

The Writings  
of F. A. Harper



F. A. HARPER

# The Writings of F. A. Harper

## Volume 1: The Major Works



INSTITUTE FOR HUMANE STUDIES, INC.  
Menlo Park, California

*The Writings of F. A. Harper*

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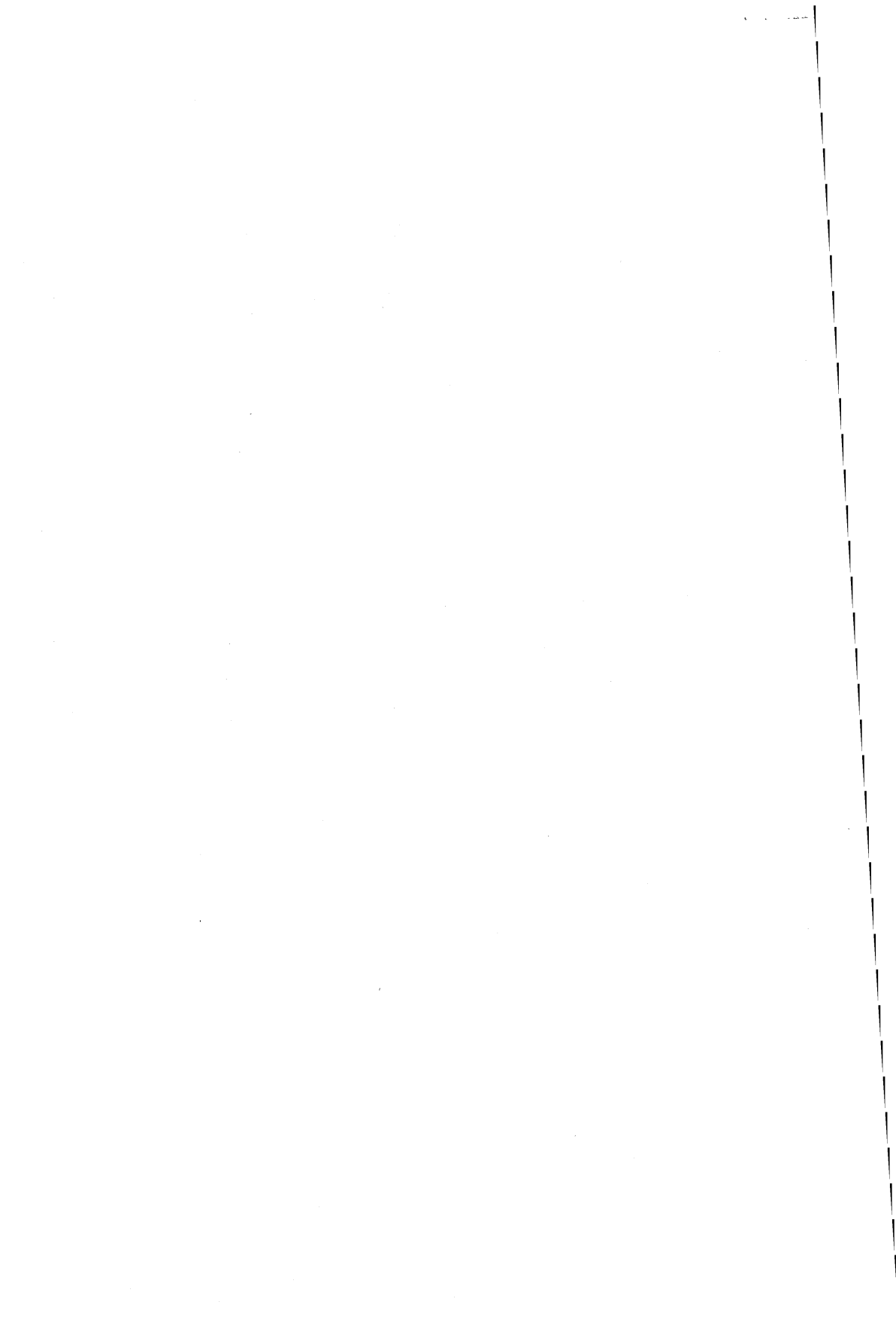
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# TRIBUTE

“Goodness in man can only grow in a climate of liberty.” That was the message of Floyd Arthur Harper, or “Baldy” as we knew him. Baldy was one of the wisest men I have ever known. It was a combination of goodness and wisdom that gave him excellence in his principal role—that of our teacher. He taught us about liberty, which was, in his words, “the absence of coercion of a human being by any other human being.” No one personally better fit this description than Baldy Harper. He sought liberty because of his dedication to peace. “Peace,” he told us, “will exist only as liberty is increased in all its forms among individuals throughout the world.”

Of all the teachers of liberty, none was as well-beloved as Baldy, for it was he who taught the teachers and, in teaching, taught them humility and gentleness. Of teaching others he said, “It must never be forgotten that one’s beliefs are his most sacred property, even when in error as others may judge them. They should be treated with full respect. Change of opinion on any vital belief of a person is an extremely difficult and painful process. It should be treated as such, with all the sympathy at one’s command.” Both from Baldy’s words and from his example, we learned that “teaching, to be effective, must be in fact as well as in spirit a friendly, cooperative endeavor and not a battle between antagonists. This requires much time, patience, and sincere sympathy for honest differences of opinion.”

As well as being a teacher, Baldy was a scholar throughout his entire life. His thirst for knowledge led him to the understanding that he shared with us in his several dozen books and booklets printed in many languages. All of his writing was concerned directly or indirectly with human liberty. But his greatest impact was in face to face discussions. Never letting a discourse become a debate or argument, he raised probing questions, and we were able to share a portion of his wisdom.

Of all his writings, those in moral philosophy were possibly the most profound. Baldy believed that "there is a force in the universe which no mortal can alter which rules over the affairs of human conduct, call this force God or call it Natural Law," and that "the Golden Rule and the Decalogue provide the basic moral codes for man's conduct."

Although Baldy thought a great deal about death, it did not frighten him. Baldy's perspective on death can be understood by quoting passages that were meaningful to him: "The great charm of life comes, perhaps, from the certainty of death." And

Death should never appear as an enemy but rather as a comforter; in fact, the stimulation of living stems somewhat from this certainty of an end, for if mortal things were to last forever, they would seem unworthy of attachment. Thus, my own attitude towards the supposed end of what we call life has been rather one of curiosity together with a feeling of assurance that, with this end, certain mental confusions of this world will be clarified and false evaluations shown up. I certainly do not consider death a finality, but rather an emergence from human or mortal adolescence. Nothing positively dies. It is we who go away and lose sight of it.

The body does not have a soul, it is the soul which has, or occupies the body and forsakes it the moment death occurs. Explaining this is difficult and it may be simpler to think of the soul as the spirit or even as the mind. The range of action of a freed soul or spirit can thus be compared to one's imagination.

Baldy loved deeply—his family, his friends, and his associates. This love must have been the source of his strength and energy, for he never complained about the load or hesitated to shoulder another task that might result in an advance of the concepts of liberty. Recently, when asked about his hobbies, Baldy replied they were few because "I find libertarian work such a pleasure that it amounts to almost constant recreation."

Baldy's family—his wife Marguerite (Peg), daughters Barbara, Harriet, and Helen, and son Larry—reinforced and shared his qualities. Peg not only understood his work but taught alongside him.

From his birth in Michigan in 1905 through his undergraduate work at Michigan State University and his doctorate at Cornell, Baldy moved toward his natural calling. He taught at Cornell for many years, starting as an instructor and becoming a full professor of marketing. In 1946, he decided to concentrate full time on ideas concerning liberty, so he joined the Foundation for Economic Education (FEE). After leaving FEE in 1958, he joined the William Volker Fund. In the early 1960s, he lectured at Wabash College.

In 1963, Baldy became Executive Director of the Institute for Humane Studies, which fulfilled the dream he had long held to establish a center for basic research and advanced study in the humane scholarly disciplines, functioning through a worldwide community of scholars. He chose the word "humane" because it characterizes man in his compassion, sympathy, and consideration for others. The work of the Institute focuses on the crisis of our time—"man's inhumaneness to man."

In developing the Institute, Baldy was, as always, the optimist. He said, "Truth has a way of cutting through the dominant mass of ignorance and illusion like a light in the darkness, and in times like the present, we should remember that truth shines clearest and penetrates farthest when times are darkest." Those of us who follow Baldy at the Institute have a grave responsibility to see that it becomes a living embodiment of his ideals.

We will sorely miss Baldy, not only for his prodigious and irreplaceable work, but because of his unique personal qualities, a profound wisdom and knowledge coupled with deep humility and warmth. Baldy's spirit will live on. It will live in those who knew and loved him and in the great lessons he taught.

The world is a better place for his having lived, and, if those he left behind show just a portion of his qualities, the world will indeed become a better place in which to live.

Charles G. Koch, Chairman  
Institute for Humane Studies

Holy Trinity Episcopal Church  
Menlo Park, California  
April 27, 1973

# REMINISCENCE

My husband F. A. Harper, known to many as Baldy, was an economist, educator, and prolific writer who was deeply concerned about the economy of the United States and the way in which we were sliding into socialism. He spent his life working to promote a greater understanding of free market economics and its importance in a free world. He was a man of conviction dedicated to advancing ideas, many of which were not accepted by the majority of the people. Although he frequently felt alone in this struggle, he persisted. One of his favorite quotations, by John Neal, is still taped to our refrigerator door:

*Kites rise against, not with, the wind.  
No man has ever worked his passage anywhere  
in a dead calm.*

Baldy, the youngest of four children, grew up on a farm in Michigan. In his early years he often visited his maternal grandparents, the Howards. He spent many happy hours with his grandfather, a kind and gentle man with a strong individualistic bent. The wisdom Baldy gained from him had a lasting influence on his life, and he often spoke of him as one of his greatest teachers. One of Baldy's favorite sayings from him was, "Don't retard by making haste."

His grandmother, a lady of small stature but limitless energy and perseverance, taught her six children all their school subjects, including music, through the eighth grade. She accomplished this in addition to doing the regular housework, keeping accounts, and making such necessary items as candles. It is to her credit that all the children went to college, one to Michigan State College and the others to the University of Michigan.

The accomplishments of this couple are especially remark-

able when you consider their meager income from a farm on submarginal soil. Government aid was unheard of, and costs were met by hard work and by watching every penny. Had any aid been offered, it is questionable whether it would have been accepted, for the couple had a strong sense of pride and a sense of responsibility for their family. Once, for example, when the minister reported from the pulpit that a certain young man in the congregation had not given very generously for the work of the Lord, the guilty man, Grandfather Howard, stood up and said he was that young man and he felt that his first duty was to feed, clothe, and care for his family. He was not ostracized but was, instead, praised by some of the pillars of the church and was asked to join the governing body.

Baldy attended a rural, one-room, one-teacher school through eighth grade. Later he commuted to the local high school, a distance of two and one-half miles, by horse and buggy.

At Michigan State College Baldy worked part time to defray expenses and was on the varsity track team. He set a record for cross country and won many trophies. Lyle, Baldy's older brother, was very close to him, and his advice was influential. He advised Baldy to go out for some sports to counterbalance his heavy academic and work schedules. He still found time, however, to dream up fraternity pranks.

It was in college that he was dubbed Baldy. The fraternity brothers had given Lyle that nickname because he had an unusually heavy head of hair. The kid brother immediately became Baldy, Jr., and he was known as Baldy from that time on to everyone except his mother, who always called him Floyd.

His plan to manage the family farm with Lyle after graduation was ended by Lyle's tragic death. Instead of becoming a farmer, Baldy entered Cornell University in the fall to study agricultural economics under Professor G. F. ("Doc") Warren.

Baldy's interest in agricultural economics stemmed partly from his experiences on the family farm. One year, for example, there was a bumper potato crop, and the price



dropped so low that it barely paid the freight to ship the potatoes to the market in Detroit. This was a heavy financial blow, and his father decided that the next year they would plant potatoes for family use only. Baldy, the budding economist, disagreed. He said, "That is what many farmers will think, so next year is the time to plant more." Of course, he was right, and the price went up the next year.

Later, during the Depression, farm prices plummeted so low that his parents did not have enough money to pay the taxes. At this point Baldy sent money home for them. Where, one might ask, did a poor graduate student get the money? Soon after he entered Cornell, he went to the bank and borrowed money which he did not need so that he could repay it before it was due. His purpose was to establish credit so that he would be able to borrow money later, if necessary. This action proved to be wise, and he was able to save the family farm twice.

One of his favorite professors at Cornell was the famous economist, H. J. Davenport. Davenport could bring economics to life, a rare talent that Baldy also developed.

In 1929 Baldy's work at Cornell included a study of cooperatives. When he returned to Michigan for Christmas vacation that year, he announced at the family dinner that he and Marguerite Kaechele had decided to form their own cooperative. We were married the following June.

Graduate days at Cornell were lean but happy. Many graduate students were in the same financial predicament, so entertainments were inexpensive ones such as picnics at scenic Lake Cayuga and Buttermilk Falls, potluck dinners, and musical programs at Bailey Hall.

During his years at Cornell, he became more and more concerned with the government's intervention in people's private lives. He watched the tracks of inflation and, as a result, he and a colleague wrote *Inflation is on Our Doorstep*. Then, after the war, with wage and price controls still in force, even though history had proven them to be futile, he wrote "Should Wage and Price Controls Be Continued: From

the Standpoint of the Unprotected?”

As our loss of liberty increased year by year, Baldy wanted to spend more time trying to turn the tide of socialism. Therefore, in 1946, he joined the staff of the Foundation for Economic Education (FEE) at another of nature's beauty spots in Westchester County, New York. FEE, too, was and is devoted to the cause of human liberty.

The first meeting of the Mont Pelerin Society was held at Mont Pelerin, Switzerland, in 1947. Baldy, with other FEE staff, was fortunate to be included as one of the founding members of this international group of free-market scholars. As a result, we took our first trip to Europe to attend that thrilling and inspiring meeting.

In 1955 Baldy took the family to Sweden for three months to study the facts and consequences of Sweden's socialism, commonly referred to as the “middle way” and labeled as a symbol of socialistic success. Since the language was totally new to him, a knowledge of many technical terms as well as words that would be frequently used in the field of his work was necessary. To overcome this obstacle, and as a matter of efficiency, he compiled a Swedish-English glossary of about 70 pages, a task that had never been done in the field of social science.

The years passed quickly, but the yearning he felt at Cornell to start an institute for interdisciplinary study of man's relationship to man was still uppermost in his mind. Therefore, in 1958 the family headed west and that autumn found us settled on the San Francisco Peninsula. For the next three years, Baldy was Senior Research Economist at the William Volker Fund. In 1961 the Institute for Humane Studies was born—not, however, without some rather severe labor pains. For several years “the poor child” was housed in the Harper's garage. Federal tax-exemption was achieved in 1965, and the Institute was ready to move ahead. This experience demonstrated that success comes from faith in your project, patience, and a willingness to work hard to reach your goal.

The next eight years were busy and important ones as Baldy saw his dream realized: the Institute became and remains an important center for research and education. Perhaps a high point during these years was the International Symposium on Human Differentiation at Gstaad, Switzerland, in 1972. This was an event he had long hoped the Institute might sponsor.

Baldy is probably best remembered as an educator. He was enthusiastic about his subject, and such enthusiasm is contagious. He also had a great interest in people and was always willing to listen to them even when he disagreed, thus learning from them, too.

As a professor both at Cornell and at Wabash College, where he was a visiting professor in 1962-63, his one request was that his courses be electives. He never took roll and always announced that fact the first day of class. One colleague said, "Baldy, that will never work." But it did. He treated each student as an individual and was always willing to spend extra time with students outside the classroom. Their affection for him was shown by the fact that many of them kept in touch with him through correspondence and visits until his death.

His teaching extended far beyond the classroom. It included lectures, extensive correspondence, and notes that were often dashed off on a scrap of paper. His secretary once inscribed a book she gave him, "To Dr. Harper, the best teacher I've ever known." His most effective method of teaching was probably in small groups or on a person-to-person basis. He was never too busy to talk with anyone who wanted to see him. Conversations often extended into the early morning hours, but he never begrudged the time spent this way; he loved it.

Baldy enjoyed his family, and his pride in his children—Barbara, Harriet, Helen, and Larry—knew no bounds. He was always interested in hearing about what they were doing and what they thought, and this gave him the opportunity to

watch their philosophical and intellectual development. Many hours were spent around the board and hearth. Time was flexible; a meal might last several hours, and the conversation could range from a report of the day's activities to serious discussions. These were always pleasant times, and Baldy's wit frequently added to the merriment.

Agriculture remained an interest throughout his life, and puttering around in the garden was one of his favorite recreations. He was fond of figs and justified planting several fig trees by pointing out that it was the only tree that could supply three of the basic human needs: food, clothing, and shelter. We still have three fig trees.

Experimenting with grafting fruit trees had aroused his interest early in life. One day when his mother was away, he and a brother had decided to do some experimental grafting on the family fruit trees. They heated the mixture, and it boiled over; the sticky substance ran all over the kitchen cook stove. Hard as they tried, they were unable to clean it up before their mother returned. Family history is mute on her reaction. Baldy retained his interest in grafting and later in life conducted experiments in his own orchard, with more sophisticated equipment. This year our best plums were from the peach tree.

Baldy set high goals for himself and lived by them. He had the courage to do whatever he felt was right, whether it was leaving a good position to accept an untried venture or just saying no when it would have been simpler to agree.

