was used for the payment of cargoes of merchandise passing from one country to another in any part of the world. The Bill of Exchange, payable in pounds sterling, accepted by a London banker, became a type of money which is very badly missed today. It became, in fact, the most perfect international currency the world has ever known.

But, from the point of view of the American citizen today, faced with the steady deterioration of his own country's currency, the all-important fact concerning this British nineteenth century privately-issued pound sterling is that its purchasing power was almost exactly the same when the system ended in 1914 as when it began with the Bank of England returning to the gold standard in 1821. This is so in spite of the fact that, during the same period, wages had nearly trebled.

Privately-owned banking had served the people so well that, in 1914, they did not know what inflation was. With the outbreak of war, most States took control of their banking systems and have not surrendered them since. During the next forty years, nearly all the currencies of Europe were either completely destroyed or greatly reduced in value, and their depreciation frequently went on just as steadily in peace as in war.

Great Britain suffered not only inflation but also severe deflation and the greatest unemployment she has ever known. A somewhat similar experience was also inflicted upon America. Apart altogether from wartime inflation, the once sterling pound has lost a third of its value in the last ten years.

These are some of my reasons for believing that Mr. Mackenzie King's statement is utterly and dangerously false. The exact opposite is the truth. Unless the creation and issue of money is withdrawn from the State and restored to the private banking system, I believe that parliamentary government and democracy will become impossible to maintain.

John Maynard Keynes, in *Essays in Persuasion*, referring to the famous statement of Lenin as to the best way to destroy the capitalist system, wrote: "Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch its currency. This process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one in a million is able to diagnose."

The strange thing is that it appears never to have occurred to Lord Keynes that, under a free economy, it is impossible to debauch the currency.

POSITIVE ACTION AGAINST COMMUNISM

by Yale Brozen



SOME of the major problems we face today are those in the international arena. Among other things, our foreign aid program is directed toward assisting in the solution of our problems in foreign relations. Our agricultural program is bound by restrictions stemming from the necessity of avoiding actions which harm and alienate our allies whose markets are influenced by our policies in this sphere. Everywhere we turn, the international problem intrudes. Even a domestic recession in business and employment has international overtones since "when the United States sneezes, Europe catches cold."

Foreign trade is our most effective device for winning friends, influencing nations, and developing their resistance to Soviet blandishments and threats. Trade has the double advantage of being a device for accomplishing our international objectives, and at the same time increasing the employment and real wage income of American workers.

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First, let us look at what trade does in accomplishing our international objectives. We are wooing other nations by many devices—foreign aid, military assistance, treaties of assistance, alliance and mutual defense, information services—all directed toward the end of enlisting their support in maintaining a free world and containing the totalitarian threat. However, our firmest friend in South America is one on whom we have exercised few of these means. Brazil is our staunchest supporter in the Southern Hemisphere. One of the important reasons for the support we obtain from her lies in the fact that we are Brazil's biggest customer. We buy more from Brazil than does any other nation, and with the dollars Brazil earns in this way she is one of our more important outlets for American goods. These sales to Brazil are made by our more productive industries which, as a consequence, are able to provide employment at higher wages than workers in these industries could obtain if they were forced to turn to alternative occupations in other industries.

In North America, our firmest friend is Canada. Again, we have a staunch friend and ally for reasons other than foreign aid, since none has been extended. We are Canada's biggest customer. The ties arising from this relationship are an important element in creating this mutuality. Because we buy so much from Canada, and U. S. private enterprise invests so heavily in our northern neighbor, Canada is a major customer for the products of U. S. industry, thus supporting employment at high wages for many Americans.

Our ties with the United Kingdom rest in large measure on our trade with her. We buy English products in extensive amounts and, in turn, are enabled to find large export sales.

This list of friends whose regard has been fostered by our purchases could be extended. The important point is that trade creates friendships which are usually firmer than those based on other ties. In trade there is mutual gain to both sides. Where there is a mutual gain, a mutual regard usually follows.

The importance of trade as a means of winning friends and gaining allies has also been recognized by the communists. They courted Egypt by buying her cotton. They wooed India by offering to buy her hemp. They even are flirting with Brazil by making noises as if they might be interested in purchasing her coffee. And even as firm a friend as Brazil is unable to resist a small twitch of interest. The purchase of a country's goods is a mightier weapon than many appreciate.

This has exceedingly important implications for our trade policy. By reducing barriers to imports, we gain both in terms of accomplishing our international objectives and in terms of increasing wages, employment, and American national income.

The exports whose volume would increase are the very ones produced by the industries which are in trouble now. Machinery and construction and mining equipment—capital goods—are wanted by areas which now lack the means to purchase. These are now among our softest industries employment-wise.

An unappreciated aspect of international trade is the fact that it is our high wage industries which export abroad and compete very effectively with low wage labor abroad. They are the export industries because they are relatively our most productive. Since wages depend on productivity, they are also our high wage industries.

The industries which ask for protection are our relatively less productive industries. Because wage rates are driven up by the competition for labor of the very productive, export industries, the less efficient industries suffer, inasmuch as they are not productive enough to afford high wage rates. By getting tariffs imposed, foreign buying is reduced since foreign dollar earnings are cut down. The high wage industries are thus forced to cut back and release labor to the low wage industries.

Wage rates in the machinery industry (an export industry) in July 1956 were \$91.96 per week. In the leather industry, one which asks protection, wage rates were \$56.47 per week in July 1956.

Reduced Defense Burdens

Actions to improve international trade would reduce our defense burdens in three ways. The firmer our allies, the less the level of expenditures for national defense required to provide any given degree of security. Secondly, the higher our national income, the more capable we become in carrying the defense burden, and the greater our mobilization potential in case of war. Thirdly, an increase in trade strengthens our allies and gives them

greater defense capability just as it increases our defense capabilities. To this extent, they become capable of carrying a greater share of the mutual defense burden.

If, in the process of reducing our own import barriers, we also succeed in obtaining agreement from other nations to reduce their barriers, then trade will increase all the more and our benefit will be even greater. We would benefit by a unilateral reduction of tariffs. This would pay out for us even though foreign tariffs were not reduced. But bilateral reductions give us even greater yields in trade, friendship, allies, and defense.

We can reduce tariffs, simultaneously cut foreign aid, and end by accomplishing more than the present foreign aid program. To illustrate this, we might consider the experience of Sweden after the English repealed their tariffs in the 1840's.

Sweden, before the middle of the nineteenth century, was an economically backward country whose people lived in circumstances which cannot be described. Suffice it to say that the condition of the average man was one of abject misery. Average income per person per *year* was much less than \$50.00. This may appear to be absolutely unbelievable and shock those who are acquainted with modern Sweden. These statements are well-documented, however, and are common knowledge among Swedish economic historians.

What was it that brought about the economic revolution which occurred in the last half of the nineteenth century? In the 1840's England repealed her tariffs. At that time, England was the world's major market. She

had a higher national income than any other section of the world. The opening of her markets to Swedish products awakened that country and brought it from feudal misery to the modern, prosperous country that it now is. The opening of trade presented economic opportunities to Sweden which attracted English, German, and Dutch entrepreneurs who sparked an economic renaissance. They converted natural capital in the form of forests and mines into factories, railroads, and power plants. The export of timber and iron to England developed a supply of businessmen who could create productive opportunities for employment and who were enabled thereby to obtain the capital to use in providing equipment and tools with which workers could produce abundantly and earn good wages.

Reductions in our own tariffs would similarly open markets to other areas of the world in need of development. It could similarly provide economic opportunities which would develop business and businessmen. These are the men who will provide the backbone of resistance to communism. If we want economic development abroad in ways which will win allies, this is the way to do it.

BARRIERS TO WORLD COMMERCE

by *William H. Peterson*



It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. . . . What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom.

ADAM SMITH, *Wealth of Nations*

"WE nominate for oblivion," declared President Eisenhower in a speech last May, referring to certain economic illusions. Among the President's nominees for oblivion was "the notion that we can export without importing."

In view of the newly-extended Reciprocal Trade Agreements Act, another idea that ought to be added to the oblivion list is the illusion that lower tariffs, however desirable in themselves, *necessarily* mean freer trade; for the stated purpose of the Reciprocal Trade Program is freer trade through lower tariffs.

The four-year extension to the Reciprocal Trade Act

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emerged from the legislative mill riddled with "escape clauses," "peril points," and many other protectionist compromises. Congressmen from areas where local industries are vulnerable to foreign competition—textiles, chemicals, china, electrical manufacturing, nonferrous metals, bituminous coal, domestic oil, whiskey distillation, and so on—generally got the protection they sought, usually in the name of such old reliable arguments as "fight the recession and national defense."

At least three questions arise: A basic one—which is best for America, free trade or protection? Another—will the lower tariffs achieved under the newly-extended Reciprocal Trade Program mean greater trade? And, finally—if we are in an all-out neck-and-neck race with communism and economic and military proficiency is of crucial importance, would greater trade result in higher proficiency?

Let us seek the answer to the first of these questions: *Which is best for America, free trade or protection?* The question might be rephrased more broadly: Which is best for America, freedom or compulsion? For in the act of protection lies the act of compulsion (a moral issue not to be treated in this discussion). Under protection consumers are no longer free; their choice is denied. Economic democracy breaks down; the rule of the few decides. To buy the foreign product consumers are compelled to pay a penalty, being forced in effect to do business with a high-cost domestic producer. As a result, the consumer pays more and gets less. The resources of the economy are prevented from flowing into the most pro-

ductive industries; instead, much of the nation's resources are locked in inefficient, high-cost, protected industries. With the exception of the protected investors and managements, everyone loses.

Protected investors and managements disagree. Armed with political influence and specious arguments, the protectionists have gotten many "protective" tariff walls and numerous other trade restrictions as well. The protectionists plead, for example, that high American wages constitute an obstacle to trade—but fail to note that wage *rates* are hardly as significant as unit wage *costs*, which may be relatively low for the American producer who is heavily mechanized, as compared to a foreign producer with little but flesh and blood workers.

Again, the protectionists plead that their industries and workers "must be saved" for the sake of prosperity—but fail to note that the preservation of inefficient industries drains resources, capital, and labor from the more productive industries, with unhappy consequences to national production and hence real wages—prosperity.

Item: Canada, a country which ranks second among the highest wage-paying countries of the world, is Uncle Sam's best customer. Similarly the United States, the highest wage-paying country in the world, is Canada's best customer.

Item: Western Europe, though much smaller in physical size and with fewer people but with higher wage levels by far than in Africa and Asia, sends the United States more goods and absorbs more American goods in international trade than do the great populated low-

wage land masses of Asia and Africa combined, including the Middle East.

Reasonable conclusion: High wages, rather than being a deterrent to American trade in particular and world trade in general, reflect greater ability to trade.

This empirical proof is supported in economic logic by David Ricardo's Law of Comparative Cost (1817). In his discussion, Ricardo included a hypothetical example of trade between Portugal and England. Suppose the Portuguese could make cloth more cheaply (i.e., Portuguese wages were lower) than the English, contended Ricardo, would Portuguese capital go into cloth?

In the long run, no, said the classical economist. For with Portuguese capital yielding a higher return on wine, capital would gravitate to wine and in the course of events cloth would be imported from England.

Hence, Ricardo's "law": Capital, unhampered, flows to industries of highest return, and costs should not be compared *between* countries but *within* countries.

The case for free trade becomes, by logical inference, the case against protection. What is free trade? Two boys swapping tops for marbles is free trade. A retailer paying cash for supplies from a wholesaler is free trade. Free trade is simply voluntary exchange unhampered by government intervention. It is the secret of American well-being: 48, now, 49, sovereignties in a colossal free trade area. It is the very heart of a market economy. It is part of the human make-up, what Smith called "the propensity to truck, barter, and exchange."