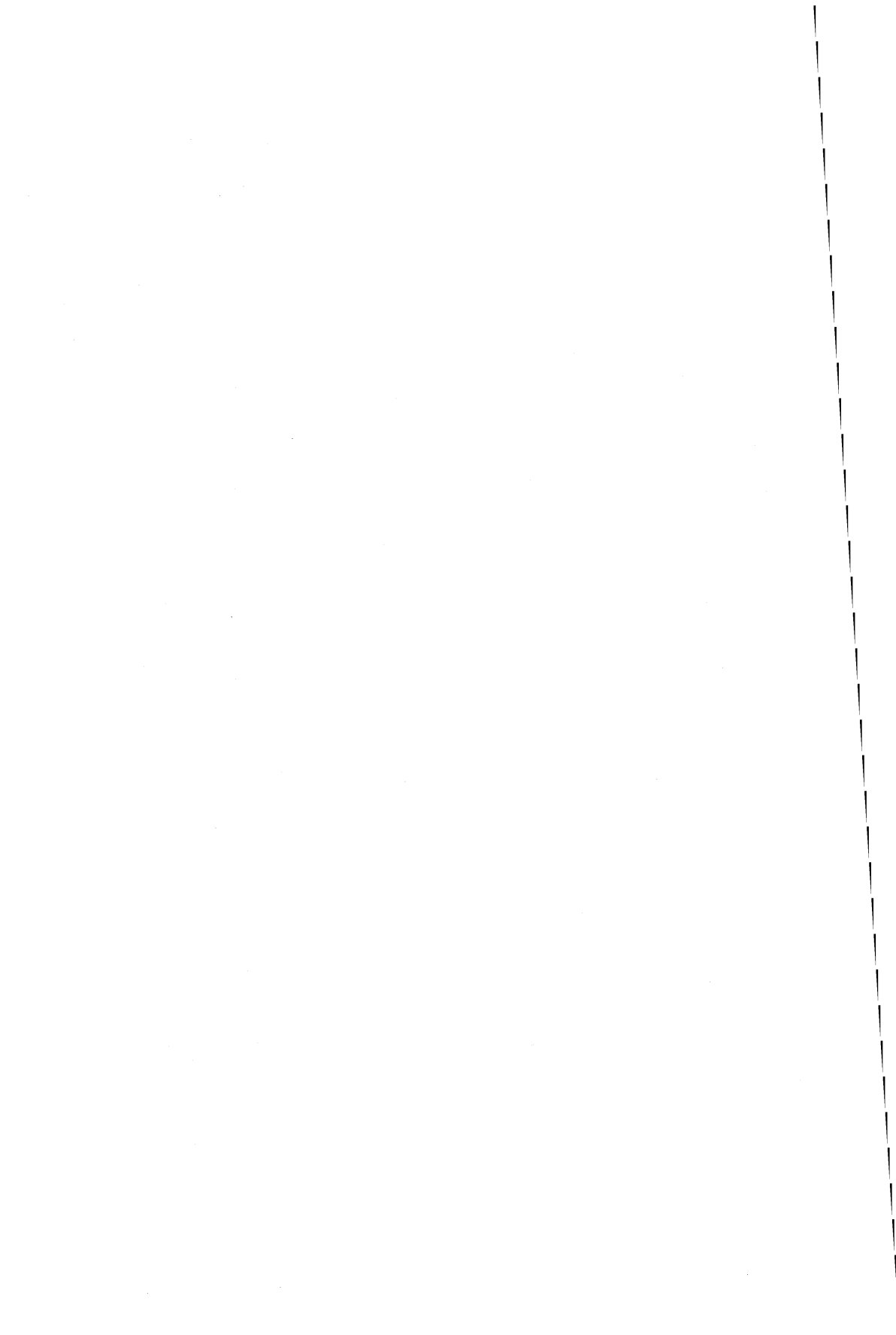
Perhaps one of the best tributes to Baldy was written by a friend and former student at the time of his death:

He gave to so many of us a form and substance for things, that until then had only been vague inclinations. . . . What an inspiring teacher! How patient he was as he tugged and stretched ideas. He made such good sense. But overall, professional things aside, the core of the man was his generosity of spirit.

Those who knew Baldy are grateful for the opportunity and privilege of having known him. Those who never knew him can, perhaps, gain some degree of acquaintance with him through his writings.

Marguerite K. Harper

Atherton, California  
March, 1977



# INTRODUCTION

It has been said of Socrates that he continued to live with his bad-tempered wife, Xanthippe, to teach himself self-control. To know the always-gracious Peg is to be sure “Baldy” Harper did not achieve his self-control by the Socratic method. Nor would I push hard the illiberal notion that any individual is like any other. It is because of our differences that liberty is so vital.

But Baldy did adhere to Socrates’ guiding rule, “Know thyself.” He believed with Socrates that goodness is based on knowledge, wickedness on ignorance. Like Socrates, he sought truth all his life, in ways that attracted young scholars. By the Socratic method of a series of carefully directed questions, he would encourage the other person to find out the truth for himself.

In these collected writings of F. A. Harper, concerned with liberty in the broadest sense, are to be found some of his conclusions. But the reader will also find throughout his works a series of carefully directed questions. For as Judge Learned Hand observed, “The spirit of liberty is the spirit which is not too sure that it is right.” I believe that is the spirit in which Baldy would have us pursue his search—a never ending search for the truth about liberty.

How does that search begin? Perhaps best with his premise as to the nature and destiny of man:

In the design of the universe, everything is subject to certain natural laws. . . . A person’s capacity to perceive the nature of these natural laws, which rule his being, is limited by his intelligence or powers of instinctive conduct; his beliefs, in this respect, are both his privilege and his responsibility; he is free to choose his sources of information as guides in his search for truth, and he is personally responsible for the wisdom of that choice and for the resulting conclusions; he will know that no person, not even himself, has any direct and certain line of communication with the sources of truth; all conclusions carry a corresponding uncertainty no matter who holds them; he knows that while he cannot avoid acting on the

basis of some belief, these beliefs must ever be held subject to change as further evidence or new reasoning becomes available; but always he is obligated, by honesty, to believe and act in accordance with truth as he then sees it.

That premise as to the truth about liberty is broad enough to encompass a lifetime search in any direction. And this list of some of his titles illustrates Baldy's wide range into the moral, social, political and other aspects of the subject:

“Morals and Liberty”

“In Search of Peace”

“The Disharmony of World Unity”

“Fruits of Intolerance”

“Blessings of Discrimination”

However, his specialty was the search for and promotion of a greater understanding of free market economics and its importance to the individual who would be free. “Economic liberty pervades the entire problem of liberty and is an absolute requisite to liberty in general.”

Textbooks may help us, but few of us come by our discoveries of truths in anything like a logical textbook arrangement. At some moment, a better idea displaces an assumption or a myth that had formerly occupied one's mind. And many of the shorter articles assembled here are shots fired at popular myths. But they are shots from the orderly and well-disciplined mind of a scholar and teacher. Let me share, then, the steps that I believe Baldy may have taken—the points he seemed to stress as most important—in his study and exposition of free market economics.

Undoubtedly of first importance is the concept of private property—“the economic extension of the person.” The point is stressed throughout his writings, but comes most clearly, as it should, in his latest discussion, “Property and Its Primary Form”:

As I now see the matter of property and ownership, the first person singular is the *primary* form from which all other forms of property arise. It is the prior and superior form. . . . This view of



self-ownership as primary property, from which all other property arises as derivatives . . . rests on the subjective evaluation of worth, with all market prices determined in the market as with other things of worth.

So, in economics, one starts with the freedom and dignity of the individual human being and his natural right to his own decisions and their consequences. Because he is his own man, the fruits of his peaceful actions are his property—and his responsibility. With that as their premise, competing individuals can peacefully determine “what is mine and what is thine.”

Once the concept or institution of private property is accepted, human beings in their infinite variability, and with their respective degrees of skill and talent, are in position for the next step of specialization in various productive efforts. Until a man can own what he produces, he is unlikely to produce much beyond his immediate needs. But if the product is his property, then he will strive to produce enough to meet future needs and begin to think how he might trade some of those savings for other goods or services.

So begins another step in free market economics, the process of competition and cooperation through voluntary exchange of private property. Exchange, yes, but at what rate of exchange, how much of mine for thine, at whose price? At the market price, suggests Baldy, if the objectives of the participants are to maintain peaceful relations and to maximize productivity in the light of the always scarce and limited resources available.

What a man brings with him to market as his own property affects what he will be able to bid for the property of others. Some have their skills or their productive labor to sell, some have tools or land or buildings or other savings to offer, some have new and better ideas for combining labor and tools and other scarce resources more efficiently to serve consumers.

Where more than two or three are gathered together in a market place, each interested in selling one or many items

and in buying one or many items, some one or more of those items of commerce will be put to use as money to get away from the limitations of barter—to facilitate exchange. How much money, of what size or shape or other condition? Leave such matters to the market—to the willing buyers and sellers in the market.

Once traders have found a satisfactory medium of exchange, market exchange rates will be expressed in money prices, and these market prices afford businessmen a means of economic calculation or business accounting—a way of knowing their profit or loss.

Out of this seeming bedlam of bids and offers, from individuals with various and ever-changing supplies of goods and services and demands for other things, emerges a series of market prices. Workers competing for jobs and employers competing for laborers set the pattern of wages for different kinds of work. Savers and borrowers compete and cooperate to find the rate of interest that will best serve their more urgent requirements. Market prices help individuals decide how much of what to consume and how much to save and invest in tools and raw materials and other factors of further production. Profits and losses ultimately disclose which competitors have succeeded or failed and guide them and others into the most fruitful and efficient lines of productivity.

Finally, but by no means the least of the services the market affords, is education. It affords a measure of the worth of experience, of schooling, of learning. It tells the cost of buildings, of books, of hired teachers, of various educational facilities. It lets the individual (the parent of the child) choose what he can afford to spend for greater wisdom in relation to his other needs.

Were Baldy to survey this humble attempt to outline his views of the free market economy, he might conclude that the attempt has raised more questions than it answers. And I could only answer that I learned some of that procedure from him. But, hopefully, the attempt may help alert the present and future students of F. A. Harper to some of the

main points of his free market philosophy.

Unfortunately, ours is not an ideal free market economy. Not all men are always peaceful, tolerant and wise, however good their intentions. Some will resort to coercion to gain advantage and to rule over others. They will turn to government to tax some and subsidize others, to regulate and control people "for their own good," to dispense "charity," to prevent failure, to penalize success, to invent a magic money machine, to apply rent and wage and price supports or ceilings and thus refute the vital signals of market pricing, to manage the rearing and the education of the young, to interfere with the free trade of free men in countless other ways.

Much of Baldy's life was devoted to exposure of these frustrations of the free market economy and these limitations on freedom. And that is a never-ending task. Fortunately for us, we have his record and example of the ideal of a free man toward which to strive.

Paul L. Poirot

Managing Editor, *The Freeman*  
May 5, 1977



I  
The Crisis of the  
Free Market



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# I

## The Crisis of the Free Market

### *Reconversion in a Free Society*

We have reached a critical point in our reconversion from war to peace. We have forgotten that our problem is reconversion in a *free* society. Our thinking about it has been clouded by failure to realize that our reconversion task is different from that under other economic and political systems. As a result, the most important part of our task has been neglected.

In a free society, such as ours, reconversion from a wartime to a peacetime economy has three important aspects: (1) changes in the occupations of people, (2) changes in products produced, and (3) changes in the mechanism by which economic decisions are arrived at as to prices, wages, profits, hours, or conditions of work, and as to what is to be produced and consumed. These three parts of the task might be described roughly as *demobilization*, *retooling*, and the *recovery of freedom*.

The busy executive, the farmer, and the small businessman, the employee, and consumers are variously concerned with problems of "labor supply," "jobs," "supplies of materials," and "supplies of consumer goods." These are the physical aspects of our problem—demobilization and retooling. They will be treated mainly as a more or less interwoven part of the discussion of the third aspect—the recovery of freedom as the mechanism of arriving at economic decisions.

The first two aspects of reconversion, demobilization and retooling, now have the stage in public thinking. In fact, retooling alone has largely dominated the scene. Both have stolen the stage because they are so vivid and so easily understood. We know, for instance, that a reduction in the number of persons in

the Armed Forces from twelve million to two million, will throw ten million people back into civilian employment, schooling, domestic duties, or idleness. We know also that at the peak of the war some fifteen million people not in uniform were producing for and servicing the direct operations of war; that for those who wish to continue in employment, peacetime products and services must replace those of war upon which they have been working. We know that tanks and touring cars have quite different usefulness in war and in peace, and that billions of dollars of some products that were made during the war will become nothing but junk for peacetime purposes. The general nature of all these problems is well understood, even though their best solution may still be obscure.

The third aspect of reconversion, the recovery of freedom, has suffered by neglect in our thinking. Both its nature and its solution are less well understood than the others. Freedom is not so tangible as is a car or a person, and for that reason the contrast between its presence and absence is less vivid. We can count people in an army and cars in a parking lot, but we cannot so clearly count or measure freedom so as to determine the proportion that was lost during the war. Freedom is nonetheless real, and its presence is vital to the economic health of the nation and the happiness of its people. The necessity of freedom in our type of economy makes it of prime importance during this reconversion period.

To ignore the question of freedom, no matter whether by intent or by neglect, is to fail to make a distinction between our reconversion problem and that of many other countries. Every country actively engaged in a war, irrespective of its type of social-political-economic system, has problems of demobilization and retooling. These problems would exist alike in a country operating under complete free enterprise and individual freedom and in one whose people are in complete servitude to the state—provided, of course, that both countries deflated their wartime operations by the same degree. Any nation that is to change its “consumption” from tanks to trucks, from rifles to radios, and from battles to books, must demobilize and retool for

that purpose.

Not all nations, however, face the reconversion problem of recovery of freedom, because in some freedom has been allowed no more in peacetime than in wartime. It is this feature of reconversion that so clearly distinguishes our problem from that of a regimented state. It is a traditional part of our way of life, but not of theirs. During the war we lost freedom to a considerable degree; they did not have it to lose. If we do not recover our freedom, and recover it promptly, reconversion in the United States will be a failure, for the most important part of its task will have been left undone. Following such failure, we would likely become a fully regimented state. We might accomplish the tasks of demobilization and retooling, only to be faced with a continuance, in some form and under some name, of servitude of the individual to the state, from which our ancestors struggled for centuries to free themselves.

The reconversion task in a free society like the United States is not, then, restricted to demobilization and retooling, nor is it primarily these two. The prime problem is the recovery of freedom.

### *Objectives of Our Economic System*

When any nation sets out on the road of reconversion it must have a destination. The following objectives, stated in general terms, constitute that destination for purposes of this discussion:

- 1. Free enterprise and individual freedom shall be preserved.*
- 2. There shall be production of a maximum of goods and services, up to the point where people as individuals prefer leisure to more of them; the goods and services shall be those of the people's choice as individual consumers and producers.*
- 3. Rewards in the forms of goods and services to each individual shall be, as nearly as possible, equivalent to his contribution to their production.*
- 4. Individuals shall have equal access to markets, jobs, business ventures, and opportunities to invest their savings.*

5. *Law shall protect the right of voluntary contract, encourage private savings, and protect the rights of property and other forms of wealth that have been acquired fairly in the eyes of the law.*
6. *Measures shall be avoided that have the effect of arbitrarily altering the real worth of savings, property, or incomes.*

Some further comments about these objectives, and the reasons why they are necessary to the preservation of our American economy, are given in Appendix II.

### *Elements of Successful Reconversion*

Sound objectives alone will not guarantee a successful reconversion. Acts must be in agreement with sound objectives, if the outcome is to be what we wish. Why should we wonder at confusion, when public officials propose or endorse programs in direct conflict with their professed policies? Such a contradiction is the oft avowed devotion to free enterprise, accompanied by a series of programs which would insure its death if they were enacted and enforced. The public is further confused when anyone who points out these contradictions between professions and practice is labeled a reactionary. The only reason why public confusion is not complete under these circumstances is probably that so many of us fail to recognize these contradictions. Also contributing to the perplexity are many current books and articles which might well be grouped under the common title, "Economic Freedom through Slavery."

The remainder of this discussion will be devoted to testing the different parts of the official reconversion program, now in effect or proposed, in order to learn whether they support or undermine the objectives of the American economic system.

## *Prices during Reconversion*

Our most important reconversion problem is the recovery of our economic and personal freedom. The heart of that problem is prices. A free economy, free enterprise, and free men, cannot exist without free prices—all prices, and all types of prices.

The reconversion price situation seems briefly to be as follows. Attempts were made during the war to control nearly every type of price—commodities, wages, rents, interest, profits, and all the rest.<sup>1</sup> Assumptions behind reconversion policies of the government seem to be that these controls were highly effective and that, if they were to be removed, prices would skyrocket and chaos would result. Therefore, certain key controls are to be retained—especially controls over prices of items “in the cost of living,” over profits, and over supplies of some raw materials. The threat of further inflation is put in the forefront, and experiences after the last war are cited as cause for concern and to justify strict controls over prices, profits, and other key points. Wage prices or rates will be allowed to rise “if they do not result in a rise in prices” (of commodities). In fact, a sizable rise in basic wage rates is planned as a means of maintaining consumer incomes at high levels. Controls of most other types have already been removed, or shortly are to be removed, including most coupon rationing and price controls on the less important items. The remaining controls are to be removed “as soon as possible,” or “as soon as the supply catches up with the demand.” Full employment and a sharply higher level of living are hoped for and promised. Free enterprise is to be given a “chance to deliver” on these promises, but if it fails the government proposes to take over the job.

These plans are pleasant sounding to those lovers of freedom and free enterprise who listen to the tunes without analyzing the lyrics, that is, the words and the policies. Careful scrutiny, however, reveals distinct danger signals. The list of controls claimed to have been removed is impressive by its length but relatively unimportant. In some cases there has been merely a shift from the coupon system of rationing to the queue system—preferable

perhaps, and a seeming relief, but the shortage has not been removed, and the right to produce and sell freely has not been restored. Only a few controls are retained, yet they are the key ones of our entire economic system—profits and the prices of important commodities. Those controls will determine the fate of reconversion on the United States model.

Policies of government, of course, are subject to change daily. So why be alarmed at the situation today, when it may be changed tomorrow? The cause for our concern lies not alone in the details of today's regulations but rather in the type of thinking that apparently guides these policies, and which will determine the policies of tomorrow and of next week. Here is an illustration. Shortly after Japan's agreement to surrender, President Truman made the following statement, presumably after consultation with other high governmental officials, as a sort of summary of official thinking:

The government has a major responsibility to assist in the achievement of an orderly transition from war production to civilian production. This is essential to the war production that continues and to the development of a healthy national economy.<sup>2</sup>

This may sound like a perfectly harmless statement, but in it lies evidence of thinking that violently contradicts the whole concept of free enterprise. To say that controls are necessary for "orderliness" is to say that lack of controls (the free market and free enterprise) is disorderly. If the free market and free enterprise comprise disorder, is it not strange how the United States during the last century and a half performed such economic miracles as to be the envy of the rest of the world today? Was all that achieved within an environment of "disorder?"

The statement that government has "responsibility" in the matter of controls reflects a concept of paternalism that is totally incompatible with free enterprise. Further evidence of an underlying lack of faith in free enterprise is the statement that this government responsibility is "essential . . . to the development of a healthy national economy." This is saying, in effect, that the economy cannot be healthy without these controls. If these

statements were merely filler for newsstories, we should not be concerned. But they have been given as part of a carefully prepared official statement, which identifies them as the thinking of those who call the signals during reconversion.

These are the reasons for concern as to where we are headed with our reconversion pricing plans and policies. We may now have, or later adopt, certain policies that will get us into serious trouble. Faced with these new troubles, it will be natural to attempt to control ourselves out of the consequences of each new batch of controls, with no logical stopping point short of complete controls over practically everything. The process becomes one of aggravating the illness by dealing with the symptoms, so that controls conceived in error and born in an "emergency" become buried in a hopeless confusion of "sub-divine guidance."