Free trade is, in a word, exchange—free exchange,

along a two-way street for buyers and sellers. But many believe it is better to sell than to buy, for selling involves a seller's profit. One man's profit, according to this belief, means another man's loss. The idea of encouraging selling and discouraging buying, then, is extended to international trade. (Here, however, selling becomes exporting and buying becomes importing.) So, according to the old mercantilist doctrine, a "favorable balance of trade" is a country's trade whose exports exceed its imports—i.e., its sales abroad are greater than its purchases abroad.

The "favorable balance of trade" doctrine, still popular, is false. No buyer would buy if he knew he were going to lose. Quite the contrary, the buyer buys because he's convinced he gains. Adam Smith knew this (see quotation, page 404). Ben Franklin expressed the *mutual* gain of trade as follows:

"In transactions of trade it is not to be supposed that, as in gaming, what one party gains the other must necessarily lose. The gain to each may be equal. If A has more corn than he can consume but wants cattle, and B has more cattle but wants corn, exchange is gain to each; thereby the common stock of comforts of life is increased."

Free trade both causes and is caused by what Adam Smith called "division of labor." Division of labor—i.e., specialization of production—enables enormous increases in productivity. (Probably every reader of these words is in some way a *specialized* producer.) Of further importance to international trade is that specialization applies not only to people but also to land and natural resources. Examples of people, land, and resources specialization

come to mind—Brazilian coffee, Irish linen, Swiss watches, Chilean nitrates, French wine, and so on. Yet division of labor without trade, or trade without division of labor, is incongruous if not impossible. Like Tin Pan Alley's "Love and Marriage," trade and division of labor go together like "a horse and carriage."

The formula for free trade, then, could be constructed as follows: Free trade = international division of labor = greater regional productivity = greater trade = higher levels of living.

The Reciprocal Trade Program

What of the second question: *Will the lower tariffs achieved under the newly extended Reciprocal Trade Program necessarily mean freer and hence greater trade?*

Our answer, in brief, is No.

Certainly freer trade is the stated aim of Reciprocal Trade Agreements Program. The Program, founded in the 1930's under Cordell Hull, works through the principle of a swap. Through diplomatic channels, the United States will lower its tariff on, say, Commodity X, which Ruritania sells in the U. S., providing Ruritania will lower its tariff on Good Y, which Americans sell in Ruritania. So, presumably, with the quid pro quo of each country met, lower tariffs are in the offing.

The Program is open to criticism on two counts:

First, the Program, based as it is on reciprocity, seems to assume that tariff reductions can go forward here in America only if commensurate favors are extended

abroad. This places, in Washington and in Geneva, Switzerland (headquarters of the UN's international tariff agency, GATT), heavy bureaucratic expense, license, and power over American industry.

The arbitrary and political power of bureaucrats in the State Department at home and abroad is enormous: Supposing a corporation has supported the "wrong" party in a political campaign or otherwise fallen out of favor with the powers-that-be, is there not the danger that the winning party could "sacrifice" the corporation in tariff negotiations with other countries—perhaps by removing protective tariffs on the industry or by increasing the protection to a competing industry as a form of hidden subsidy?

Moreover the decisions of bureaucrats in the State Department and in GATT are reached in secrecy; and in GATT, American negotiators have but one vote in the international voting. Thus, for example, Ghana gets one vote, the United States one vote—a precarious position for American industry.

Perhaps more importantly, the goal of free trade frequently gets side-tracked under bureaucratic management. Trade and tariff concessions become a form of foreign aid and get tangled in international politics. The basic interests of the American consumer and the efficient American producer, both of whom stand to gain by free trade, are relegated to secondary consideration. What is needed in place of the philosophy of reciprocity, in short, is a thoroughgoing philosophy of free trade.

Secondly, the Reciprocal Trade Program comes under

criticism because it virtually ignores the hard fact of world commerce that tariffs are but one means of restricting trade. There are, unfortunately, many others. Low tariffs or even no tariffs in a country can be completely obviated by *nontariff* trade restrictions. It is the main purpose of this essay to look over the more important of these nontariff trade restrictions, including:

1. Exchange controls
2. Bilateral trade agreements
3. State trading
4. Import quotas
5. Foreign aid
6. Cartels and international commodity agreements
7. Preferential trade treatment
8. Inflation and other monetary manipulation
9. Other statist measures

EXCHANGE CONTROL

Exchange control is a state monopoly over foreign exchange. As a modern practice it was initiated by Dr. Hjalmar Schacht, Hitler's finance wizard and exchange controller. The objective of Dr. Schacht was autarchy—economic self-sufficiency—to enable Germany to wage war. When that war came, the Allies felt exchange control was necessary for their own total mobilization. The resulting bureaucracy became a powerful lobby for the perpetuation of exchange control. Today, more than 13 years after the war, and despite the fact that the chief end of the International Monetary Fund was the aboli-

tion of exchange control, exchange control persists throughout most of the world. In other words, most of the world currencies lack free convertibility.

Just what is convertibility? It's the unhampered freedom to exchange at market prices one national currency for another, whether in coin, paper currency, or debits and credits to bank deposit balances. When it exists, convertibility greatly facilitates international trade and investment by making international payments easier. For countless years it did exist—the quiet and successful lubricant of private enterprise. But no longer.

Today the American businessman considering, say, a plant location in Britain, a franchised dealer in France, or closing a sale in Spain has to worry, aside from all his other problems, about inconvertibility, i.e., exchange control. So in London the businessman checks with the Exchange Equalization Account Office. In Paris with the Office des Changes, in Madrid with the Centro Oficial de Contratacion de Moneda.

In all these cases he, like his European counterpart, finds he has to do business with a state monopoly with its usual trappings of red tape and bureaucracy. These are bad enough, but what really worries him is the suspicion that he may end up with far fewer dollars than he had first figured on.

In some countries as many as thirty different kinds of money with varying exchange rates will prevail at one time. There's "tourist" money, "import" money, "export" money, and many subvariations of each breakdown. In "import" money, for example, it is not uncommon for a

country to classify its imports in importance as, say, "critical," "necessary," "marginal," and "unnecessary," and then to build up the foreign exchange rates for each important category as its relative importance diminishes.

In all these cases bureaucracy—not the market—decides the crucial question of who gets what and how much. Perhaps it's theoretically possible that an all-wise and wholly impartial exchange control system could duplicate the success of private enterprise—speed the trader or traveler on his way with a minimum of delay and without favoritism or any rigging in the rates of exchange. But such is not the case in practice. In practice, for instance, there is the operation of the Brazilian exchange controllers who force Brazilian coffee producers to convert their dollars into Brazilian cruzeiros at artificial "official" rates. Thus are the Brazilian coffee producers deprived of a big chunk of the world market coffee price. This exchange control action inevitably discourages Brazilian coffee producers and ultimately hurts coffee consumers the world over.

Item: In 1945 the International Monetary Fund was established with a view toward world convertibility of currencies. Yet, 13 years later, of the 64 national members of the Fund, only 11 countries—all in the Western Hemisphere, including the U. S. and Canada—maintain convertibility, i.e., the absence of exchange control. Of the nine countries who are not members of the IMF, excluding the Soviet Bloc countries, Liberia is the only one that has no exchange control.

Licenses, priorities, quotas for imports and subsidies

for exports, interstate clearing arrangements, shunting transactions, blocked currencies, balance of payments difficulties—all given to frequent breakdowns—manifest the creaking machinery of exchange control. The ill-designed machinery can hardly help but clutter and choke trade and investment across international boundaries.

The crowning evidence of the futility of exchange control is seen in the long-persistent plaint of a “dollar shortage” or, as it is now euphemistically called, the “illiquidity problem.” When other governments overprice their currencies in terms of dollars, dollars, in obedience with Gresham’s Law, become scarce—i.e., “short.” Like all other price-fixing arrangements, then, the exchange controllers must resort to rationing dollars, thereby placing international trade under an incredibly complicated system of licensing, quotas, and controls. “Dollar shortage,” indeed! Better than \$60 billion of postwar foreign aid has in no way relieved the “shortage.” The clamor is for more.

Canada is proof of the efficacy of convertibility. On December 14, 1951, Canada completely dropped exchange control. Immediately the outward flow of funds and investment *from* Canada was reversed *into* Canada. Assured that their profits would not be embargoed in Canada, world investors moved large amounts of capital into Canadian industry and mining. The Canadian dollar began to rise against the American dollar and now has surpassed it in value—a dramatic instance attesting to the potential of a free market in currencies and the vigor of private “foreign aid.”

BILATERALISM

A basic characteristic of free trade is indirect exchange. While international trade consists of swapping goods and services among nations, rarely does the individual trader in one country swap goods and services directly with a trader in another country. Instead, foreign exchange is used as payment for the traded goods and services.

The volume of foreign exchange receipts and payments may add up to a deficit balance of payments incurred by traders of Nation A in its dealings with traders of Nation B. However, Nation A uses its surplus balance of payments achieved in its dealings with Nation C to meet its deficit with B. The same technique of a "triangular" settlement holds for B and C. Such international trade and payments is called "multilateralism."

Contrasted against multilateralism is bilateralism, another modern practice dating back to the ingenious Dr. Schacht. Bilateralism is a throw-back to barter, for it involves two countries agreeing for a certain period of time to buy and sell to each other in approximately equal amounts and usually at predetermined prices. Bilateral trade treaties become economic strait jackets as countries commit themselves to dealing with only certain other countries for as long as five-year terms, regardless of the adverse economic and political conditions that hold or may develop.

As an example of bilateralism, note the one-year bilateral trade agreement signed by Japan and Formosa,

retroactive to April 1, 1958. The agreement provides for an exchange of goods worth \$85,250,000 each way. The principal Japanese goods to be exported under the agreement include fertilizer, machinery, iron, railway rolling stock, ships, and textiles. The chief Japanese imports from Formosa will include crude sugar, rice, canned pineapple, and salt.

Supposing the United States government concluded a similar bilateral agreement but in a far greater amount with, say, the government of Mexico, what would this mean for American consumers? Clearly, consumer freedom would be violated and competition in the imported items listed in the agreement would be delimited. Of the listed items, only Mexican imports would be admitted. Furthermore, since American consumers are also, broadly speaking, producers, American overseas markets and competition would also be delimited. Thus, coming and going, producing and consuming, American consumers would be bound by a rigid, unalterable, governmental decree.

Again, as in exchange control, it should be seen that bilateralism involves bureaucratic management and political judgments. Importers and exporters in the affected countries are not free to deal with the best sources and markets throughout the world. Price and quality considerations are secondary to political considerations. Since buyers are forced to turn to relatively unattractive sources and sellers to relatively unattractive markets, international buying and selling tend to diminish. International division of labor is stymied. World commerce is hurt.

Consumers in the bilateral countries and to a degree in the rest of the world lose.

STATE TRADING

State trading is international trade by governments. Usually the governments have title to the goods in trade. Sometimes the governments have no title but take an active role in negotiations over the terms of trade, and this also constitutes state trading.

The clearest examples of state trading are found in the Soviet bloc countries. Inasmuch as a "comrade" in a "people's democracy" is prevented by law from holding title to commercial goods, trading within the bloc is on a state-to-state basis—in a simple single transaction, one government exports, the other imports.

The USSR, which in April 1918 nationalized foreign trade, has created various state agencies to handle its foreign trade transactions. On the export side, for example, is Soyuzgelexport (coal) and Soyuzneftexport (oil), and on the import side are such agencies as Soyuzemtimport (steel products) and Textilimport (textiles). In most of the major countries of the world, the Soviet government has established state trading agencies or "trade delegations." In the United States, the official Soviet state trading agency is the Amtorg Trading Corporation, chartered under New York State law in 1924 and presently located at 49 West 37th Street in New York City. Amtorg has been relatively quiescent, with the cold war and its having figured in a sensational congressional

investigation of subversion following World War II.