### *Lifting Controls "As Soon As Possible"*

The avowed intent of the government is to lift the remaining controls "as soon as possible." This is a perfectly meaningless statement by itself. We can appraise the intent to lift price controls "as soon as possible" only if we know the assumptions and reasoning that led to their being put there in the first place.

Price control in wartime rests on the assumption that changes in prices can and should be prevented through edicts aimed directly at individual prices. It is further assumed that our general level of prices can and should be kept stable by this means. This involves a concept of stabilizing prices that is equivalent to curing a sore by concealing its surface. According to these assumptions the wisdom of a government in economic affairs is superior to the combined wisdom of the citizens.

These arguments gain credence in wartime, while we are both busy and frightened, but their logic is the same in peace as in war. If such controls are desirable or necessary in war and during the reconversion period, so are they forever afterward. Prices are always fluctuating and, except for the importance of the *rate* of change, controls would in the same sense always be needed. In wartime the special reason given is "to prevent inflation;" at other times it would be to prevent deflation; and at still other

times it would be to prevent excessive profits or losses in the production of cotton, or to prevent excessive profits or losses by "Mr. Smith."

We are forced reluctantly to the conclusion that the logical definition for "as soon as possible" is *never*. On careful scrutiny, the policy of "as soon as possible" becomes a death sentence to free enterprise, instead of a gesture of hopeful expectation for the patient's recovery during reconversion.

### *Lifting Controls "As Soon As Supply Catches Up with Demand"*

Lifting controls "as soon as supply catches up with demand" seems to be reasonable enough on the surface. This policy, likewise, is a snare, for two reasons. The first has been covered, by a slightly different approach, in the preceding section. Under controlled prices, individual prices are out of line with their free-market points.<sup>3</sup> That is to say, under a controlled price either the supply of a controlled commodity "exceeds" its demand or its demand exceeds its supply—*always*, except for chance occurrences. For neither to exceed the other is the position of a free price. So the thinking behind this policy, like that for removing controls "as soon as possible," amounts to a case for continuous control.

The other reason why this policy becomes a snare is that under present and proposed conditions and policies guiding reconversion, supply can never catch up with demand for goods and services in general. It is a handicap race, with demand assured of the lead. Demand in excess of supply is simply a complicated way of saying that inflation is under way. And our present and proposed policies are inflationary. The inflationary forces underneath our economy are now tremendous, and additional fuel is still being added, especially in the form of programs for heavy government spending.

The pledge to lift controls as soon as supply catches up with demand seems valid at first blush because it is believed that



supplies of goods will be adequate (1) when we discontinue large shipments abroad under lend-lease, and (2) when the supposedly marvelous efficiency of wartime production is unloosed for peacetime purposes.

The first reason, discontinuance of lend-lease, is an acceptable point as far as it goes. To the extent that we have been sending large quantities of food and other materials abroad without getting any trade in return, we have been starving the domestic market of a volume of goods for which income has been paid in their production. The financing of lend-lease by deficits is an inflationary force. Its discontinuance is equivalent to the effect, on supply and on price, of a sudden discovery of a way to produce something much more efficiently. But to admit this point is not to admit that we shall be able to bring supply up to demand. Sizable as lend-lease was, the amount of goods involved is not enough to save the situation. The volume of "noncash" exports reached a peak last year of only about \$12 billion,<sup>4</sup> as compared with income payments to individuals of \$157 billion and an "inflationary gap" of \$25 billion in excess of normal rates of saving.

The second reason for the apparent validity of the pledge to lift controls, "our greatly increased productive capacity during the war," is likely to be an unfortunate crutch to lean on during reconversion. If it is a mistaken prospect, as appears likely, dependence on it in terms of policies will insure inflation and continued price controls indefinitely. It is this assumed increase in efficiency during wartime, with governmental controls, on which many persons base their confidence in governmental guidance of our economic affairs. They say, "What we did in war we can do in peace."

Does the general public believe that large increases in efficiency have occurred during the war, and so approve reconversion policies built around these assumed increases? Apparently it does. As evidence, we need only to call to mind the deluge of newsstories about the wonders of wartime production. We have been told that this great increase will justify much higher wage rates, that it will justify a much shorter work week without any

lower level of living, and also that we must somehow learn to consume the vast deluge of postwar production that this increased efficiency will bring. These three forms of benefits from increased efficiency, when placed alongside one another, are the equivalent of making plans to eat the same cake two or three times. And if there has been no such increase in efficiency, they amount to plans for multiple eating of a cake that does not exist for eating even once.

What is the truth about our productive capacity? Here again, we must take the official production index with grains of salt administered liberally. The Federal Reserve Board index of industrial production shows a rise from 100 before the war to about 230 or more in 1944 and early 1945. If we accept this evidence at its face value, it would indicate that we shall shortly be faced with a need for increasing our consumption to about two and one-third times its prewar level. This prospect, though not in these exact terms, has been officially proclaimed, and we await it with anticipation as consumers. But the rosy prospect needs deflation for several reasons. First, this index covers industrial production only (the manufactures and the minerals), and excludes what is normally about three-fourths of our national economy; the remainder shows no such increase and possibly a decrease. Second, perhaps eight million persons, not normally in our working force, were pulled into jobs during the war, which helped make the increase possible; presumably they will not continue to work. Third, before the war, about 16% of our regular working force was unemployed. The reemployment of these workers accounts for an important part of the increase in production; we hope, of course, that their continued voluntary employment will be possible to the extent they wish to work. Fourth, many people worked long hours (perhaps an extra six hours a week in 1944); they may not continue to do so, or the labor organizations or the government may not allow them to continue to do so. And fifth, even in industry the index grossly exaggerates the increase in efficiency that has really taken place.

When these necessary qualifications of the Federal Reserve index are taken into account they leave little cause for opti-

mism—far less than has been used as the basis of expectations upon which to build our reconversion plans. The effects of several of these deflators are easy to understand. We shall not have for consumption the goods that people do not produce, as some workers drop out of our labor force and as the remaining ones work fewer hours. We can, of course, include in our expectations the consumption of what is to be produced by those who were unemployed during the Thirties, provided they continue to work now. We are now being officially conditioned to the idea that this continued employment of all the workers can be accomplished only by widened controls of government. If tried, these policies are likely to confirm the record of the past, which shows the reverse effect to be most probable, namely, a freezing of unemployment into perpetuity, or otherwise the payment by government of wages for unproductive work.

The last point, about wartime changes in efficiency, deserves further attention. It is a highly important point in our reconversion planning. What has been the increase in efficiency of hourly work during the war? If we are to assume that the Federal Reserve Board index at 230 is correct and typical of all our economy, what would be its meaning? In judging its meaning so far as change in efficiency is concerned, we must first take out of it the portions of increase that result from other causes—more people working, and longer hours of work. An adjustment for that part due to the increase in civilian employment would reduce the figure from 230 to 196, and for that part due to the longer hours of work would reduce it further to 170. These figures would indicate, in other words, a remainder amounting to an increase, since 1939, of 70% in efficiency of work per hour, which is 11% yearly (compounded). This is six and one-half times as rapid a rate of increase in efficiency as the long-time trend for the last century and a half in this country, which has been fairly consistent though perhaps slowed down or seriously interrupted during the last thirty or forty years. A 70% increase in efficiency in five years sounds fantastic, though one may be tempted to accept it by the glowing reports of wartime accomplishments that have been methodically fed to the public.

On more careful study, the facts about civilian production do not support such an optimistic view of the increase in efficiency. The annual report of the Department of Labor shows an increase of only a few per cent in output per man hour (1944 as compared with 1939) for the average of nineteen industries whose products remained constant enough during the period to justify a comparison for this purpose.<sup>5</sup>

If, as now appears likely, the Federal Reserve Board's index of industrial production became "blown up" by perhaps 70%, how is this error to be explained? One can only guess, but a good guess would seem to be that it became inflated as a result of the way the index was handled during conversion from peacetime to wartime goods. Production of many wartime goods started at a very low level of efficiency, from which great improvement was then possible. Suppose, for instance, a company formerly making vacuum cleaners converted to the making of a new war gadget—perhaps a new-styled bomb sight. With the same man working on both products, his contribution to the production index would probably be counted the same for the first day's work on the bomb sight as it had been for the last day's work on the vacuum cleaner. But the efficiency on the bomb sight was very low at the start, and great improvement could then be shown—perhaps five times (or more) over the war years. This would raise his index of efficiency to 500. When he went back to making vacuum cleaners his production would likely drop back to near 100 where it had been before the war.

Another factor inflating the wartime index, so as to make it inapplicable after reconversion, is the specialization of production in wartime. Companies making many products before the war concentrated on only one or a few in the defense program, which boosted their efficiency as compared with what it could be on a peacetime basis again.

Perhaps the most serious danger in our present situation is the effect of policies which are based on this error in judging our capacity to produce. It is commonly recognized that labor should and does receive, in the buying power of its wages, the benefit of increases in efficiency. If the average laborer acquires the means

of accomplishing twice as much per hour, and does so, his wages will increase enough so that he can buy twice as much, except for temporary periods of maladjustment. History bears out this fact clearly. The present danger lies in attempting to prevent inflation of prices (of commodities) by governmental control while wage rates are geared to an inflated measure of labor's productivity—in this instance, the Federal Reserve Board's index of industrial production.

What would happen if this possible error (wages justified at 170 vs. 100) were to become incorporated into our economic affairs in the form of policies for reconversion? Let us switch the interpretation into the terms of what comprises, basically, our national income. About 85% of the national effort goes for current wages, or its approximate equivalent, leaving only 15% to go as the reward for various forms of saving.<sup>6</sup> That is, out of each \$1 of retail value of a product, about 85 cents represents the "wages." If we were to boost wages to the point justified by this purported new level of productive efficiency,<sup>7</sup> we would then be paying about \$1.40 as wages for this product instead of a current figure of 85 cents. But under our present reconversion schemes, involving price controls to protect us against inflation, the policy would be to hold the retail price at \$1. The adoption of policies based on this assumed increase in labor productivity would wipe out *all* profits (formerly 15 cents) and in addition would leave the retail price 40 cents below "wage costs" alone.

Pursuance of such a wage and retail price control policy would leave the country resting uncomfortably on one or another horn of the government's dilemma. Faced with a retail price fixed at a point 55 cents (40 + 15) below full and necessary costs, the government might be asked to make up the difference through subsidy. This subsidy cost<sup>8</sup> would probably be paid by governmental deficits which would generate an inflation spiral. The other horn of the dilemma would be for business to absorb a loss of 40 cents on each dollar of business, under which policy business would have to shut down promptly and create almost complete unemployment.

The figures that have been given represent the over-all effects

of further rises in wage rates under continued price controls. An impossible situation already exists for many businesses without this added impediment. One company, for example, is faced with the following problem in terms of an average of its four principal products. For each dollar of selling price before the war, its total cost, allowing net income only at the 1941 rate, has increased to about \$1.31 for peak production, \$1.42 for 75% production, and \$1.52 at 50% production. An increase in price has been allowed to \$1.08, leaving a choice between full operation with a retail price deficiency of 23 cents on each unit, or a larger loss per unit on less than full production. Its only sound management policy is to produce nothing, as that gives the least total loss. Any furtherance of policies that increase wages without increasing selling prices will make a bad matter worse.

One may shade these figures as he likes, but the effects of this policy remain the same. They would change in degree but not in direction. When a government subsidizes any prices—wage rates or other—as compensation for their divergence from their “natural” economic points in a free market, it adopts an official policy of inflation. With such inflation under way, and with price control measures adopted to slow down the advance and “make it orderly,” supply would *never* catch up with demand, and we would keep the controls forever—or until we dethroned these policies.

Even without any deficit financing of lend-lease operations and without any further general increases in wage rates (together with continued retail price control), we still have an unsolved problem of how “supply can catch up with demand.” Demand is already far ahead in the race. An excessive inflationary gap in 1945 of nearly one-fourth the amount people spent for goods and services is indicated.<sup>9</sup> And that is not the only cause for concern. Previous inflationary gaps have been allowed to accumulate into the tremendous savings of the country.<sup>10</sup> These savings are largely in liquid form, either as demand deposits or as cashable war bonds. They are of the nature of a further wedge between demand and supply that will return to plague us—we know not just when.

This problem of accumulated spending power will not be taken care of automatically, as many believe, by peacetime goods produced from reconverted war plants. A peacetime product selling for \$100 will meet in the market the \$100 (+ or -) of costs currently paid out in its production—the spendable income of workers, etc. Production creates, more or less exactly, its own purchasing power. The problem would be solved if we could induce people to produce goods and put them on the market without any payment of wages, profits, or other costs in their production, with all the selling price to be turned over to the government to liquidate the war debt and thus take the inflation money out of circulation. But no one seems anxious to do that. We shall have to accomplish the same thing in some other way. There is no painless shortcut. The dollars paid out to produce war goods that have been destroyed or are now worthless are also worthless for the simple reason that they cannot be used to buy goods not in existence.

It is not acceptable, of course, to identify specific dollars of wartime incomes paid to those who happened to be producing war goods and services, and to declare those specific dollars as completely worthless. The usual practice is to declare a proportionate share of all dollars to be worthless, which is accomplished by the simple device of higher prices—"inflation." The concept of controlling prices to ward off this rise is an attempt to bury our heads in the sand and to blind ourselves to a necessity. It is an attempt to kid ourselves that what is shall not be.

The effect on prices of these wartime savings is that the saved dollars step up to the counter and bid for goods against the dollars currently paid out in their production—a sort of uninvited guest at the auction, who puts too much money into the market on the demand side without putting in any goods on the supply side, and so bids up the price. It is impossible to measure the duration and amount of the price rise that will result from these savings. But the sooner we recognize the true situation of their danger and give full sway to reality, the better for us in the long run. Accumulated inflationary force is of an explosive nature; the most explosive bombs are those within which the

greatest force has been accumulated under rigid control, to be released all at once later.

How, then, can “supply ever catch up with demand?” This can come about only under circumstances where the full costs are held down relative to the retail price allowed. This is the direct opposite of our present policies of control of retail prices and lack of corresponding restraint on costs—especially wages. Savings that have accumulated will have to be repudiated, or confiscated, or absorbed by higher prices.

### *Control Only of Items in the Cost of Living*

Restricting price controls to items “in the cost of living” refers to those included in the official index. From this list of items one could select a very few that would comprise half the index and are the backbone of the nation’s economy. This objective, stated impressively as a program to decontrol all but a few out of some eight million commodity items or services, is misleading because most of the items in this long list are insignificant. The OPA officially stated that its policy was to decontrol those items of insufficient importance to justify their efforts in attempted control—in other words, those of no consequence anyhow.

### *Wage Rises To Be Allowed “If They Do Not Affect Prices”*

The policy of reconversion wages is especially disturbing when considered against the background of continued controls over prices of important commodities and over profits. The policy is, as we understand it, that wage increases are to be allowed, provided their increase does not affect prices (presumably meaning the prices of goods at retail).

If wage increases are not to affect prices, what will they affect? Their only possible other effect would be to reduce profits. We are ignoring here the possibility of increased governmental subsidies of the retail price, as well as the possibility of their coming out of the taxes charged against the producer, which would also aggravate the government’s financial problems.<sup>11</sup> We must note how wages and profits, or their approximate equivalents, consti-



tute essentially the entire national income. Wage increases cannot come out of themselves, so they must come out of their complement—profits—if the retail price is to remain fixed. That is a simple matter like the effect on the size of one farmer's field if his neighbor moves the line fence. The effects of this process as a policy during reconversion have already been described.

### *Controlling Profits*

The government's reconversion policies affect profits in two ways. First, profits are to be specifically controlled as a factor in OPA's determination of the prices of various products. Second, as discussed in a previous section, profits become the unfortunate heir of wage rates that are too high; from that discussion it can be seen that if wage rates are to rise above the point justified by the efficiency of labor, while at the same time retail prices are to be controlled by the government, there will be no need for controlling profits directly. Under those conditions profits will automatically be reduced or eliminated.

### *The Function of Profits*

Under any discussion of profit policies it should not be superfluous to recall the function of profits and their relationship to our objectives in reconversion. Profits are the lifeblood of free enterprise. Instead of being a form of economic parasitism, as some would have us believe, they are a sort of combined starter and sustainer for the entire free enterprise economy. They are, in part, the necessary inducement to people to save and to risk those savings in the capital structure of the nation, as is necessary for progress and economic growth. They also serve as a necessary cushion against the chance of failure, for those who would be enterprising. They encourage the self-employed to work, and the employers to use many employees efficiently. Lacking these incentives, coming only from profits, a nation will stagnate and the existing economic machine will stall.

Capital is like a laborer in that it will not live and work unless it is paid ("profits"). There is a "living wage for capital" just as there

is for labor. The necessary level of this living wage for capital is determined by two factors: (1) interest or its equivalent, and (2) a risk or inducement charge. No one will put money into a business venture, managed either by himself or by someone else, without the prospect of an interest-equivalent return; that is why the interest portion is there. Neither will anyone chance losing his investment in a business venture unless there is some extra reward for the hazard involved; that is why the risk or inducement charge is there.

Unless there is some profit, people will either live up all their current incomes or put the money in their socks rather than to hazard it in business ventures. If Uncle Samuel or some other benevolent gentleman assumes the risk, the equivalent of profit is still there and has merely been moved so that all of us or someone else bears it; its existence and cost are not changed. In fact, its cost will increase because we become careless about success when failure belongs to someone else.

These are the reasons for the existence of profits, and the reasons why they are the lifeblood of a free people operating in free enterprise. That is the important reason why this country has had such phenomenal economic growth, which resulted from the productivity of free enterprise operating under the incentive and guidance of profits. Profits measure success or failure with equal justice to all. Without that measure, people would have no way to appraise their own efforts, and those efforts would become unproductive.

Much of this discussion has been in terms of profits as a unit, or as an average. That is not, however, what makes the economic mare go. What counts is *individual* profits, and therefore it requires freedom of *individual* profits to vary. There can be no such thing as freedom and justice of *average* profits; profits are an individual rather than a collective matter and as such cannot be dealt with collectively. Average profits are a product of the statistician's activities, not of the accountant's. Business firms do not prosper or go broke on average profits—they prosper or go broke on their *own*. This pins down another error which the OPA has built into its reconversion pricing plan—the “industry

average” of profits as a guide to controls. A free market does not make this error.

Profits must be free—free to exist and free to differ between the efficient and the inefficient. They must be free to vary from year to year, with ceilings high enough for the good years so as to make up for the losses in poor years. Freedom for competitive enterprise will take care of greed while retaining the proper reward for efficiency and initiative.