Outside the Soviet bloc, state trading is much less on a state-to-state basis than it is on a mixed basis—one party is governmental and the other is private. Almost half of the foreign trade of Argentina, for example, has been operated by a government bureaucracy, IAPI. Britain, France, Italy are among the many countries with nationalized industries, which almost inevitably forces these countries into state trading. The British government, for example, monopolizes the importation of several commodities and foodstuffs through exclusive bulk trade agreements with other countries. The French government has been buying about one-third of France's imports.

Stockpiling Operations

The United States is not immune. The American government has for the past generation been purchasing strategic and nonstrategic commodities on its own account for stockpiling and price-support purposes. Copper, lead, and zinc, regarded as critical defense industries, have long been the beneficiaries of government purchases, as well as government tariffs.

In exporting, the American government is engaged in a giant overseas surplus agricultural commodity disposal program, one of the repercussions of the government's "parity" farm price supports. So the U.S. government "sells"—dumps, say many foreign producers—its surplus wheat, corn, cheese, cotton, and other commodities abroad at knockdown prices. Ironically, these prices often

are much lower than those paid by American citizens. And while the law (PL 480) governing such sales proclaims that no disturbance of world markets and prices is to occur because of the American disposal operation, disturbances have been inevitable. Formal protests to the U.S. have been registered by Australia, Brazil, Canada, Denmark, Burma, Netherlands, Mexico, New Zealand, Argentina, and Uruguay.

Item: In 1958 the New England Governors Textile Committee formally protested the discriminatory action of the U. S. government for selling cotton to foreign textile mills, especially in Japan, at far lower prices than those paid by New England textile manufacturers.

The troubles with state trading are many. It is an outright denial of free trade. It carries all the evils of monopoly. It suffers all the ills natural for bureaucracy and socialized industries. It is, more often than not, non-economic and discriminatory, forever weighing political and military considerations. It tends to incur international ill will. With international division of labor and free trade stymied, consumers in the affected state trading nations in particular and consumers the world over in general, come out on the short end.

IMPORT QUOTAS

To the protectionist-minded government, tariffs are faulty in a number of respects and this accounts for the rise of nontariff restrictions. One of the faults of tariffs is the absence of any accurate control over the volume of

imports. Technically there is no limit to the amount of foreign goods an importer can bring in if he's willing to pay the penalty. While this problem can generally be met by prohibitively high duties on the protected goods, many governments prefer to impose precise quantitative restrictions.

These restrictions—import quotas—are usually for one-year periods and are expressed in physical terms: tons, board feet, gallons, units, as the case may be. Ruritania, for example, may declare: We will admit but 10 million bushels of foreign wheat in 1959. Such quotas may be set globally, by countries, or through import licensing. Global quotas simply specify limits which may be imported from the rest of the world, which means that the closest countries, geographically, will have the jump on those furthest away. Country quotas eliminate this discriminatory feature by allocating the quantitative restrictions to each exporting nation according to the base-period method. Country quotas also discriminate, however; this time against those nations whose export industries are fairly new and hence could not qualify under an old base. Import licensing frequently imposes limits on the amounts of specified goods which may be brought into the country, and the licenses themselves are not uncommonly restricted to favored importers.

Item: The United Kingdom, before 1939, used to import freely American products now heavily restricted by import quotas. For example, in a recent year, the U.K. admitted the following quantity of appliances from one company: one dishwasher, 35 electric ranges, 25 deep

freezers, 19 washers and dryers, and 194 refrigerators. In the same year, only 650 American cars of all makes were permitted to be imported into Britain while British cars were exported to the U. S. by the tens of thousands.

Import quotas have not been common in America. Of late, though, the U. S. government has been establishing quotas on farm imports, especially on sugar, cereals, and dairy products. Also, the Eisenhower Administration has set a so-called "voluntary" oil import quota system for the American oil industry. The system had been demanded by domestic oil and coal interests. The Administration declares it to be a "defense" measure. Practically all of the major oil companies with overseas oil fields have now "agreed" to specified limits on crude oil imports assigned to each oil concern. Political and economic repercussions have quickly redounded to the U. S. from such oil-exporting nations as Venezuela, Canada, and Middle Eastern countries.

Quantitative restrictions are hardly calculated to spread good will among nations. They constitute a crass form of protection. Retaliation is usually quick. France initiated the modern quota system early during the Great Depression, and by 1937 more than 25 other countries had some kind of quota system in operation. Quotas impede international division of labor. They require costly, arbitrary, bureaucratic, discriminatory management. They discriminate against both foreign suppliers and domestic importers, as well as against the nation's consumers who must foot the bill with higher prices and bigger taxes.

FOREIGN AID

In his foreign aid message to Congress in February 1958, President Eisenhower requested a \$3.9 billion program of military, economic, and technical assistance to "the free world" for the government's accounting year, 1959. The President emphasized the role of fostering international trade that foreign aid was to play. Said the President:

"[The aided countries] must have technical assistance to train their manpower, to explore their resources, and to use them productively. They must have supplementary capital from abroad for investment in agriculture, power, transportation, and industry. They must have help to tide them over economic difficulties that threaten their stability and cohesion. *They must have increasing trade with availability of necessary imports and growing markets over the long term.*" [Italics added]

It is not feasible at this point to explore the case for foreign aid, which in postwar credits extended by the U. S. abroad amount to more than \$60 billion. But it is to the point to note that foreign aid tends to preclude free trade and private investment.

Certainly, foreign aid disrupts normal world trade patterns. Most American aid credits—about three-fourths—must be spent in the United States. Many of the aid countries would prefer to spend these credits elsewhere. They do not, as a rule, wish to import from their principal creditor nation, and most assuredly they would rather buy where terms are most favorable. Other supplier nations, especially those whose prices are lower than those of the U. S., resent the spectacle of their actual or

potential customers being supplied gratis or at subsidized prices, however attractive this might be to the aided consumers.