### *The “Dangers” of Withdrawing Controls*

A famous person once said that we have nothing to fear but fear itself. Could that be our plight now? Does the fear of what would happen if all controls were withdrawn at once arise from evidence or from the fear of mere uncertainty? It could be that the economic patient would suffer seriously if we suddenly took his medicine away; or, on the other hand, it could be that the medicine was the wrong kind and that he would get well quicker if we took it away.

### *Afloat on a Sea of Unknown Prices*

So far during reconversion we have been afloat on an economic sea of unknown prices. We have prices which do not tell the truth.<sup>12</sup> Not knowing where we are, how are we to reach our destination? First, we may choose the procedure of controlled prices, which corresponds to the process of sailing blindly around on this sea, back and forth, until sometime—we hope—we chance to arrive at port. Second, we may choose the procedure of complete abandonment of price controls. Though this seems like a policy of drifting aimlessly at sea, it corresponds to taking our bearings from the reliable stars. It is a time-tested market process of buying and selling that will guide us to port. We understand its workings, but we cannot duplicate them through controls.

Those who would choose the procedure of controlled prices should ponder the question of how they would recognize port if ever they chanced to arrive there. Qualified analysts now hold

widely divergent views as to where the free market point would be if all price controls were to be taken off. We cannot know exactly where it is, and by the same reasoning we would sail right by it under a controlled economy without knowing when we were there. Under controls, not only is the sea uncharted, but the port is invisible as well. Under free prices, we know when we are there, not because the price is specifically \$1, or some other figure, but because we know that freedom puts it there.

### *Continued Controls for “Avoiding Chaos”*

Some may be reluctant to weaken controls and free prices because of their preference for a system of strongly centralized power over individual rights and free enterprise. Most of them, however, give at least lip-service to support of the free enterprise economy. Probably most people who favor continued controls during reconversion do so because they are fearful of chaos if they were to be “removed suddenly.” “Removed suddenly” is a peculiar term to be used, for they cannot be removed in any other fashion. The controls are there, or they are not there; whenever they are removed it must be done suddenly. It is like death, which can only come instantly.

Anyone who holds that chaos would result if controls were all removed must be starting with the assumption that prices now are far away from what would prevail in a free market—that we are now far from the port of our destination. Otherwise there would be nothing to fear in freeing prices, because chaos would not result from their remaining where they now are, or near there. How far are prices now away from their free market levels? What may we expect as the future course of prices under controls vs. under a free market?

### *Present Price Levels Compared with Free Market Levels*

The question of how far prices now are below (or above) the free market level is basic to the question of whether or not chaos would result if controls were abandoned. This is not a simple

question, for non-existent prices cannot be located except as “guesstimates” from indirect evidence. Discussion in this section will deal only with the question of where prices might be *now* with prices free rather than controlled. Where prices may be six months, a year, or five years from now, with or without controls, is another question to be discussed later.

Comparisons will be made generally with 1939 as the base. It is not a perfect base because in many respects a free economy did not then exist. Nearly nine million of our labor force were then unemployed, which is usually associated with a condition where wage rates (and prices closely associated with wage rates) are too high relative to prices of farm products and other raw materials. Despite this, 1939 is perhaps the best base we can use for our purposes, all things considered.

### *Deceptive Official Price Indexes*

Our present question involves knowing where prices now are and where they would be in a free market, and comparing the two. It might be assumed that as answer to the first part, where prices now are, we could simply use the information already compiled for us in the form of official indexes of price, like the “cost of living” index and the price indexes for goods at retail, wholesale, farm, etc. But these indexes do not adequately serve our present purposes. They are not comparable in their meaning with prices that would exist in a free market.

Indexes of price are compiled by governmental and private agencies to measure, over months and years, changes in price levels for individual items or for groups of items averaged together. There could be indexes of change in other things too—indexes of quality, indexes of services, indexes of “shady” deals, indexes of subsidization, or indexes of substitution of products for one another. These indexes would all be useful and interesting for other purposes, but they are not price indexes. Under wartime price controls, the official indexes of prices have become price-quality-shady-deal-subsidy-substitution indexes instead of price indexes. Consequently, the price indexes have lost

their meanings as measures solely of price change, and are subject to misinterpretation and misuse. They should no more be depended upon to represent accurately the true amount of price change than should an index of apple prices be used which represented fancy grade one year and culls the next, or the cost of theater tickets based on your cost when you bought your own tickets one year and your rich uncle bought them the next.

We can understand the predicament of those who are charged with the task of compiling a price index. But that should not lead to misinterpretation or misuse of these indexes. Until someone can figure how to keep all these factors of deception out of the price indexes, we are left without any accurate measure of price changes. A democratic government committed to a program of price control, demanded by its citizens, is likely to resist possible improvements in the accuracy of its price indexes, especially if that change would tend to reveal failure of the controls. Quite a stir of protest occurred when one state price-reporting agency started to report the actual price transactions on a terminal poultry market instead of the "price" (ceiling) that had been existing for some time only in *The Federal Register*.

Thus it is evident that indexes now available are not useful for judging the effects of removing all price controls. The reasons are highly complicated, but the problem is central to any consideration of the degree of disorder that would result from their removal. An attempt will be made to estimate what would happen; but this will not allow for other changes that will come with time, such as the pouring of savings into the market places—a separate danger that exists under either procedure.

### *Commodities*

Commodities are highly important in the reconversion pricing problem, because they normally absorb from one-half to two-thirds of people's disposable incomes. They also include many of the products whose production was completely discontinued during the war, involving the reestablishment of postwar prices under entirely new conditions.

Income payments to individuals increased from an index of 100 in 1939 to 222 in 1944. Of the 122-point increase, tax boosts took some, increased savings took some, and increased service costs took some. The remainder was spent for goods—71% more in 1944 than in 1939. The official index<sup>13</sup> showed a price increase of 38%, which understates the true rise by the combined amounts of price deception involved—reduced quality, reduced marketing services, black markets, subsidies, items in the index which were not actually sold, and all the rest. When all these factors are taken into account, it appears that if prices were all to be whitened, if parts taken from the governmental deficit were to be placed on the price tag, and if the quality of products and marketing services were to be restored to their 1939 levels, the removal of price controls would have no great immediate effect on average prices.

This conclusion agrees in general with the results of a study of store sales relative to spendable consumers' incomes. The difference in actual sales under price controls was only 14% less than past experience would lead us to expect—not an unreasonable amount to attribute largely to (1) savings for postwar purchases of products like cars and refrigerators not available during the war, (2) saving induced by bond drives and appeals of patriotism, and (3) products reaching consumers through channels other than regular retail stores.

This evidence suggests that there would be no reason to expect *true* prices to be far from present levels without controls. Some individual prices would doubtless be higher and others lower. Prices of many luxury items would probably be lower, for many of them have benefited from wartime conditions and price controls. Prices of subsidized items would be higher without the subsidies; the direct and indirect subsidies on butter and sugar are nearly one-third the amount of their retail prices. Prices would rise as former services were restored; a return to daily delivery of milk for consumers in large cities might increase the cost about one cent a quart. As quality was restored to items like clothes and toys, prices would rise (but we would be glad of the chance to pay for that improvement).

It might be feared that scarce items like automobiles, before their full production, might soar to unbelievable heights of price. This is doubtful. Manufacturing firms that have spent very large sums merely to preserve good will during the war would not be likely to throw that investment away by abusing the privilege of having for a short time a sellers' market. It is more likely that they would attempt to set prices at a point deemed justified for the longer pull. Even though prices of a few items did soar, it would serve as the best rationing system yet devised for distributing a limited supply.

### *Wages*

Another highly important price, on the cost side of our economy, is wages. Wages to employees comprise about two-thirds of the distributed national income.

The levels of wages, if the market were to be completely free, is difficult to guess and involves a pyramiding of "ifs." We are not even sure what they would have been in the prewar years, for they were then far from free and there was much unemployment. During the war, the forces of inflation and the rising costs of living would have brought an increase, though in a free market wages might have lagged some in the rise.

In manufacturing, hourly earnings in 1944 were apparently about 70% above the level of 1939.<sup>14</sup> This includes higher rates for overtime. It is not far from the figure arrived at as the possible free-market price level for commodities, though both figures have only enough reliability to call them interesting speculations. Considering how important both figures are in the national economy, from the side of income and from the side of expenditure, it is difficult to see how they could be far from one another in a free market; they are too nearly the same thing.<sup>15</sup>

### *Interest Rates*

Interest rates are presumably far below where a free market would set them. They have been fixed at a low point by means of governmental controls and by the methods used to finance the



war debt. The huge task of financing the war has been carried on in a manner that has held rates low.

It is difficult to know what the average interest rate now is. Small personal loans may carry rates of 5% or 6% or more. The Federal Reserve Bank rediscount rate is 0.5% for short-time maturities secured by government obligations. Government bonds carry rates between 2% and 3%. We may take our choice among these, or we may take some sort of average. A composite of bank statements shows a very large part of all of their investments to be in government obligations, which indicates how that rate dominates the market. Banks, flooded with nearly \$100 billion of demand deposits, have been forced to buy war bonds as the only investment outlet available for the greater part of these funds; private investors have refrained from putting a very large proportion of their money into war bonds.

One way to judge the possible level of free-market interest rates is to make comparisons with the last war period. The rediscount rate was 4.0% early in 1918, compared with the 0.5% rate now. Commercial paper rates were then 6.0%, and the Fourth Liberty Loan was at 4.25%.

How much the interest rates would rise would depend on what rate one is talking about. Rates for loans to individuals probably would change little, if any. But most of the financing of recent years has been needed to carry the increasing national debt, and in a free market those rates would rise appreciably. Rises would also occur in other rates closely tied to the rates on government securities.

### *Rents*

Rents are one of the parts of the cost of living where the official index shows little increase—only about 5% since 1939. This index is doubtless in considerable error for comparative purposes, due to “side payments” and reduced services. It would appear that rents would rise some in a free market. What is more, they would have to rise above the level of this index if houses are to be built without subsidy under present construc-

tion costs. The ratio of official rents to true wage and building material costs must be about one-third lower than before the war. This is important in reconversion, because the construction industry has been depending heavily on a backlog of demand for private dwellings for its postwar business.

### *Profits*

A wide difference of opinion prevails about changes in profits during the war. One reason for the difference is that people talk about different things by the same name. Some mean profits before taxes and others after taxes. One railroad's 1944 earnings, for instance, showed 22.6% on its net worth before taxes, but only 5.4% after taxes; this is an extreme, to be sure, but it illustrates the contrast.

The concept we shall use is that of profits after taxes. Taxes are a cost of doing business just as much as paying the help, the interest, or the light bill. True, they vary with the net income, but so do many other costs. We do not customarily decide whether an item is a part of profit or not on this basis. The important point is that taxes are an item over which the owners have no freedom of choice as to whether to pay it out as dividends or "plow it back" into the business; this is the option that identifies profits.

Profits after taxes for 1,327 corporations were about 15% higher in 1944 than 1939.<sup>16</sup> The rate earned on net worth, 9.8%, was slightly lower in 1944 than in the Twenties or in the years 1936, 1937, and 1940-43; it was above that of the other depression years of the Thirties. This suggests that in a free market profits would be a little higher on the average, but not much. As between different industries and different companies, the adjustments would be great—and of great importance.

### *Price Relationships*

The previous comments have referred to averages of prices, although within each type of price there would be important

changes for individual prices. Price control can do considerable harm to our economy even without changing the *average* of any one type of price. As will later be discussed under "The Importance of Price Relatives," the relationship of prices to one another is more important than their average level. Consumers quickly substitute one product for another, as beef for pork, when their *relative* prices change. This is a valuable and necessary function for free prices to perform. This sort of adjustment is important, too, to producers when supply conditions require that one product be substituted for another, or that production schedules be expanded or contracted. Pork production responds quickly to a change in the ratio of the price of corn to the price of hogs, pound for pound, as it varies above or below its average of 6.7. Also, the ratio of the interest and dividend rates to other prices influences people with savings to starve the capital market or feed it well. The ratio of profits to wages will determine whether more people will try ventures in business ownership and private enterprise, or whether they will relax into a time-clock existence working for someone else. The ratio of rents to costs of building construction determines whether houses will be built or not. Possible illustrations of the importance of those price relations are as endless as are the number of possible combinations of costs and income items of people and of business firms.<sup>17</sup>

An economic structure of proper prices will contain price relationships which are in proper balance. It is these delicate relationships that the free market adjusts with precision and that price control inevitably fumbles. The confused meat and livestock feed situation during the war bears witness to the results of trying to guide economic affairs by controlled prices. Price relationships hold the sentence of economic life or death for people, businesses, and industries. There is no useful way of measuring the degree of price unbalance, in the sense of price relationships, that now exists in our economy. But whatever it may be it is dangerous because a small degree of change in a ratio will topple the healthy operation of the business affected.

## *The Importance of Price Freedom*

The importance of price freedom can best be seen from studying the effects of its absence. The following section will answer the question, "Why preserve price freedom anyhow?" The experience of the war period will be drawn on heavily, as indicative of what happens when price freedom is abandoned. The wartime experiences hold valuable lessons for reconversion.

### *Free Prices—the Heart of a Free Economy*

A free economy cannot exist without free prices. Any statements or inferences to the contrary are delusive. Actions based on any other assumptions are either pitfalls or baited traps. Free prices are so much at the heart of a free economy as to be almost another name for the same thing. Prices are the forms of expression of all economic decisions, and free decisions have no other means of expression than through free prices.

Prices in our economic affairs are the counterpart of the decisions of juries. A free (honest) decision of a jury rests on the freedom of the jurors to express their honest opinions, and it is the same within a price system. Devices to prevent prices from being free and from being freely determined in the market, when created by law and enforced by law, become the equivalent of convicting a jury that persists in objecting to having its decision altered. Such treatment of a jury might be labeled as the ultimate of the ridiculous, or at least as destruction of the jury system. The corresponding treatment of price, on the other hand, is often labeled in glowing terms of patriotism, and in wartime many people kindly offered their services to help administer "conviction of the jury" of price.

Prices are not completely free unless each buyer and seller is allowed freely to enter into an agreement as to price that is satisfactory to both of them. This does not mean that the buyer does not wish to buy at a lower price, nor that he might not even pay more if necessary. It does not mean, either, that the seller does not wish to sell for more, nor that he might not sell for less if necessary. It means only that both buyer and seller, taking into

account whatever they wish as a basis for their decision, are free to negotiate a price. In no other way can freedom of the individual and free enterprise exist. To deny the justice of that process is to deny to the individual his economic sovereignty, and to refute the doctrine of fairness involved in the concepts of religious freedom and the secret ballot. All these, as in a free market, respect the judgment and decision of the individual, however arrived at.

Opponents of a free-market price may point to this economic doctrine as the counterpart of the right of an individual to kill or rob his neighbor. But no such correspondence exists. When buyer and seller mutually agree to exchange a product at a price—*any price*—the nature of the deal is very different from the buyer robbing the seller at the point of a gun, and paying him nothing. In the usual course of events, murders or robberies are not mutually agreed to by both participants. Laws like those against robbery are really laws to preserve the right of the to-be-robbled person to have a part in the decision of whether or not the robbery shall occur, in which case we call it by some name other than robbery. It corresponds to the antitrust laws, to anti-monopoly laws, to free trade, to laws against artificial barriers in interstate trade, and to laws protecting a person's right to apply to any employer for a job and the employer's right to hire him; all these laws are in support of a free market. These matters should be pondered until it is seen clearly that a plea for a truly free market is not a doctrine of "predatory economics," as some charge. It is just the reverse.

When one condemns the processes of a free market, as he is doing when he endorses any form or degree of price control, he is invalidating the rights of either buyer or seller. If the buyer and seller agree to trade the bushel of potatoes at \$2 and a dictator sets a price limit of \$1.80, he is economically disfranchising the seller in the market. He is doing exactly the same thing as the robber who takes the bushel of potatoes and then hands the poor victim a gratuity of what he wishes, in this case \$1.80. This is not disfranchisement of the seller by 10%—it is complete disfranchisement, and the seller is completely at the mercy of the

control instead of being able to pursue his rights in a free market.

The line of reasoning which leads to the conclusion that price controls are justified has no logical terminus short of an argument for complete dictatorship. It is true that in wartime many materials are diverted to war uses, but that is comparable to the problem confronting people in peacetime when a potato crop is short, or some similar other event. If there is any distinction at all, it is a matter of degree and not of kind.

It is really founded on the belief that a dictator, or a committee to whom he chooses to delegate this power, has judgment superior to that of the individual, and should be substituted for it. If this substitution is justified for one deal or for one price, it is logically justified for all deals, all prices, all economic affairs, all political affairs, all religious affairs.

Surprisingly, no one has yet coined a name such as a “democratically free market” to refer to a system of price controls arrived at by a majority rule in contrast to a voluntary market economy. But that concept has been born, even though no one name has yet come into common usage. Its naming is probably only a question of time, because the notion already prevails that the dangers and penalties of price control are escaped by use of democratic processes. What is wrong with this idea? Why is it not reasonable to accept with confidence any controls arrived at by the process of majority rule?

The essence of our traditional way of life in this country is not the principle of majority rule but is, instead, the protection of minorities against the depredations of a majority. This distinction is important in appraising the reconversion policies now in force and those proposed. Suppose you listed all the undesirable features of Hitler’s Germany. How many of those features would be considered desirable if you could know that they were endorsed by a majority of the people in Germany (as they very well may have been)? The elimination of a minority, by means of a blood purge, whether because of “race,” political beliefs, or economic beliefs, is the same whether carried out by a dictator, or by a committee of citizens in a democracy following a majority

decision to do so. It is the same, also, if carried out by governmental employees who follow an administrative ruling by an official who has been properly elected by a majority in a democracy. The undesirable effects of economic controls are the same, whether put into operation by a dictator or within a democratic environment.

Soundness is not insured by majority approval. If majority rule had determined truth the earth might never have “become” round. The laws of economics prevail in spite of what majority opinion happens to be. Neither the laws of nature nor the laws of economics can be determined by public opinion polls, useful as they are for other purposes such as testing what people believe.

In terms of the price problem and other economic problems of a free society, the question is whether or not they necessitate any one decision such as is involved in an election. What is it, for instance, that compels any oneness of decision as to what the price shall be for a product? Nothing! There is no automatic compulsion forcing us—particularly in peacetime problems like that of reconversion—to adopt some system that allows the majority to impose its decision on the minority, such as is involved in having an office of President. Differences of opinion as to prices can live in perfect harmony and function side by side, similarly to freedom of speech. The free market allows this freedom and protects the minorities against the majority, and therefore follows the important maxim of “. . . governing best . . .”

There can be no graver danger to a free society than giving full sway to central decisions through majority rule, for it can and will eventually destroy that free society. The democratic process is no protection. In fact, dependence on the democratic process for protection can lead us innocently into the depths of anarchy, and into a process of widespread robbery of one another under the protection of undesirable law. The executing of controls, whether by majority rule or by arbitrary edict, results in the elimination of individual freedom and free enterprise, the lifeblood of a free society.

## *Prices Must Tell the Truth*

Prices have a specific job to do, which is to report truthfully all transactions that use money. Each price is reported in simple dollar terms, like \$1 a bushel for potatoes, rather than in the hopelessly complex barter system (without money or price) where a full report of the value would look like this: “a bushel of potatoes is worth one bushel of wheat, 1/40 of a cow, 2/3 of the dentist’s fee for pulling a tooth, 200 shoe shines, . . . (*ad infinitum*).” Though barter is a complex way of expressing value, it has the virtue that it always tells the truth about the exchange. In this illustration, it would be untrue to report potatoes as worth either more or less than wheat, which was reported by barter to be equal. The truthfulness of this report should not be tampered with either after the introduction of money into the exchange; the potatoes sold for \$1 which would buy the wheat, and so the exchange ratio remained the same as in barter—one bushel of potatoes exchanges for one bushel of wheat. *Price control is an attempt to alter this price of \$1, which amounts to the reporting of an untruth.*

Money cannot perform its true function, and price cannot correctly report the condition of economic affairs, unless there is freedom in the market. Lacking that freedom, money’s function is fettered. *Prices must be completely free, if they are to tell the truth.* Without complete truthfulness, people lose confidence in all price reports and in the system; money and price lose their proper functions; similarly, a navigator would lose confidence in a compass that wobbled unpredictably and he would resort to some other device as a guide.

What do prices guide, and what is the harm if they do get out of line? The answer is that prices guide the entire economic machine. They guide production and they guide consumption of every commodity and every service. They guide the necessary agreement between production and consumption in a physical sense—necessary for the same reason that we cannot consume apple pie that does not exist nor can we produce apple pie that is not consumed, except for the tragic alternative of waste and spoilage. Price guides all these matters, and if it is not allowed



freedom in guiding them, serious maladjustments will occur so that we end up without the apple pie or with the pie produced only to spoil and waste. So, if we do not allow price to tell the truth, we are robbing ourselves of the true function of money—the greatest economic discovery of all time as measured by its effect on our level of living. Later we shall see to what degree the alteration of truth in official prices during the war still persists.

### *Complexities of Price Control*

Our respect for the accomplishments of a free market in telling us these truths increases as we think of the complicated task to be performed in guiding exchanges and reporting values. Prices report the condensation of all the demands of our 140 million people as consumers and equates them against the judgment of the same people as producers, allowing each to concentrate his production on only one or a few goods or services in large quantities, and allows him to consume each of hundreds or thousands of them in small quantities. It allows producers to express their 140 million widely different aptitudes and inclinations to work, and consumers to express their 140 million widely different tastes and demands. There are other complexities, too, in the functioning of the market. For instance, there are perhaps nine million different business enterprises or farms and some eight million different commodity items or services that are dealt in, in the United States. Someone with sufficient mathematical ability, together with the necessary time and inclination, might try to calculate the fantastic number of cells of influence that make up our market structure. Having done so, he would appreciate the scope of the task of price control.

The complexity of the market processes makes ridiculous the concept that any one person or any one committee of delegated authorities can properly guide the market processes by the use of price controls. Such an attempt leads to all the chaos and “lawlessness” that result when prices distort the truth, and it disfranchises money of its function and consumers of their rights. It drives us back toward barter, with the resulting loss of efficiency

and prosperity.

Why is there anything so serious about control of only a few prices, leaving most of them to be free? It is because the entire system is so intertwined, and the parts so related to one another, that they are like a complicated mixed color; adding a single bit of another color permeates the entire mixture and changes it. Likewise, allowing one price to deceive sets in motion a series of repercussions, large or small, that react throughout the entire price and economic system. Partial freedom cannot really exist in prices. There is either freedom or there is not. Control in only one or a few places shackles the entire system. It is like a slave shackled by only one foot; he is still a slave, and is not half free to go where he wishes.

When prices are forced away from the free market point, the economic system loses its freedom and becomes enslaved to the control. The whole concept of a free price rests on the economic sovereignty of consumers and producers as individuals. They must have the right to express their separate ideas as they wish. Each of them, to the extent he may choose, is entitled to vote. When the price of wheat in the free market is \$1 a bushel, the willingness of anyone to buy (or sell) at 50 cents or at \$2 should not deprive him of his right to an economic vote. No decision resulting from such a free election should be invalidated as being foolish or illegal. To change the decision, or to disfranchise some of the voters because they bid too high or too low, is the essence of controlled prices.

A comparison is frequently made between the necessity of price control and the necessity of the withholding of news by the military for "security reasons." It is claimed that the need grows out of wartime conditions in both instances, and that the element of control is justified even in a democracy. This raises an interesting question, long the object of debate by philosophers and psychologists and now facing the businessman and the nation in the reconversion period, "Do or do not unusual circumstances justify officially supervised falsehood?" This analysis is based on the assumption that such falsehood is never justified. Silence, an optional means of avoiding the telling of truth, is not an optional

method of pricing. Prices can be silent only in the absence of any exchange. To silence prices, then, is to prohibit exchange. In fact, the outstanding “successes” of wartime price controls were the “holding down” of prices of certain goods that were fully retained in the index but unavailable for purchase in full volume.

Our conclusion is, then, that prices must tell the truth even in “emergencies” like reconversion. If we do not like the story they tell, the basic cause should be the point of attack rather than the surface evidence—the price. We cannot do away with the cause by altering the symptoms any more than we can heal a sore by putting our hand over it; in fact the sore may get worse due to attempted concealment, just as deceptive prices have unfortunate effects without accomplishing the cure for which they were designed.

The intricate gearwheels of a free market price system are well concealed and bathed in oil. They operate with a quiet mystery and efficiency that belie their complexity. Under controls, these complicated sets of wheels fail to mesh properly in places, and in other places they jam and do not turn at all. Most everywhere they squeak and groan. When some wheels are moved to make them mesh or stop squeaking, troubles break out in other places. The simple way to adjust prices properly is to let the mechanism of the free market perform its duty, cheaply and efficiently.

### *Penalties of Controlled Prices*

When we ignore natural laws, someone is likely to get hurt, and it is the same with economic laws. A non-free market carries with it serious penalties. First, there is the loss of individual freedom and liberty, a sufficiently serious thing by itself; this has already been discussed briefly. And there are other penalties, such as the effects on full, productive, and voluntary employment, and on our level of living. These penalties strike directly at the objectives of our reconversion program.

Prices may be controlled either above or below the free market level. We have laws or regulations of both types in operation

during the reconversion period. How do high and low prices differ in their effects, or penalties?

### *Prices That Are Too Low*

Prices are set too low when consumers, wanting lower prices, are in the saddle of public policy and “price ceilings” are put into operation. This is the type of control that was used during the war to “prevent inflation”; it is the policy which the reconversion period inherited and which has been endorsed as a continuing policy because the inflation threat still persists. It is the policy put into effect when “demand exceeds supply”—a condition, as we shall see, that the control itself creates in its attempts to avert the effects of financing a war in the common way, which is to pay only around a third of the cost as we go along and put the other two-thirds “on the books” as increased public debt.

### *Prices at Zero*

Perhaps the best way to visualize the effects of prices that are too low is to view them in the extreme. Suppose that prices were set at zero, and people could get things merely by asking for them. Ignoring the production problem for the moment, consumption would be practically unlimited. This assumption of prices at zero permits adults to indulge in the childish amusement of imagining the ultimate of lavish indulgence—caviar washed in the dew drops from rose petals of Sinkiang and preserved in champagne, clothes spun from spiderwebs and decorated with hummingbird feathers, houses sumptuously equipped and with unlimited space, elaborately decorated, servants to do everything we can conceive of, servants to serve the servants and servants for the servants’ servants, and a level of living for all these employees equal to our own. Fantastic? Not under the stated assumption. This illustration, though ridiculously extreme, contains one useful thought; the possibilities of consumption are so great that no nation, not even the United States, need fear a ceiling of consumption possibilities.

But we could not really enjoy the luxurious living outlined above if prices were fixed at zero, because under those cir-

cumstances nothing would be produced for trade and no one would be willing to work as our servant. Our level of living would promptly drop to zero, except for what we produced for ourselves and what happened to be on hand.

### *Prices Only Moderately Low*

In practice, controlled prices are fixed too low but not at zero. Here it is necessary to look more closely at the operation of supply and demand.

An economics professor once advised his students, were they to awake just after a question had been asked, to answer “supply and demand,” and they would probably be correct. Yet there is too little real understanding of this almost universally correct answer, as revealed by the solutions proposed for our daily problems like that of reconversion.

The operation of price freedom in equalizing production and consumption is highly important in our economy.<sup>18</sup> Analysis shows how a controlled price is destined to cause either surpluses or shortages. It shows how one can measure the “success” of price control by the amount of decline in production that occurs. The lesson it teaches can be stated correctly in even stronger terms. Price control, in order to be “successful” at all, cannot avoid retarding production. The “reward” for success in price control, that takes prices away from the free market points, can be none other than a lower national production. During the war, price control could have had no other effect than either to retard the war effort, with its cost in lives and dollars, or to increase unnecessarily the degree of civilian privation.<sup>19</sup> Our war production was stupendous for other reasons, and in spite of the adverse effects of price controls. In peacetime, too, price control can have no other effect than to reduce production, employment, and our level of living. That is the answer to problem No. 1 of reconversion—the problem of free vs. controlled prices.

### *Control of Only a Few Prices*

When not all products have their prices controlled, what happens? How are different products affected when this is the policy, and how does it alter what would happen under a free

market? As previously discussed, the free market is a system whereby consumers pool their choices of products and decide what is to be produced under any conditions at any time. Price control on one or two, or any other number of products, is a violation of this preferred choice. The controlled products are lessened, as we have seen, and so is the total national level of living. Consumers are forced to accept some substitution of dictated consumption for free choice. Any pattern of production other than that guided by a free market disfranchises the individual consumer's preference. By whatever name we call it, that is a degree of slavery—a degree of taking away from individuals their free choice and of substituting for it the “wisdom” of someone else. In its extreme, this process is called dictatorship. It is the device by which the ruthless leader, who ultimately acquires the headship of such a system, finds it possible to substitute the instruments of war for the people's choices of chicken dinners, roses, and books of learning. These are harsh words, to be sure, for use in describing “a little orderly price control during reconversion,” but we are here concerned with the analysis of its type and effects and not with degree. As to type, that is the nature of *any* price control. “Administered choice” is a complete contradiction of free consumer choice in its practical effects. There is no middle way; an individual either chooses his consumption or he does not.

Our wartime price controls were supposedly not of this extreme dictatorial type, but were somehow claimed to have been guided by our democratic processes. How did they influence consumer choice, which was supposedly protected? What were some of the changes in production and consumption? Among the products sharply reduced in consumption were items like cars and refrigerators, which were taken from consumption through the control of plants and raw materials rather than through price controls. But reduced also were low-priced clothing and textiles of simple design, sugar, meats, butter, coal, fuel, oil and gasoline, and even potatoes. Many of these items are “necessities” to consumers. But sharp increases occurred in sales of jewelry, liquor, drugs, women's apparel, and in eating and

drinking places. It is highly questionable whether such an outcome of price controls was foreseen or intended. Why, then, did it occur? It was the result of substituting controlled prices for the free market. The control policy became mainly that of holding down the prices of necessities, or those items important in the cost of living. As we have seen, that is the same as a policy of holding down the production (consumption) of necessities. Consumers in a free market cast their economic vote honestly for a high consumption (production) priority of necessities. But when, and for whatever reason, they combine into pressure groups to demand certain price-control policies of their government, they cast their vote the other way—for a low priority on the production (consumption) of necessities. In other words, under democratic price controls they tend to vote against their own interests. A safer polling place seems to be the free market, which does complicated economic thinking for them automatically and correctly.

In fairness to the intent of some who would control prices and consumption for our “welfare,” and who would attempt to avoid the error of wholesale curbs on the production of necessities, we should look a little further into this process. A plea for price controls, whether administered democratically or by an autocrat, is a veiled plea for the individual to give up his rights in a free society. It may be veiled by statements that its purpose is for the “general welfare,” or for “collective security,” or for “national defense,” or for “only the duration of the emergency.” Nevertheless, this is essentially a plea for a degree and form of dictatorship and slavery. Such devices cannot be tolerated if we are to have a free society. If we are to improve the general welfare, it can be done only by increasing total production rather than by price controls, which have the effect of decreasing national welfare.

### *The Rationing of Scarcities*

Prices controlled below the free market level create scarcities.<sup>20</sup> Every scarcity must somehow be rationed. There is choice as to how it shall be rationed, but there is no choice in

whether or not it shall be rationed. Price controls during reconversion mean that the economic scarcities they create must somehow be rationed. The alternatives, then, need some consideration, for there will be scarcities of materials for manufacture and scarcities of consumer goods to the extent their prices are controlled. How decide who is to get scarce materials?

The wider the margin between a free and the controlled price, the more conspicuous becomes this need for rationing. The more "successful" the price control, in other words, the greater the amount of rationing that will have to be imposed.

Some devices for rationing are more conspicuous than others. Perhaps the most conspicuous is the coupon system, because the coupons have the word "ration" actually printed on them and we carry them around in our pocket, having to pull them out and remind ourselves of their existence every time we buy. Other systems of rationing are not so conspicuous; their identity is not printed on something that we carry around with us.

Price is one method of rationing a scarcity, and it is by all odds the simplest. Allowing the price to move back up to the 40-cent point (Appendix IV) would ration the scarcity into nonexistence without any governmental orders, ration boards, coupons, or whatnots. An argument is made against this method to the effect that the person with the most money will be favored. But if the money is his, properly earned, what is the crime of that? Furthermore, at *any* price level, whether at a controlled price, or at some other price, some consumers have to be barred from the market by the very nature of things. The problem is who, and by what test of rights?

Another way to ration the scarcity is to let those who arrive at the market last go without. This is the principle of "first come, first served," or "to the victor of the leg race belongs the spoils." This method has the advantage, in common with rationing by price, of avoiding orders, ration boards, and coupons, but it has the disadvantage of especially handicapping the aged, the invalid, the corpulent, and those busy in productive work. And so, contrary to rationing by price, this method results in a reduction in our level of living and is "fair" by neither the standards



adopted in this analysis nor by the standards of socialism. Dissatisfaction with this system of rationing a shortage gave birth to the belief that “if you control prices, you must ration” (meaning by some other method).

If rationing is to be neither by price nor by the system of first-come-first-served, it must be by some arbitrary method. People must somehow be given coupons which give them the right to purchase—coupons limited in number according to the quantity of the product available. If too many coupons are issued, the rationing system shifts automatically to that of first-come-first-served, in spite of the coupons.

Any coupon system of rationing involves unnecessary loss of personal liberty and freedom which the free price system of rationing avoids. Of course, neither the free price system nor any other avoids the “lack of freedom” involved in our always wanting more things than we can get. The free price system, though, is nearer freedom than any other on that basis, because under it the greatest total production results.

There are other weaknesses of the coupon system of rationing. Rationing by any system other than by price takes away from some people the fruits of their labor. In a free price system, each individual acquires rights to dip into the supply of available goods and services according to what he produces and contributes to the supply. His rights to consumption in a free price system, being proportionate to production, simulate his rights in a self-sufficient existence to consume whatever quantity he produces. When commodities are rationed by any system other than by the free market and free prices, some are prevented from taking as much out of the supply as they put in—especially those who put the most in. That is economic injustice, and its penalty is lower production.

These comments about rationing have dealt primarily with consumers. The same conclusions apply to business units. The free choice of consumers is equivalent to the free choice of management, “free enterprise.” A reward to consumers according to their contribution is equivalent to a reward to business according to its efficiency in production, giving rise to “profits,”

which are of extreme importance to successful reconversion. A consumer who is not paid will not work and becomes unemployed; a business that is not paid will not operate, and this gives rise to unemployment.

When price controls prohibit people from buying the equivalent worth of their production, the ambitious and ingenious ones usually devise some other way to accomplish the same end. If they can, production is not cut as much as otherwise. The black market is one such device. Making a commodity of the coupons, with a price, is another. But all such devices are made illegal under the price-control system, policemen are put on the job (reducing the nation's production), and violators are fined or put in prison (which also reduces the nation's production).

Free prices constitute the only sound rationing system. If we do not like the way they do the job, we are really objecting to human nature and to the variegations of people's tastes, abilities, and inclinations to substitute the products of work for the products of leisure. The changing of these characteristics of people is a matter to be taken up with the Almighty, and cannot be altered by a mere substitution of some other rationing system for that of free price.

### *Prices Too High*

Price controls may set prices too high, instead of too low as we have been discussing. This occurs when price controls are used in attempts to support prices and prevent deflation, rather than to curb the price increases of inflation. This type of control involves penalties that will be discussed more briefly, because this type of control is not the one uppermost in our minds during reconversion. Price floors, however, have been set on some agricultural products in anticipation of postwar declines. And the problem is of interest, too, as related to the practice whereby manufacturing concerns "fix" prices of their products, which is considered to be the equivalent of price floors set by governmental edict.

If prices were set at infinity, the situation would be reversed

from that of prices at zero; tremendous production would be started, but no sales could be made, and surpluses would quickly put a stop to any further production for sale. So under both conditions, prices at zero and prices at infinity, there would be no production for sale; at zero prices no one would work and at infinite prices there would be no market. Both conditions would drive us to self-sufficiency, without trade and without any need for money. These controls would drive prices completely out of existence.

If prices are fixed too high, but within some seemingly reasonable limits, only a part of trade is destroyed. Production is increased and consumption decreased, leaving a gap of a "surplus" that cannot be sold (Appendix IV). The more "successful" this type of control of prices, the greater will be the size of the gap and the greater the resulting reduction of trade and discouragement of production. The price problem then becomes an overproduction problem, affecting different industries in different ways. The experience of the early Thirties<sup>21</sup> illustrates these differences. At that time many prices remained high during the onset of deflation, giving us an unusual laboratory experiment in the effects of prices arbitrarily fixed at too high a point by means of governmental or industrial controls. The situation at that time was the equivalent of a sudden increase in the prices of industrial unionized wage rates, of many industrial products, of debt charges, and of taxes—all at one time—leaving the prices of most raw materials, farm products, and low-labor industrial products at a relatively low point. (What actually happened, of course, was that these latter prices declined as a result of the deflation while the former resisted the decline.) This situation may be compared with one induced by direct governmental price controls by recalling the effects of governmental support to wages and prices of many products, already too high, through NRA.