Item: Between 1946 and 1956 it is estimated that \$60 billion in American credits were transferred to "the free world" in foreign aid, two-thirds of it in so-called economic aid. This figure amounts to 40 per cent of the value of the American exports during the same period which totaled \$155 billions.

It is important, too, to note that U. S.-provided steel mills, railroads, electric generating stations, jute mills, canning plants, and so on are not sanctioned through market forces and unhampered international division of labor but rather through the decisions of bureaucratic management both in the U. S. and in the recipient countries. Investment errors of great magnitude are likely under such circumstances.

Moreover, aid is a government-to-government matter. Private enterprise in recipient countries is discouraged. So is private investment from overseas. Governments already hostile toward capitalism resent as degrading charity the aid they will nonetheless accept. With an almost assured flow of aid dollars (aided countries can always threaten to turn toward the communists), recipient nations are anything but moved toward creating conditions conducive to private property and free enterprise—the foundations for free trade.

The crowning result of foreign aid, then, is that the U. S. has inadvertently nurtured socialism in order to fight its blood brother, communism. Socialized industries,

notorious for their inefficiency, will hardly fare well in world markets. And inasmuch as socialized industries are not subject to the sovereignty of the consumer, it follows they will not be eliminated from the competitive race. Rather, their governments will likely cut off foreign competition through protection and, if there is to be "international trade," engage in state trading. Consumers in the protected country will lose and so will the consumers of the world at large because of this interference with the international division of labor.

It follows, also, that the corollary of foreign trade, foreign investment, is similarly hampered by foreign aid. Capital is timid. It will hardly venture into lands where governments are "establishing" industries and where private property is suspect and subject to nationalization.

"Trade, not aid," so worshiped in the abstract, should be the reality instead of the *de facto* "aid, not trade."

CARTELS AND INTERNATIONAL COMMODITY AGREEMENTS

Cartels and international commodity agreements amount to monopolies on an international scale. These arrangements aim at price-fixing and market allocation and hence are highly restrictive of international trade. They are the antithesis of free trade.

Cartels are quasi-private arrangements between two or more business firms in different countries to reduce or eliminate competition. The privacy of the arrangements tends to be short-lived. Sooner or later, a cartel

must have government protection, for otherwise "outsiders" would flood the cartel's markets and "wreck" prices. This would be wonderful for consumers but poison for the cartel.

Cartels are illegal in the United States under the Sherman Antitrust Act of 1890. This restraint has been diluted by the Webb-Pomerene Act of 1918 and the government's participation in commodity cartels euphemistically called "international commodity agreements." The Webb-Pomerene Act provided that American companies could form "export associations" and fix export prices and quantities.

Item: Two American airline companies, Trans World Airlines and Pan American, although regarded by the government as regulated private utilities, participate in an international airline cartel, the International Air Transport Association, most of whose members are nationalized. The Association sets prices, determines operating conditions, and, to an extent allocates markets.

International commodity agreements are essentially cartels, invariably started by governments. Ordinary cartels are private agreements ultimately requiring public support. International commodity agreements are public agreements from the outset. Each, cartel and international commodity agreement, is aimed straight at the heart of free trade and international competition. Their main purpose is price-fixing or "stabilization." This purpose has led to governmental controls over production and marketing. To court public favor, controls are generally declared necessary to achieve an "orderly

marketing of staple commodities," or some such objective.

Commodity agreements have been tried for wheat, sugar, wool, rubber, tin, cocoa, coffee, and other items. The history of such agreements shows anything but success in "stabilizing" prices and controlling production and marketing. Certainly consumers have little, if anything, to gain from the operation of commodity agreements. Yet the United States participates as a producing nation in two big current commodity agreements, the International Wheat Agreement and the International Sugar Agreement. The cost of the latter to American sugar consumers, who are forced to support inefficient domestic sugar cane and beet sugar producers, has been estimated at 50 per cent over the world sugar price.¹

The results of cartels and international commodity agreements are the same: International competition and investment are stifled. International division of labor accordingly suffers. Consumers the world over are losers. Power politics intervene. "German cartels," to quote from Professor Michael Heilperin in his *The Trade of Nations* (New York: Knopf, 1947. p. 87), "greatly encouraged and later controlled by the state, became the handmaidens of power politics."

PREFERENTIAL TREATMENT

The point of trade restrictions is to impose preferential treatment—almost always a preference for domestic pro-

¹ Poirot, Paul L., "Flies in the Sugar Bowl" in *The Freeman*, May 1956. p. 6.

ducers, and occasionally for favored foreign producers. Tariffs, of course, are a form of preferential treatment. In 1953 Switzerland, for example, increased her tariff on American nylon stockings by 300 per cent, but this may have been in retaliation against recent increases in the American tariff on Swiss watches.

President Eisenhower expressed this preference to the Canadian Parliament last July, as follows:

"Neither of our countries is a 'free trader'. . . . Each of us feels a responsibility to provide some protection to particular sectors of our economy which may be in distress. . . . We have taken some actions of this sort. So has Canada."

The President might have illustrated American protection through preferential treatment by pointing to a U. S. government order a few years ago to two Pittsburgh companies for generators and transformers for the Chief Joseph Dam on the Columbia River. The order amounted to \$6,300,000. Yet a British concern had offered to supply the same equipment for \$5,300,000. How did our government justify its paying some one-fifth more than the British price? It invoked the "Buy American" Act of 1933, which authorizes the government to pay more for American products when such orders would create work in areas of "substantial unemployment" or when "national security" is threatened. (Note: After much delay and political discussion, the order was withdrawn from the two Pittsburgh companies and awarded to the British company.)

Item: Many countries in effect embargo American cars

through the simple expedient of imposing weight or power limits on cars and trucks for use on their highways. Through this technique Bermuda, for example, excludes imports from the American automotive industry.