The volume of business (sales) by different industries was roughly proportionate to the extent of the "excess" of price (Appendix V). At one extreme was agriculture, with near full

production and little “unemployment,” at low prices. At the other extreme were some industries tied closely to the high wage rates whose prices were far too high (relatively) but which lost most of their business, giving rise to heavy unemployment. The effect, then, of this synthesized price control was the loss of a job by one person out of three and a loss of more than one-fourth in our average level of living. We had at that time a partially free economy, but not free enough to avoid serious consequences as a product of worldwide deflation.

The different industries all suffered from this situation, though in different ways. Agriculture had low prices with near full employment; agricultural implements had little business (employment) at high prices. In terms of gross income (price  $\times$  production), the reduction from 1929 to the spring of 1933 varied from 57% to 86% for these ten industries, with some suffering more of the decline through price and others through production. The largest decline in gross income, 80%, was suffered by the five industries with the highest prices, suggesting that this “price control” was an accomplishment of questionable worth. Gross income for the other five industries with little “price control” declined less—only 62%. Each group envied the other while the nation as a whole suffered. The group with high production and low prices (like agriculture) envied the price control of others, not realizing, perhaps, that as a result of such control they lost about four-fifths of their volume of sales. The agricultural industry, in fact, had a relief program manned at the top by officials borrowed from the agricultural machinery industry who presumably knew how to control prices successfully. Industries with controlled prices and few sales, on the other hand, envied agriculture its lack of an unemployment problem, and many people bought farms.

The effects of price control are the same for any amount of control, whether by government or by a “successful” voluntary combine within an industry. The results are the same, too, if the government aids industry to operate such a scheme for itself, as the NRA. A government will never find itself unemployed, by any stretch of the imagination, when it controls prices at too high

a point, thus creating unemployment, and then takes the responsibility for the plight of the unemployed which its policies have created. We might term that process a kind of economic polygamy on the part of government.

Every business firm sets the price on its own product, of course, much as a farmer decides whether or not he will sell his wheat at \$1 a bushel. This is quite different from governmental price controls, or from those imposed on all of industry by itself. This type of price fixing, by firms individually, allows differences of opinion. People or businesses by themselves do not generally maintain policies that unemploy themselves, or put themselves out of business because of a loss. Though everyone craves higher prices for his products, high prices with no sales are no consolation.

When a business firm sets a price on its product, it does so with the full knowledge that setting the price high will mean fewer sales. It knows that setting the price too high is one sure way to surrender all its business to competitors, and fail. So, in exercising its right to set the price for its own product, it cannot avoid recognizing the existence of a narrow band between two zones of failure—one for prices so low that every one of its many sales is at a loss, and the other for prices that give competitors or substitute products all the business.

Business firms watch their price policies closely and guide them between these two danger zones; they can quickly make adjustments when needed. Governmental price controls involve much more delay in needed adjustments. There are several reasons for this, but an important one is that mistakes do not involve its own failure, as with a business firm which sets its own price in error. The government sets the price for others, and it is they who fail. If a business firm were to set the price for another business firm, it would be less quick to adjust an error than for its own price.

The business firm that sets its price in error must meet the economic wrath of consumers, which causes the loss of business to competitors when its price is too high. The consumer will either buy the competing brand, or possibly buy a substitute

product altogether. The Utopia which some accuse business of enjoying, whereby any one producer may establish a brand and sell whatever quantity he wishes at whatever price, is not yet in operation. Even a monopoly which would not come under our definition of a free market, cannot force the consumer to buy its product, though it may enjoy monopolistic profits to some extent.

### *Summary of Penalties*

Everyone must be at least vaguely conscious of the economic foolishness of prices artificially fixed at either zero or infinity, but few seem to be conscious of the penalties of price controls that are not so extreme. This is indicated by the widespread popular support of price control measures during the war whereby prices were fixed below the free-market price. It is indicated also by the enactment, with little opposition, of postwar price floors for certain products and by the common acceptance of the idea of the "need" of price controls during reconversion. The serious consequences of unfree prices and an unfree market are seemingly little realized.

Perhaps the popular apathy toward the consequences of price controls is due to the belief that the penalties are not serious if control is in "moderation." It is true, of course, that the effects on consumption and on production depend upon the amount by which the price is altered. But the penalties of unfree prices in a free society are serious even for small degrees of alteration, as can be illustrated by a little price control for peaches, on the low side.

In the years before the war, a crop of peaches equivalent to fourteen pounds per person would be consumed at a retail price of about \$3 per bushel, there being neither a surplus to glut the market nor a shortage. But at a retail price of \$2.50 per bushel (as a controlled price) the consumer would want to buy twenty pounds per person, leaving a gap or "shortage" of six pounds. The lower price would discourage growers and, if such price control were continued long enough, they would reduce pro-

duction to perhaps eleven pounds. The “shortage” would then amount to nine pounds (20 minus 11). The consumer would now be spending only about 60 cents a year for peaches instead of \$1, and would have 40 cents left to be used in creating a market shortage of something else. The peach grower will either retire the acreage taken out of peaches, or use it to grow something else, causing a surplus problem there. The natural agreement between the grower and the consumer of peaches having been eliminated by price control, it is not possible that they can agree immediately on any other one thing to take the place of peaches. So the result is the creation of a surplus and a deficit of two other things; this would spread to four other items, then to eight others, etc. The chain of consequences is practically endless, unless someone breaks the chain by ignoring the control of price.

Every item of goods and services would act like the peaches if officially underpriced, though the amount of “scarcity” created by a minor change in price varies.

The penalties of price controls are either widespread “lawlessness” or the destruction of trade. The nation would be driven back toward self-sufficiency and from that point to reduced production and living standards. It is true that we could go back pretty far before reaching starvation or real destitution; our level of living in the United States is seven times or more what it is in Asia. But we wouldn’t like the trip back.

Full production is one objective of the reconversion program. It has been stated both among the objectives in this analysis and also by public officials. We all want full voluntary production so as to have the highest possible level of living, all the way down the economic scale—even to the tramp who garners little and prefers that life. We want full production as a bulwark against inflationary price tendencies. In view of the preceding analysis as to the effects of price controls on production, it is interesting but depressing to note how the reconversion program of the government, as explained by various officials, includes as twin policies (1) price control, and (2) maximum production. But these are not twins; they are opposites. And the former has

homicidal tendencies toward the latter. Success in controlling price can have no other effect on total production than to reduce it.

Many influential labor and business leaders have supported the policy of price controls in the postwar period. They are, in effect, supporting a policy of a lower level of living for the working man and lower business activity, with its fruition—unemployment—plaguing both. They would not support directly a policy of unemployment, but support of price control amounts to the same thing.

There is but one way to attain maximum production of the things we want. That is by free prices in a free society with free enterprise. Prices at other points yield either unemployment and less total physical production, or its equivalent from make-work devices.

### *Outlets for Price Correction*

People resent prices not telling the truth. They do not like the economic penalties, discussed in the previous section. So they find ways of neutralizing the deceptive effects of the controls and of avoiding these penalties.

The free market creates a sort of economic point of least resistance toward which prices always tend to converge—the free price. That point may be either raised or lowered by the processes of inflation or deflation, or raised or lowered by changes in conditions of supply or demand for a product. But for each product at any one time a central point exists toward which these forces are powerfully drawn, in an attempt to eliminate the intolerable conditions of “scarcity” or “surplus” which arise when prices are either too high or too low. Their resistance to shortages was illustrated over and over again during the war; whereas people have vigorously supported price control measures as a public policy, and spread its gospel at their club meetings, 90% or more of them at times, probably, patronized the black market in one way or another in buying their meat, poultry, and eggs. What people do is a better test of underlying



economic forces than what they may say or the petitions they may sign.

As previously noted, prices either too high or too low cause a reversion to self-sufficiency and a lower level of living. When faced with the choice, people tend to choose “lawlessness” as the lesser of the evils confronting them; that is to say, they make up for the error between the legal price and the free price by some means or other. Perhaps lawlessness is too extreme a description of their designs, because they first search for means of accomplishing their purpose within the law. Then they turn to outright lawlessness as a last resort. The list of schemes devised during the war, either within the law or without, for accomplishing these adjustments to price is amazing, and anyone who may doubt the existence of ingenuity should study it. Some of them are ways to pay the true price under some other name, whereas others are forms of dilution of price, much as a hostess reluctantly dilutes the punch when too many guests come to her party.

### *Reduced Quality*

One outlet for price correction is the reduction of quality. It is one of the devices used to dilute price when controls are in operation.

Prior to the era of price controls, we were schooled against all forms of adulteration and misrepresentation, and properly demanded protective laws. The violator, if caught, was prosecuted with widespread public enthusiasm. Then came price controls, also with widespread public support. It brought reduction of quality as one of the most-widely used devices for adjustment to the intolerable situation. Price control places a deceptive price tag on the product—a price that does not tell the truth. The price tag is, in effect, marked and placed there by government. In fairness, the government should be prosecuted for false labeling on the price tags, if the manufacturer is to be prosecuted for another form of false description of the product. Instead of that, we make deception on the price tag legal and prosecute those who act in objection.

If the true spirit of price control were to be carried out, all reductions in quality should be prohibited. This necessitates accurate tests and measures of quality for use in detecting quality changes. For most goods and services, reducing quality is easy to accomplish and difficult to detect accurately. Quality is a highly variable and complex thing, and few of its mysteries have surrendered their secrets to objective tests. For one agricultural product, for instance, the official grade standard recognizes more than twenty different aspects of quality in addition to "other," as being of sufficient importance to be incorporated into those standards, but even then such highly important features as size of fruit, weight of the package, variety, and flavor are not included in the list.

The complexity of quality indicates the practical impossibility of policing against reductions in quality, resorted to when prices are fixed too low. The task facing an enforcement agency is great for agricultural products where to some extent the consumable product has its quality fixed by nature, as an automatic part of the production process; nature even seals eggs into a package that makes adulteration difficult. But the enforcement problem is even worse—all but impossible—for many industrial products.

Enforcement agencies are fully aware of the quality problem as a result of attempting the impossible task of prohibiting them. In fact, one may wonder how seriously control agencies took this form of price deception when on some products it was encouraged by them, or even ordered.

As a concession to realism, the price control agency allowed or even demanded a lowering of quality. The butterfat content of milk has been lowered; in many instances ice cream became mere nothingness with flavor added and subjected to freezing. Although under price controls these acts are a mark of realism, they often lead to serious waste. Clothing affords a good illustration. The labor involved in making an item of clothing is about the same whether the quality of the cloth is good or poor, and the same applies to the costs of merchandising. Not all people in a free market agree on the quality of cloth they wish to have these efforts spent on, but it is higher than what is given them under a

controlled price, as is indicated by what they bought prior to price control. In forcing a poorer quality on the market by price controls, people were forced against their choice to have costs and labor wasted on poor cloth. The clothes, not lasting long, had to be replaced quickly. That sort of thing involves serious and unnecessary waste.

Some products cannot be reduced in quality so easily and without detection. Sheets and other items of plain, simple clothing are of this type. Weight, size, and thread count are some of the main features we are interested in and they are fairly easy to observe or to have checked. The only catch in the matter is that under "successful" control of quality by the price control body, these products were driven out of the market and consumers could not buy them.

One form of reduced quality is the device known as "upgrading." By this method No. 1 quality becomes Fancy, and commands the higher legal price. Some wag has said that price controls during the war forced the quickest improvement in quality that this country has ever known—meaning, forced upgrading. Much of this sort of thing was done with clothing; for instance, a standard style of dress formerly selling at \$2.98 had sewed on its left shoulder some nickle doodad, and thus became a new \$4.98 model.

### *Reduced Services*

Comparable to reduced quality as a form of price deception is the reduction of services. When people are forced to go without services that they want and are willing to pay for, and which formerly were there as a part of the price, it is equivalent to a price rise with the services still there. Among illustrations of this method are less frequent deliveries of groceries and laundry (or no delivery at all), delivery of milk only every other day, serving as your own busboy in a restaurant, and tardy service in stores, hotels, and restaurants.

Closely akin to reduced services is the making of a separate charge for services formerly included in the price.

### *Tie-in Sales*

Another device for deception in the price of a controlled product (A) is to require the purchaser to take another product not under control (B) at a price far above its free market point. The price for product (A) is then nominally lower only because of a shift of some of its price to product (B), with the total of the two perhaps the same as they otherwise would have been. For instance, when tractors were scarce, and in great demand at the low ceiling price, secondhand tractors sometimes sold at farm auctions only along with a hoe, as illustrated by one incident: tractor \$500 (ceiling price), hoe \$500, total \$1,000. Tie-in sales were common on scarce food items.

### *Substitute Products*

The consumer, when confronted with ceiling prices on "scarce" products, turns to substitutes at higher prices. This is about the same thing, as far as true representation of the situation is concerned, as having a higher price on the product itself and not having to use the expensive substitute.

Sugar affords a good illustration of substitution of other products, since it is so frequently alluded to as an illustration of success in price control. The price ceiling on sugar has been 7 cents a pound at retail. This low price discouraged production. Despite large subsidy payments, beet sugar production in this country declined every year from 1941 to 1944; the loss, compared with 1941, of nearly half in production was a major factor necessitating reduced sugar consumption by civilians. So what did people do? In line with their own inclinations, they followed the advice of authorities and cookery experts who gave recipes for the use of sugar substitutes. The retail price of seven common sugar substitutes, including syrups and honey, averages about four times that of the sugar equivalent. The effect, then, of the controlled price of sugar was the discouragement of production and the encouragement of the use of substitutes costing four times as much. That is contrary to the wishes of people as expressed in a free market, and it is difficult to see how the net

effect of such a substitution for the consumer's free choice can be considered as a desirable accomplishment, in either war or peace. For purposes of the present discussion, what is important is that under price control the price of a commodity like sugar is not really what it seems. The price has in reality gone up far more than the price tag on sugar reveals, if we take into account—as we should—the cost of the forced substitute.

### *Black Markets*

The name “black markets” covers a gamut of devices by which the deception in the controlled price is corrected. The black market takes many forms, and its deals occur in many places from the top of the counter on Main Street in the daytime to the seclusion of the backwoods at night. Some black-market operations take over the entire process of the physical handling of the product and negotiate the entire deal from producer to consumer, as a sort of new “store” somewhere. Others, and probably the bulk of these operations, take the form of some sort of money or its equivalent on the side, as a gratuity or favor; they maintain for public purposes the air and appearance of a “white” market deal at legal prices, above the counter and through established places of business. The black market in many respects is the equivalent of a tipping system, that has become so firmly established that one must pay it as a part of the price or go without the service.

The prevalence of black-market operations in their varied forms emphasizes the power of prices to converge upon their free market point, by some device or other, just as air tends to flow back and forth as breezes and winds, and thus equalize the air pressure between two points. If you set up barriers to this flow, of either air or of free trade at free prices, means will be found to circumvent these obstacles in ways seemingly as numerous as the holes through a sieve. When attempts at legitimate adjustments fail, people seem adept at finding the holes offered by the many devices which we speak of collectively as “black markets.”

An especially regrettable feature of black markets is that they set up in business, in some of their forms, a whole new set of wasteful distribution machinery. The situation puts into the forefront of business success those persons whose ethical practices are likely to be low on nearly all counts; it makes impossible the competitive success of established firms which choose not to do illegal business, or which because of their large size or for other reasons dare not take the chances involved in black-market practices. Fly-by-night operators evade their tax responsibilities. They can afford, if caught, to pay their fine and have adequate funds left to start business again, being fully chastened in the eyes of the law.

Another very serious aspect of black markets is their associated weakening of the moral fiber of people who find avoidance of black markets practically impossible and who then proceed to break other laws, the just ones along with the unjust, and sometimes even the laws of contract and murder along with those of price. The logical solution to the entire matter is to eliminate the law or regulation that underwrites deception in price and invites the development of these black markets with all their serious consequences. Only in that way can the free market price again become legal, so that both consumers and businessmen can again become respected economic citizens of the country they love.

Another unfortunate outcome of substituting black markets for white markets is the extra costs involved. Black-market operations are expensive. On the basis of direct operating costs, the new operators are probably far less efficient than the regular agencies they displace. These operators are often not trained in business, not experienced, and are able to exist as a competitive business unit only because of the large "risk" profits which prevail under that system and which their legitimate competitors cannot tap. It is something like the high rates of pay to officials and managers under a dictatorship in a strongly centralized state; their rate pay is high because of the high risk of death to those in conspicuous positions. There is no way of knowing the full amount of these extra costs of the black-market type of

distribution as compared with the free market system. But whatever its amount, it is a form of tax on the consumer. These added costs constitute an inflationary influence which was brought into being, strangely, by the device of price control—adopted to *prevent* inflation.

We shall next consider, as one outlet for the correction of price, what amounts to a government-operated black market.

### *Payment of Price by the Government*

Another outlet for price correction is for the government to pay all or part of the price, over and above what appears on the price tag. In thinking of this as a method of price control, it is highly important to remember that a government is not a thing apart which can really pay for things by itself as one person might buy groceries for his destitute neighbor. The government has no pocketbook of its own and no buying power in its own right; it can buy only by using the pocketbooks of the citizenry or by diluting the currency (which is, again, that selfsame process which our price controls were designed to prevent).

The Supreme Court stated in one of its decisions that it is hardly lack of due process for the government to control that which it subsidizes (the party had objected to the control that accompanied the subsidy). When one considers events under price control, it is suggested that this decision might well be stated in reverse, as follows: "It is hardly cause for surprise to find the government subsidizing that which it controls." This is because, when the government establishes price controls, it sets up a series of subsequent events which leaves it no alternative except to abandon the whole project, either openly and admittedly or quietly by closing its eyes to violations, or to buy itself out of the dilemma by the use of a subsidy.

Briefly, the situation develops in this way. If prices are set too low, production is reduced, as was observed from Chart 2 (Appendix IV). Then people object to the necessity of going without. The matter would have been taken care of by black-market prices, or by some of the other forms of correcting for decep-

tions in legal prices. But if the control program is consistent and prevents all other forms of correction, and if it is able to survive the protests which ensue as a result of the lower production, there is only one "out" left. The government must make up the difference in price that is called for. By whatever name, this is a subsidy. This sequence of events under the wartime price controls is still fresh in our memories. The price control was the ancestor of the subsidies; more subsidies were the descendents.

Subsidies may appear in many shapes, forms, and places, and under many names. Whether intentional or otherwise these differences help to confuse our thinking as to their true nature and purpose. It is difficult for us to identify them all, or to gauge their importance. Subsidies on food alone during the war are reported to have mounted to nearly \$2 billion as a yearly rate, and that does not include many other subsidies of unknown total amounts. Subsidies recently were nearly one-third of the retail prices of butter and sugar.