Similarly, the U. S. government subsidizes American shipbuilding and shipping on the theory that these are industries critical for national defense. However, in this regard, the U. S. is little different from most of the world in such preferential treatment of shipping. "Peril points" and "escape clauses" are prime examples of American preferential treatment. "Peril points," initiated in the 1948 Extension Act, permit the U. S. Tariff Commission to review each rate on the "bargaining list" and determine at what point further tariff reduction would "injure" American producers. "Escape clauses," an extension of the peril point idea, unilaterally allow the United States or its treaty countries to suspend or modify a tariff concession in any trade treaty with another country when "increased imports threaten serious injury to the domestic industry."

Canada, too, as the President observed, has also hewed to preferential treatment. Canada and other British Commonwealth countries, for example, utilize what they call "imperial preferences," meaning that goods moving between Commonwealth countries may enter at a lower duty rate than the same goods originating from countries outside the Commonwealth. Imperial preferences got their start, in part, as retaliation against the American Smoot-Hawley Tariff of 1930 which raised American tariffs to an all-time high. Britain, again at least partly because

of retaliation, deserted her traditional free trade banner with her highly protectionist Import Duties Act of 1932.

Preferential treatment of sorts is one of the aims of common market schemes such as Benelux (Belgium, the Netherlands, and Luxembourg) and the just-launched European Common Market. To be sure, common markets (sometimes called customs unions) widen the area of free trade within the common market countries. And this is a good thing, as far as it goes. Regional division of labor will be broadened, and greater trade should result. In trade relations with countries outside the common market, though, common market authorities are likely to erect a tariff wall higher than the average tariff level prior to the formation of the common market.

This is a danger for the European Common Market in particular. France, a Common Market member, has long been a notoriously protectionist country. France thus may force the Common Market tariff wall to great heights. For America, this would be an irony. America has been one of the chief sponsors of the European Common Market; it may be one of the chief losers by it, with American goods shunted by Common Market tariffs from European consumption. Moreover, there is now talk in world capitals of a South American common market, a Central American common market, a North European common market, and a Far Eastern common market, all of which conceivably could isolate the U.S. in international trade.

Preferential treatment, it must be emphasized, is not the preferences of individuals and trading groups freely

deciding what to buy, when, where, and how. Preferential treatment is treatment enforced by governments, exerting their authority over international trade. International division of labor and international trade and investment are certain to suffer as a consequence.

INFLATION AND OTHER MONETARY MANIPULATION

If the nineteenth century was an era of the gold standard, free trade, and monetary stability, the twentieth century has been an era of managed currency, protection, and monetary instability. This instability—i.e., violent inflation—has boded ill for international trade, which wholly depends on international payments. Inflation—the expansion of money and credit—distorts “official” exchange rates. Domestically, it tends to set in motion a flight from currency into goods. Externally, it tends to cause another flight: a flight of “hot money” fleeing to foreign sanctuaries where inflation is relatively quiescent. Inflation ultimately causes domestic prices to rise with the result that foreign importers are strongly inclined to shop harder for better bargains elsewhere.

True, gold still continues to serve as an international medium of exchange, though on a very limited basis. Today practically all the nations of the West, including the U. S., avoid gold—the historical lubricant of free trade—as a domestic standard; i.e., gold redeemability is no longer a right accorded to citizens of the West.

This *political* “flight” from gold has received impor-

tant intellectual support from the late Lord Keynes who once referred to gold as a "barbarous relic." It was Keynes who sanctioned the notions of "full employment" and manipulated monetary systems.

What does monetary manipulation have to do with restrictions on international trade? Just this: Full employment policies are nationalistic policies. If falling foreign demand hurts the export industries and causes unemployment at home, political authorities contend that the restoration of the "full employment equilibrium" requires import restrictions to "protect" domestic markets and to "create" employment. A further Keynesian requirement: inflation, the forced expansion of money and credit. For in "mature" economies, argue the Keynesians, less-than-full employment is inevitable unless some "socialization" of demand and investment (i.e., inflation) takes place.

The past generation has been one of fantastic inflation the world over. Governments spend and spend, pumping out ever more money. One Keynesian admitted in the London *Economist* a few years ago: "Inflation is nine-tenths of any practical full employment policy."

Little wonder, then, inflating governments soon face balance of payments difficulties. Exports, loaded with inflated costs, fare less well in world markets and shrink in volume. Imports become relatively cheaper in the domestic market and grow. The government, somewhat bewildered, first applies exchange control to mask inflation and maintain the fiction of "official" exchange rates. Then to cheapen its exports and regain world markets,

the government comes to the inevitable: devaluation. But, later, still more inflation, and the cycle of "re-evaluation" (i.e., devaluation) repeats itself.

Inflation, in short, is the handmaiden of exchange control and protection. It generally spells death for free trade.

OTHER STATIST MEASURES

Monetary manipulation (inflation) is but one form of government intervention in economic activity. Would that it were the only one! Unfortunately there are many others, all of which contribute to the rationale and hence the machinery of protection. Among them are price controls, monopolistic and militant labor unionism, various open and hidden subsidies, "planning," and nationalization. All of these constitute direct or indirect interference on the part of government with the free forces of supply and demand. Bureaucratic management and political judgments go into ascendancy. Inefficiency, as noted by C. Northcote Parkinson in his splendid essay, "Parkinson's Law," becomes inevitable. And with the inefficiency come higher costs, pushing domestic prices ever higher and thereby worsening foreign trade positions. Further intervention then becomes inevitable, for governments are inherently not prone to admit their failures. Protection is *the* almost certain answer to the failures of intervention. Intervention breeds intervention, in short.

Consider the matter of nationalization. When Mexico,

for example, nationalized the foreign investments in its oil industries in 1938, it was the second largest oil producing country in the world. Foreign investments, quickly and understandably, came to practically a complete halt in Mexico. Mexican technology was, to put it mildly, inadequate to face the many problems imposed by nationalization. Today the Mexican oil industry stands ninth in world production. The abortive nationalization of the Anglo-Iranian Oil Company property by Premier Mosadegh of Iran during the early 1950's affords another example of the futility, but never-dying vitality, of intervention.