There have been profound official arguments to the effect that subsidies are well worth the cost, but shorn of their beautiful wrappings and reduced to their bare realities, they can be nothing more than either legalized filching of some of the citizens for the benefit of others, or an inflationary device under government sponsorship.

Governmental subsidies of all sorts might well be termed "legalized" black markets—legalized when done by the government. It seems strange for a government to hire a police force to hunt down black marketeers, who are fined when caught, and at the same time pay subsidies itself to accomplish the same ends. Russia, with an element of realism lacking here, is reported to have actually had black markets operated by the government during the war, which they were able to use as a source of tax revenue while we paid out subsidies and built up our government debt instead.

### *Governmental Buying and Production*

For the nation as a whole, a comprehensive price index should include what the government pays for the things it buys and also



the prices of what is produced under its own management and "given" to its citizens or used "for the good of the country." This sort of thing becomes a major operation in wartime. It also may become great in depressions when the government, as a result of price floors and wage supports, finds itself unburdening the citizens of the surpluses of commodities and labor that result. If the government pays a higher price for an item than does John Citizen, it should be included in any complete portrayal of the price situation. This is the equivalent of a subsidy paid direct to the people, and results from prices controlled upward rather than downward as in wartime.

This same sort of thing is involved also when the government, instead of buying up a surplus product and disposing of it at a loss, produces it itself at a loss in terms of the direct "selling price," if any, to the users. For instance, if the government produced all the potatoes at a cost of \$4 a bushel, but put \$2 of the cost into the governmental budget as "miscellaneous expenses" and put only \$2 on the price tag as a direct charge to the consumer, the price in reality would be \$4 instead of \$2. In this sense, all governmental operations, except those like the post office which sells its product—stamps—to the users at about the cost, involve hidden prices for these goods and services. The same can be said of all the costs of the war and all costs of peacetime defense, because the charge is not made to the citizens in proportion to use.

The cost side of the governmental budget is in reality one form of price substitute. We get the bill in the form of taxes sooner or later—otherwise as inflation and default on the government debt.

### *Prices Broken into Various Parts*

Price in a free market appears in one piece. If you pay 8 cents for a pound of sugar or \$30 for a suit of clothes, the deal is completely closed at those prices and the full contract appears on the surface. They are true prices and involve no deception. If you were to study prices, as an outsider in this deal, you could see the true economic picture by merely walking in a store and

watching the deals that take place or by asking either party involved in the deal; neither would have any compunction about telling the truth.

It is not so under price controls, because the open-market prices do not tell the truth. They are supplemented by one or more of the various forms of price substitutes, as has been discussed. The total of true price under these conditions is lying around in various places in pieces, but under other names.

If we were to judge correctly the true effectiveness of price control, we would need to know the amounts of these various forms of price that came into being to correct for deception in the legal price, and they would have to be used to correct the figure on the price tag. With controls holding prices down, we would need to add the price equivalent of reduced quality and reduced services, the added cost of tie-in sales and of substitute products, of black-market charges, of the extra costs of marketing inefficiencies and extra marketing margins, and of subsidies or other forms of governmental costs that are the equivalents of price transferred to the governmental budget. If the addition of these items to the figure on the price tag brought the total up to where the price in a free market would have set them, the controls would have been proven ineffective in accomplishing their purpose; they would be as ineffective as illegitimacy for purposes of birth control. Just how free market prices would compare with the controlled prices plus all these adjustments at the present time cannot be known for certain, because prices have become broken into many parts, and many pieces are in hiding. Earlier in the discussion, in the section "Present Price Levels Compared with Free Market Levels," there was some speculation about what such a comparison might show.

### *The Importance of Price Balance*

Prices reveal relationships or ratios. For example, we might find by comparing prices that one cow is worth ten sheep. The reconversion problem is tied closely to such relationships. It may be helpful to refer to Chart 3<sup>22</sup> in this connection, but before doing so to recall that a free market gives the only correct answer

as to what one price should be if it is to equate the quantities produced and consumed (Appendix IV), and, similarly, the only correct answer as to what should be the ratio of any two prices to one another. These are the “price relatives” we are now talking about.

In again reviewing certain aspects of the situation from 1929 to 1933, our interest lies in its being a unique situation that gives us a bird’s-eye view of what happens when price relationships are forced out of line—whether by “accident” or by design, or by a direct policy of price control. Our reconversion task contains many aspects of this sort of problem. The reasons bringing on the price maladjustments of the early Thirties are of interest, but are not pertinent to the present discussion.

When these price relatives do not tell the truth, or in other words when the *ratio* is too high or too low, trouble follows. Improper balance between prices developed with the rapid decline of prices from 1929 to 1933. In the spring of 1933 it required two and one-half times as many agricultural commodities, for instance, to buy an agricultural implement as it did in 1929. Farmers reduced their purchases of implements to a low point, and widespread unemployment resulted in the implement industry. Had this price relative not changed, farmers would have bought about as many implements in 1933 as in 1929 (ignoring other influences) and there would have been full employment and full production in the implement industry. The farmer would not be concerned whether the cost of a tractor was \$1,500 and the price of wheat \$1.50, or the tractor \$500 and the wheat \$0.50; in both cases the tractor would cost him 1,000 bushels of wheat.

The natural reaction to this illustration would seem to be to jump to the conclusion that the agricultural implement industry was operating in collusion, and that anyhow the cure would lie in controls by government to beat down the price of their products. On the contrary, the national policy we adopted at that time was to acquiesce to the urge of producers who felt the underpinnings of their prices weakening, and to enact the NRA which aided in freezing the price relationships at their abnormal levels.

Suppose that the “logic” of the situation had prevailed, as revealed by Chart 3, and that in line with the consumers’ viewpoint the government had fixed prices so as to reduce the price of implements and other products which were too high in 1933. What then? The manufacturer would have been caught between the high prevailing wage rates to his employees and the low fixed price for his product, in exactly the same way as the farmer who was caught between a high cost of implements and a low price for wheat. So the solution would have needed to be carried back further into the important fixed costs of the manufacturer, in order that these costs would also be in their proper relationship to the price of wheat. Only then could full production again be resumed. In other words, not alone is the ratio of the price of wheat to the price of implements important, but also price relatives for generations further removed—the price of wheat to the price of the labor used to make the implements, etc.

This would sound like advocacy of wage reductions by more than half in a 1933 situation.<sup>23</sup> No such reduction would probably have been necessary. The correction is more like a teeter process, with a fulcrum between the ends, so that as one end of the line (implement prices and wage rates) comes down the other (wheat prices) comes up. Industrial wages, at one end, are so important in our economy that the fulcrum is, in effect, near its end of the teeter and a small change in the wage level will bring a sharp response in the less important parts at the other end.

From Chart 3 (Appendix V) it would appear that any industry maintaining near-constant prices from 1929 to 1933 would have lost practically all its business, which is about what happened. To maintain full production and employment under these badly disrupted conditions, a small industry would have had to sell at prices of around 40. But what industry could sell at a price of 40 whose labor costs remained at 80% to 100%?<sup>24</sup> Obviously it would be only those mainly self-employed, as in agriculture, or otherwise those whose labor was so small a part of the total cost that the high wage rates would not be much of an item. A few industries could operate at an intermediate price, say 70, if the high labor cost of 85 were diluted sufficiently with low-priced

raw materials at 55; the textile and leather industries operated that way. But in an industry like steel, the price of their product could not get far out of line with its important cost of labor, at perhaps 85. At the high prices of steel and other products similarly situated, few were bought and the advantage of the high (at 85%) wage rate was of little help to the four-fifths of the laborers in those industries for which there was no work.

High prices are not much of a blessing when you cannot sell your product, whether it be a farm product, or a manufactured product, or your labor. Through a balancing of prices again, the higher prices for those items that had been depressed too much would create a market for those that had been too high. The "surplus" of price-depressed products would be traded for the reemployment of those out of work in other industries.

The conditions of the early Thirties were not due to the shortcomings of a free market, but to outside influences. Of first importance is to insulate the market from those outside influences, but once they have become involved and price relationships have become distorted, the thing to do is to let the free market bring prices back to proper relationships at the new levels. No other process will do it, and attempts to do so through governmental control of prices can accomplish only the negative effect of delaying the processes of adjustment and perhaps even forcing prices of certain things in the opposite direction from what is needed.

For present purposes, the points of interest are (1) that price relationships are important, (2) that improper relationships result in reduced business activity and unemployment as their end product, and (3) that improper relationships generated by governmental control of prices are as adverse in their effects as those generated in any other way. The free market, instead of inducing maladjustment of price relationships, is the only practical means of correction. And one other point: wages are a major part of our national economy and on them rests a major responsibility for the relationships which alone can bring full employment and a high level of living.

The manner in which free prices can guide us out of a situa-

tion of maladjusted prices, or keep us out, can be seen by a look at the barter system again. Problems of improper price relationships could not arise in a barter system. Barter is an individual process, and the elements of a free market are inherent in it. If a government under a "barter" system were to force one cow to be traded for twenty sheep (instead of the ten), it would not be barter at all; it would be forced exchange, "government supervised robbery." From this it can be seen that the troubles of improper price relationships come about only under a money and price system, wherein it becomes possible for government or other combines to interfere with the free-market processes and to create these problems. But even so, the logical solution is not to do away with the money (and price) system altogether, as the means of curing the disease which it makes possible. Money serves too important a function in our economy to allow that cure to be applied. Some observations on that function will be found in Appendix VI.

## *Summary and Outlook*

We are now laying down the tools of war. They are worthless or near worthless for our peacetime pursuits; but we still owe ourselves, in the form of increased national debt, approximately two-thirds of their cost. The boys are coming home, except for those who are to stay as policemen and those who will never return. Those who return will trade their uniforms for peacetime work clothes, and they will break ranks and void the regimented disciplines of military life. The civilians, too, feel renewed freedom as they drive up to the gas pump and say, "Fill 'er up."

Business is enjoying a feeling of optimism which is tempered, however, by the uncertainty of a number of important problems. Business is being asked to bring about full employment and high production. This may be impossible under the circumstances. Then, when it fails, business will resume its residence in the "dog house." Will the rules of the game under which business is to be allowed to operate permit the contribution to national welfare to which it aspires, and which is expected of it? At the start of reconversion the outlook is not promising. According to a *New York Times* editorial, the situation of business is something like that of ball players who are expected to win the game but who are free to use only the sand lot and the fresh air, not the ball, bat, gloves, mitt, and other equipment; also, the umpire has fastened their right foot to a stake. The players have been told that they will be given a chance to show the abilities they claim to have, and have been informed of the number of home runs expected of them. But if they fail, another team is already warming up to replace them.

We might fill in this metaphor a little. The stake to which business is tied is that of fixed prices and fixed profits, and of governmental management of the market. Free enterprise is a myth under these circumstances, and the strength inherent in free enterprise cannot possibly function and deliver the goods. If we do not really understand the nature of free enterprise and how it functions, the situation in which we now find ourselves is a

perfect setting for conviction of free enterprise in the court of public opinion without even a hearing. If the present rules of the game had been planned to destroy and discredit free enterprise, they could hardly have been better designed. Such is the nature of the main problem of reconversion. All the other little problems that we read so much about are mere window dressing of the real issues at stake. Plans for reconversion have been drawn and are being put into operation which do not "add up," economically. For one thing, price controls have been and still are being depended upon to prevent inflation, while the forces of inflation mount daily in response to other policies.<sup>25</sup> The situation is like that of an engineering project for a bridge across a river; it does not reach across, yet the public has been asked to traverse it with confidence.

This analysis has attempted to bring out the nature of free enterprise and of free markets and the reasons why they are so fruitful of economic progress. If we do not fully understand these points, we shall lack faith in the most successful and trustworthy type of economic structure. Then we shall fail to place our support of public policies where it should be.

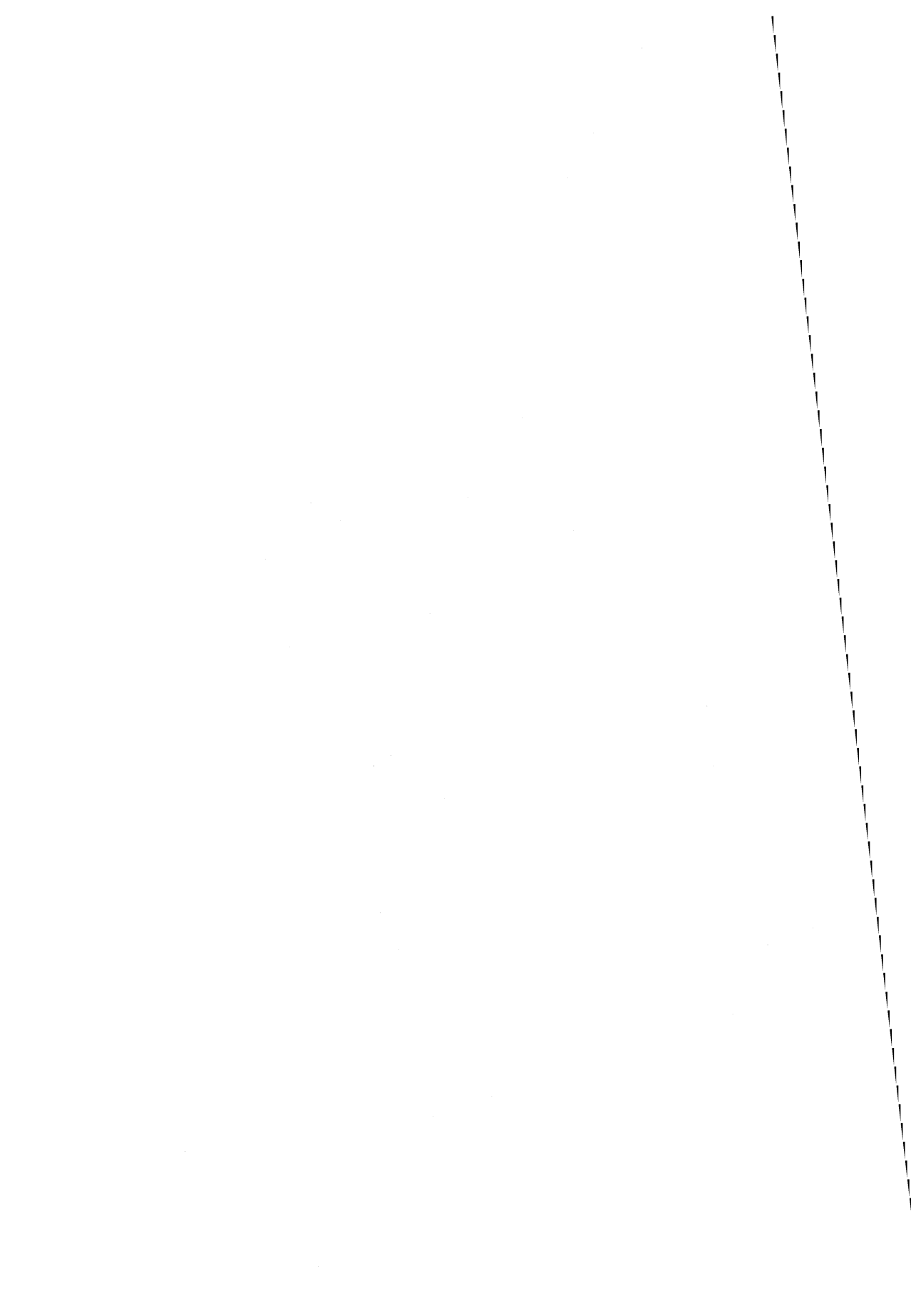
The reason for special emphasis on these points now is that reconversion is at a crisis. During the war, free markets and free enterprise were largely shelved "for the emergency." At the start of reconversion they are being left on the shelf under the excuse that we are still in a state of emergency which makes it too dangerous to remove them now. The truth of the matter is that the danger lies in *not* using this productive system now, and the tragedy looms that we may lose this last foreseeable opportunity for reestablishing free enterprise and free markets. If we fail to grasp this opportunity, and surrender to fear and to continued attempts to guide our economy by the control technique, we shall be guilty of irreparable injury to ourselves, to our descendants, and to the world.

Finally, all the processes of personal liberty and freedom, for which this nation was founded and which until recently have been preserved with care, are also at stake. They are inextricably interwoven into the reconversion problem that faces free enter-



prise. In rejoicing over a few restored freedoms, like the removal of gas rationing, we must not blind ourselves to the dangers that still lurk about us and which threaten full recovery of liberty and freedom.

There is neither disgrace nor danger in following the wisest economic policy, irrespective of what those in other countries may choose to do. The fruits of economic wisdom are production; we should select our policies with that objective in view rather than join some sort of parade, purported to be passing by. The most productive nation will be the strongest nation, both at home and in international affairs. If we are to resume our strength and leadership in economic development, we must not fail in this reconversion task. But we shall fail if we continue to think of it solely as a job of retooling and demobilization. By far the most important and the most challenging job before us is the recovery of economic freedom and the reinstatement of free enterprise as the heart of our economy. That, in the United States, *is* the reconversion problem. We cannot find its solution by looking across the ocean to some country built on a plan which we do not want here.