Subsidy of exports is another form of state intervention, a form going back to the mercantilistic policies of the seventeenth and eighteenth centuries. Subsidy is regarded as a form of economic warfare. Outright bounties are rare. But various indirect means of subsidizing export industries are common. France, for instance, employs the following export devices:

- Refund of fiscal, payroll, and social security taxes
- Exemption from production tax
- Credit volume limitations waived for exports
- Lower discount rate on export commercial paper
- Government loans to boost export production

Take the matter of price controls. Usually the basis for price controls is the advertent or inadvertent policy of inflation by the government. The result of inflation is rising prices. "This is an intolerable situation," declares the President of Ruritania, asserting that "profiteering" must stop. So to stop the "profiteering," the

Ruritanian government doesn't stop the monetary expansion but institutes price controls. Complications arise. For example, manufacturers using commodities and supplies from overseas quickly find themselves in a dilemma. They tell their overseas suppliers that they are sorry but domestic prices are under control and Ruritanian manufacturers can no longer pay the world price for commodities and supplies from overseas. Meanwhile, the price controllers are also in a dilemma: If they allow their manufacturers to pay higher world prices (for other countries are also inflating their credit and currencies), how will the domestic price "ceilings" be maintained? A possible answer in the "protectionist psychology": bilateral trade agreements, a reversion to barter. The point is that intervention and protection go hand-in-hand.

Item: Between World War II and 1955, France and Britain engaged in an increasing trend of state intervention. Relatively speaking, West Germany and Switzerland engaged in a decreasing trend of state intervention. France's tariff level advanced about 35 per cent and Britain's by about 40 per cent. Switzerland's tariff level, however, fell by about 35 per cent and West Germany's by some 70 per cent. West Germany's "recovery" from World War II is world-renowned; Great Britain and France limp along.

Whatever the intervention, then, free international trade is likely to suffer. Exporters, finding themselves underpriced in foreign markets, demand a subsidy. Labor unions, finding employers losing orders because of foreign competition, demand that their governments under-

take "appropriate action," i.e., protection. Planning officials, finding the free give-and-take of international trade upsetting their planning targets, demand "controls" over international trade. Almost all of these demands spring from prior intervention. All of these demands add up to calls for protection.

Item: In February 1958, the American Tariff League, Inc., a protectionist lobby, listed the following major nontariff trade restrictions used by 89 nations of the world:

	<i>No. of countries</i>
Advance Deposit for Imports	13
Exchange Licenses	33
Exchange Tax	9
Existence of Blocked Nonresident Accounts	10
Export Licenses	46
Forced Exchange of Payments Received in Foreign Currency	47
Import Licenses	62
Import Quotas, Agricultural	9
Import Quotas, Nonagricultural	8
Multiple Exchange Rates	23
Preferential Exchange Systems	16
Preferential Trade Systems	21
Restrictions on Incoming Capital Movements	28
Restrictions on Outgoing Capital Movements	36
Restrictions on Payments for Invisible Imports	45
State Trading	13

In addition, the League says there are 20 other distinct forms of nontariff restrictions, including discriminatory taxation on nonresident investments (4 countries), bond required of importer by government (1 country), import embargo (5 countries), and surcharge on exchange (6 countries).

We reach the answer to our second question—will the lower tariffs achieved under the newly extended Reciprocal Trade Program necessarily mean freer and hence greater trade? The answer: No. While “the free world” deplores the protectionism of the United States, a policy we need not be proud of nor one designed to increase the economic well-being of the nation, the fact remains that our allies are far more protectionist than we. The protection is far less today in the form of prohibitive tariff walls but rather through a bewildering variety of nontariff devices.

Trade and Productivity

Now for the last of our three questions: *If we are in an all-out neck-and-neck race with communism and economic and military proficiency are of crucial importance, would greater trade result in higher proficiency?*

Our answer, in brief, is Yes.

The rule to remember is that what hurts consumers hurts business, and what hurts business hurts proficiency. After all, what is proficiency? Simply the power to produce. The power to produce is best determined by free trade, and not by bureaucratic decree. The power to produce is a corollary of the power to trade. Thus the more trade the more production, and the more production the more trade.

Protection, on the other hand, is aimed at the power to trade. In this, the protectionist government does indeed aid *some* industries, but only at the expense of *all*

industry. Under protection, all domestic industry is deprived of markets at home and abroad. All domestic industry is hurt by the higher costs of labor and materials. Thus by restricting the power to trade and locking in inefficiency, the protectionist government restricts the power to produce.

This means, in turn, that consumers will have less, for production constitutes the sole means of consumption. The power to produce, after all, is the power to consume.

One more point: Our final question implies the consideration of war. Which is the harbinger of war, free trade or protection? Protection, it will be remembered, is frequently imposed as a "defense" measure. We protect, say the protectionists, to be ready for war. But what of the aggression involved in protection? Stopping goods and services, interfering with the movement of and payment for international trade—these actions hardly are likely to foster international good will. Autarchy may well mean self-sufficiency, the basis for a war footing. But free trade means civilized, peaceful cooperation among free peoples.

In sum: Protection breeds animosity. Trade breeds friendship.

Item: The Tariff of 1828, in the South known as the Tariff of Abominations, touched off great Southern animosity and South Carolina's Doctrine of Nullification. The Civil War followed in the wake.

Item: Beginning in the 1920's and accelerating during the 1930's, increasing protection against Japanese imports was a policy of the American government. The policy

was hardly calculated to incur the good will of Japan. In 1941: Pearl Harbor. In 1954, by way of contrast, the American government advanced as one of the reasons for the extension of the Reciprocal Trade Program: "to improve Japan's trading prospects in the world, an essential element to stability in the whole Far Eastern situation."

Item: The nineteenth century was a century of free trade and relative peace. The twentieth century, so far, has been a century of protection and war.

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