## *A Partial List of Wartime Governmental Controls*<sup>26</sup>

<i>Area of Control</i>	<i>Agency of (Direct) Administration</i>	<i>Reasons for Its "Necessity," and Scope of Control</i>
<b>Prices</b> <sup>27</sup> .....	<i>Office of Price Administration</i>	Operates to prevent inflation and rising prices by establishing ceilings on prices of <i>individual</i> products; "semi-control" over wage increases affecting prices
<b>Wages</b> .....	<i>National War Labor Board</i>	To stabilize wages; charged with responsibility of settling labor disputes certified by the Secretary of Labor
<b>Manpower</b> .....	<i>War Manpower Commission</i>	Establishes policies and prescribed regulations concerning mobilization, training, and allocation of manpower; formulates legislative programs concerning manpower; Selective Service
<b>Production</b> .....	<i>War Production Board</i>	Over-all control of war production by allocating materials and facilities; schedules various production programs; (see also "raw materials and facilities," "inventories," and "construction")
<b>Profits</b> .....	<i>War Department, Price Adjustment Board, War Contracts Price Adjustment Board</i>	Establishes principles, policies, and procedures on renegotiation; issues regulations "to determine and eliminate by renegotiation excessive profits from War Department contracts"
<b>Rationing</b> .....	<i>Office of Price Administration</i>	Rationing of commodities; enforcement
<b>Rent</b> .....	<i>Office of Price Administration</i>	Establishes maximum rents in "defense" areas
<b>Raw materials and facilities</b> .....	<i>War Production Board</i>	Assigns priorities to deliveries of materials; allocates materials and facilities

## *A Partial List of Wartime Governmental Controls*

<i>Area of Control</i>	<i>Agency of (Direct) Administration</i>	<i>Reasons for Its "Necessity," and Scope of Control</i>
<b>News</b> .....	<i>Office of War Information (Office of Censorship; Federal Communications Commission)</i>	Disseminates all public information on the war effort
<b>Communication</b> .....	<i>Board of War Communications (formerly Defense Communication Board)</i>	Coordinates all branches; reports findings to President for final action
<b>Transportation</b> .....	<i>Office of Defense Transportation (War Shipping Administration)</i>	Control of all domestic transportation by directing and coordinating traffic movements; priority power
<b>Credit</b> .....	<i>Board of Governors of the Federal Reserve System</i>	Restrictions of consumer credit by limiting kinds, amounts, and character; measures affecting interest rates
<b>Foreign trade (exports)</b> .....	<i>Foreign Economic Administration</i>	Power to prohibit or curtail commercial exportation of materials, supplies, and technical data
<b>Shipping</b> .....	<i>War Shipping Administration</i>	Control of ocean vessels (except combatant vessels); auxiliaries and transports of the Armed Forces; coastwise, intercoastal, and inland waterways transportation vessels
<b>Construction</b> .....	<i>War Production Board</i>	Building chiefly limited through control of materials and supplies; maximum expenditures set for unessential construction
<b>Inventories</b> .....	<i>War Production Board</i>	Reporting of inventories of controlled items, which subsequently is basis for allowances authorized by WPB

## Appendix II

### *Reasons for the Objectives of Our Economic System*

At the beginning of this discussion six objectives of our economic system were listed, without further comments in that place except to point out that they were the premises on which this analysis of reconversion would be founded. Perhaps no further explanation of these objectives is needed, nor any justification of them as a policy in the United States. But when one observes the enactment of laws by the representatives of the people, and the issuance by appointed officers of regulations which violently oppose these objectives, and with the public actively supporting them or meekly submitting, it becomes apparent that the acceptance on faith of these objectives is not a foregone conclusion. Perhaps we have not all read, at least with understanding, the history of our country as it relates to these points, and so do not know the tenets of liberty and freedom on which this country's economic system was founded. Or it may be that they are known, but thought to be outmoded. Whatever the situation, a brief statement of the reasons for these objectives may be necessary.

Justification for the objective of free enterprise and individual freedom rests on the belief that in no other environment can people attain such a high level of living and be so happy in the process.<sup>28</sup> Under no other system are people so likely to perform at near full capacity. The total of human progress has to an amazing degree come from those few spots of the world where for a short time freedom and enterprise have flourished. That is no accident, because in that environment the qualities that make for progress thrive best—self-reliance, ingenuity, inventiveness, a willingness to work, honesty, and thrift. These are, to an important degree, the reasons why we find that in the United States prior to the war each working person was producing more than five times as much as the average for the rest of the world, or why the United States, with only 6% of the world's population, performs more than a quarter of its productive work. We have great

resources, to be sure, but so have other parts of the world, where they have not yet been developed—or perhaps even discovered. Magnesium from the oceans and atomic sources of power are new developments here but they draw on resources that are widely available. The fact that we are making good use of our resources and have taken the leadership in the world's innovations and discoveries is evidence of the power that stems from free enterprise and individual freedom.

A maximum production of goods and services is the only way individuals can have the highest possible level of living. And surely no one interested enough in reconversion to give it a thought can question that objective. We may differ as individuals in the desired constituents of a high level of living, but that difference does not invalidate this objective. One who prefers beef shall have his beef, and one who prefers pork shall have his pork—the pork and beef being added together in total production. This second objective, as stated, also allows one the choice of willingly by-passing a fare of both beefsteak or ham and having instead a poverty “3M” diet of meat (salt pork), meal, and molasses which allows him more time to sit under the tree.

The third objective has to do with the basis on which the rights to consumption of goods and services are apportioned between the people as individuals. It bases the division on contributions to the total to be divided, as contrasted with the desire or “need.” As a nation we seem quite confused as to the soundness of this objective, though the small boy who picks up potatoes at 3 cents a bushel or sells papers on the street corner is quite clear on this point. He does not question the right of one of his fellows to cut short his workday so as to go fishing, but if he himself stays on the job he claims the right to the extra ice cream cones that can be bought with the difference in income. Similarly, the tramp has a right to his simple life, but that precludes his right to share in the yacht of the busy executive who bought it from earnings and uses it for a vacation during which to heal the ulcers brought on by worry and hard work. This objective is restricted to the area of contractual economic arrangements, and does not include charity, where consumption is unavoidably out of joint with produc-

tion by the individuals involved. The purpose of this objective is to establish inducements in terms of the same things that entice people, in the main, to work at all—the goods and services they want. Some may claim they work solely for the pleasure of working, but shops and offices are little crowded on legal holidays, which is probably more conclusive evidence on that point.

Equal access by all individuals to markets, jobs, business ventures, and investment opportunities for their savings is the fourth objective. In a sense this is closely related to the first objective of freedom, but it may be thought of as broader in scope. Individual freedom alone is sometimes mistakenly taken to mean that I have the freedom, if another man is better qualified to do my work, to prohibit him from taking my job. Or free enterprise alone may mistakenly be taken to mean that I have the right to indulge in combinations in restraint of trade—to prohibit other firms or competitive products from encroaching on my market. This objective contradicts any such interpretations. It means that those who can do a better job or lower the cost, or who think they can, shall have the right to try it—at their own risk or profit. It prohibits those protective devices whereby, often under claims of “general welfare” or “the common good,” progress is prevented—devices which would have prevented *all* economic progress in the world if they had reigned supreme and complete. Of course, they have not prevailed enough to stop all progress. Their adverse effects, however large, are in proportion to the scope of their application.

The fifth objective covers the right of contract, the encouragement of savings, and the protection of the rights of property and other reservoirs of wealth. The reason for this objective is the well-established fact that the only practical means of increasing the productivity of people, and thus their level of living, is through the use by them of larger and larger amounts of tools and equipment. This is capital. It grows out of the savings of people, put to productive uses in the form of tools and equipment. This objective rests on the inescapable records of history, irrespective of the type of government and social system, that it is shortsighted to allow the government to take title to people’s

savings by any device whatsoever. The reason for protection of private savings is so that there will be large amounts saved for economic growth and welfare. The caveman's family gorged on the kill from the hunt, in part to avoid the very real danger that "savings" might be taken from them by another caveman. Wild animals do the same thing. When a modern society permits government to dissipate its resources, then its citizens are discouraged from saving.

Somewhat allied to the fifth objective is the sixth, having to do with stabilizing the real worth of savings, property, or incomes except as their productivity changes. Instability interferes with maximum economic growth. Roughly, and in normal times, our country's total product, in the sense of its national income, is divided so that about 85% is paid as the reward for work currently done and 15% as the reward for having saved. This proportion has been highly stable in this country over a long period, although within the 85% an increasing share has gone to employed persons and a decreasing share to those self-employed. Over shorter periods, sudden changes may take place in the shares going to different groups. Sudden changes are likely to be unjustified and temporary, and to arise from the backwash of some undesirable cause such as inflation or deflation. Sudden changes may also result when a government arbitrarily grants unjustified benefits to one group or another, or creates rules, laws, or practices which allow one group to have more than its rightful portion of the national product. Whatever the cause, artificial changes are undesirable and are detrimental to the economic health of the nation. The results, depending on the circumstances, may take the form of discouragement of savings, or a "capital strike," or a speculative orgy, or unemployment, or a scramble to get on the public payroll. The nation cannot avoid the toxic effects of any of these, and the benefit even to a favored minority is temporary. Such temporary gain and permanent loss is comparable to the farmer who ate up all his seed wheat.

The objectives together comprise what we understand to be the American citizen's economic bill of rights: (1) economic



freedom in the forms of individual liberty and free enterprise; (2) the right of a person to have demands and consumption different from those of his neighbor without being charged with lawlessness; (3) the rights of people to differ in their choice of leisure vs. more work and consequently more economic goods; (4) people's varied demands to serve as the guide to production; (5) the right of a person to try his neighbor's occupation and to harvest either success or failure as a result of the attempt; (6) the right of a person to general protection in the process of building up personal security by means of saving in lieu of "living up" his full daily income; and finally (7) the service of government to protect a citizen against any threat to these rights but not to take his income or property against his will, to be squandered on large scale low-productivity projects or on the redistribution of wealth and income. These are the things which have made this country economically great, and they must be preserved. They remain the things that will make this nation greater in the future, if it does not bow so low to the political winds blowing in other directions throughout the world that it falls over.

Economic freedom, around which these objectives are built, is the counterpart in economic affairs of democratic sovereignty in the political realm or of religious freedom in the religious realm. All are built on the concept that individual differences are not a crime, and should not be prohibited from finding expression. Religion finds its expression in the sanctuary, politics at the polls, and economics in the market place. If there is to be freedom in these respects, there must be allowed more than one sanctuary, more than one name on the ballot, and more than one market or one price. By the same processes of reasoning one might condemn all of these rights or none, but it is illogical to endorse some while condemning others. If widespread controls whereby a few make the decisions for the many are wise or "necessary" in the economic realm, why not also in matters of who shall serve in public office or what creed shall receive homage from the masses? Loss of freedom is no less real if the authority who is to make the decisions for us is selected by popular vote than if he has acquired the power by some other means, such as a putsch or a

bloody revolution. In either instance it is a dictator who sits on the throne of authority. For both, the weakness lies in their method of operation, and both tend to become dissolute.

The democratic process is no defense against the dangers of loss of freedom and its economic consequences. The widespread belief that it is a dependable safeguard makes these dangers doubly serious. The democratic process involves merely a tabulation of opinion and not a scientific source of truth. If these objectives are sound, a majority opinion to the contrary on some policy of reconversion does not make them unsound. It is not the means to truth, nor is it any protection against loss of freedom.

## Appendix III

### *Different Types of Prices and Their Interrelationships*

The problems of price during the reconversion period, and the advantages or disadvantages of price freedom, can be comprehended best after a consideration in some detail of the various types of prices and their relationships to one another.

The price problem in our economic affairs is more inclusive than many realize. Of the many types of prices that exist, we commonly think of only a few, mainly retail prices. For most other prices, other names have become firmly attached. We tend to forget that they are prices too, having characteristics in common with the retail prices we know so well; they are like the "given" names for a family of children, and if used too exclusively might result in forgetting the family name.

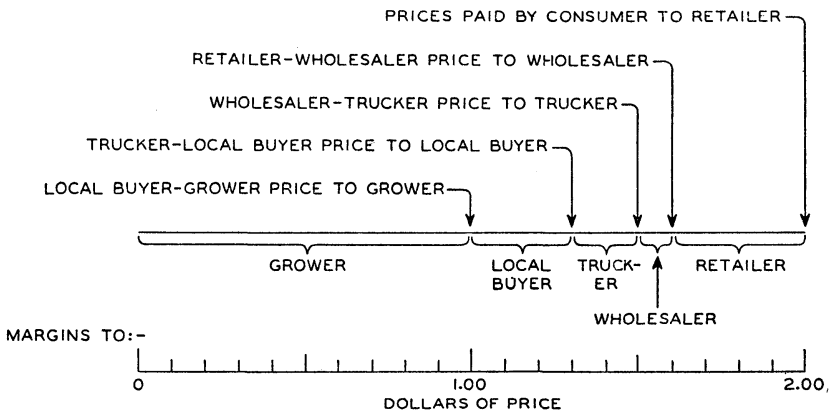
Every transaction or event for which money is used as one side of the deal involves a *price*. It makes no difference whether the transaction is a sale by a retailer, wholesaler, jobber, trucker, or farmer. It makes no difference whether it is for goods or for services, for a finished item of goods or for a raw material, or for one or another of the many costs involved. Instead of being called prices, many are variously referred to as "wages," "salaries," "taxes," "profits," "fees," "margins" or "spreads," "rents," "interest," "dividends," etc. Their common feature is that they are all prices paid for something. Some are deals over the counter and some are not. Some are contracted in advance and some are not. Some are for the purchase of tangibles and others are payments for intangibles. There are differences, but all are prices.

A total of all prices in the nation for a year is a perfectly meaningless thing, except perhaps for year-to-year changes. The total of all prices would be no measure whatsoever of the economic productivity of a nation, because: (1) it involves multiple counting of some prices, and (2) it is influenced by the inflationary or deflationary level of prices, which is distinct from

productivity in a physical sense. The multiple counting that occurs can be illustrated by the price paid by a farmer to his hired man as wages. This wage would be counted many times—once when paid to the hired man, again (by its approximate amount) in the price at which the farmer sells the potatoes to a trucker, and again each time the potatoes are resold until finally the consumer buys them from a store as potato chips. The more specialized a nation's economy becomes, the more multiple counting there would be in adding them all together.

The totals of certain subgroupings of these prices, however, is highly significant. One such subgroup is a total of the margins, or spreads, of all the agencies involved in making available to the consumer the goods or services he buys. These margins are, in one sense, prices. For instance, the price which the retailer charges the consumer for his part in the process is the margin between the wholesale (his buying) price and the retail (his selling) price. This might be called a *margin* of price, and there are similarly other prices for the contributions of the wholesaler and each of the other agencies involved. If these margins of prices for one product are added, the total must be the retail price which the consumer pays (Chart 1).

CHART 1: SOME DIVISIONS OF THE RETAIL PRICE



The retail price of \$2 for the product illustrated above is the total of the margins of price. The total of the exchange prices (\$1, \$1.30, \$1.50, \$1.60, and \$2) is a meaningless total of \$7.40 that in our ordinary affairs is evident to no one, and no one cares. The \$2 total of margins of price is of direct concern to the consumer, but he cares nothing about the details which are its parts. The agencies involved (grower, local buyer, trucker, wholesaler, and retailer) are very much concerned about their respective parts that make up the total of \$2, but they are not much concerned with the total as such. The spreads from point to point along the \$2 total of retail prices amount to the same thing as an allowance to each agency for covering his costs of operation, including profits. If the total of retail price is not enough to allow them to operate without loss, they are more likely to fight among themselves about the parts than to fight collectively about the injustice of the total. Continued operation of any business depends on the adequacy of its margin to cover its costs without loss.

Another subgrouping of prices having a significant total is that which includes the items of cost for each link in the chain of business units involved. This significance can be seen first by considering the retailer, who in this illustration had a margin of price of 40 cents as his income. His costs must equal 40 cents too, if we include, as we should, profit or loss as one of the costs. His costs include the wages, rent, fuel cost, and all the other prices. This equality between margin of price (income, to him) and the total of cost prices (cost, to him) exists for each of the other agencies, too. Equality exists between the income prices and the cost prices for the retail price as a whole; each totals \$2. If this equality exists for each product or for each item of consumer expenditure, it must also exist for the national economy as a whole.

Some points that are important and useful in the reconversion problem are to be gleaned from national totals of price and from certain interrelationships between its parts. In combining our national effort for a year, as is done in the concept of "national income," the multiple counting of prices is eliminated. The hired

man's wage (in the potato illustration) would be counted only once. The resulting figure represents one measure of the total worth of our national effort, and is equal to the total of the prices representing basic costs. From this we can judge the nature of these basic costs, in a new and revealing manner. It shows, as was mentioned earlier, that about 85% of the national total represents the price paid for current wages, or for their equivalent to the self-employed and to management. The remaining 15% is mainly the price paid for the use of capital saved from wages earned in earlier years and put to productive uses instead of being spent on consumption in the years when earned.<sup>29</sup> This 15% is the price payment necessary if people are to be continuously induced to save and risk investment in their own or in someone else's business. It would not be there if people had, in the past, enjoyed immediately the spending of their full incomes or if they had saved the money "in their sock" without putting it to a productive use (as is common in India and China). In other words, despite all the confusion of names commonly attached to various prices in our economy, 85% of the total boils down to wages, or their equivalent, for work currently done; essentially, all of it boils down to current wages together with savings from past wages that have been put to productive uses. These productively used savings are capital goods that boost current wages, as a result of the increases they bring in a worker's accomplishment in an hour of work.

The major importance of wages or their equivalent as a type of price in our national economy, and in the reconversion problem, cannot be appraised correctly from the operating statement of one business concern, nor from the total of all of them. The importance of wages as a price is seriously understated from this evidence. This is due to the basic fact that any one business pays only a part of the true wage cost of its product as direct wages to its own employees; much of it is paid indirectly and appears on the financial statement of this concern as the costs of its purchased goods or materials, new machinery, electric bill, telephone bill, water bill, taxes, etc. When we add accounts of business firms we double count the labor costs, but under other names. It is only

by cancelling out the multiple counting and reducing all costs to their basic starting points that we can get the true picture. Then we find that the bulk of practically all these costs is labor, or labor's earnings saved as capital goods.

All this is another way of saying, too, that undeveloped national resources have little worth except as they represent an opportunity for work. The coal and metals used in making a \$1,000 car are nearly worthless as they lie in their natural state in the ground. The \$1,000 is practically all a return for wages earned in the direct labor of digging, processing, and marketing of these materials, or for wages saved as capital goods and used in making the car.

Prices have another characteristic worthy of note. Each price represents a transaction involving two equal parts, the buying side and the selling side. One side is a cost to someone and the other an income to someone. The two sides are equal for each price, so they must be equal for combinations of two, three, or all prices for the nation as a whole. This simple fact is the foundation of the concept of double entry bookkeeping by means of which the accountant can check things out to the last cent; it also has another interesting counterpart in the physicist's law that every action has an opposite and equal reaction. In practical application to either prices or physics, this concept means that you cannot change any one thing without also equally changing another; that whenever you touch the price system you touch *two* things at once, buying and selling—as an indivisible unit.

Despite all this confusion of names popularly attached to different types of price, several simple points can be salvaged. The margins of price, when added, must total to the retail price, either for any one product or for all products together. The total of the cost prices, including profits (or loss), must equal the margin of price (income) for any one agency contributing to a product; cost must equal income, too, for all agencies—for the retail price of one product, or for all products combined. All prices can be divided into two indivisible parts or sides—buying and selling, or cost and income. On a national basis, cost prices are mostly wages or their equivalent for the self-employed, for

work done either currently or formerly (savings). These basic relationships are as simple in their true essence as “the whole must be equal to the sum of its parts.” Because of them it is possible for statisticians to keep on making all sorts of complicated and interesting discoveries, such as the high degree of correlation between changes in agricultural incomes and in the incomes of industrial workers. These labors and discoveries of the statisticians seem necessary to remind us of some basic truths which persist and merely take on new forms as our social and economic organization changes.

We cannot change any of these economic laws of price. We can ignore them, but in ignoring them we set into operation all sorts of difficulties in a sort of chain-like fashion that reminds one of the game of “tipover” played with dominoes set on end in a row. Some of these difficulties, which are important parts of our reconversion problem, will be treated specifically later.



## Appendix IV

### *How Price Freedom Equalizes Production and Consumption*

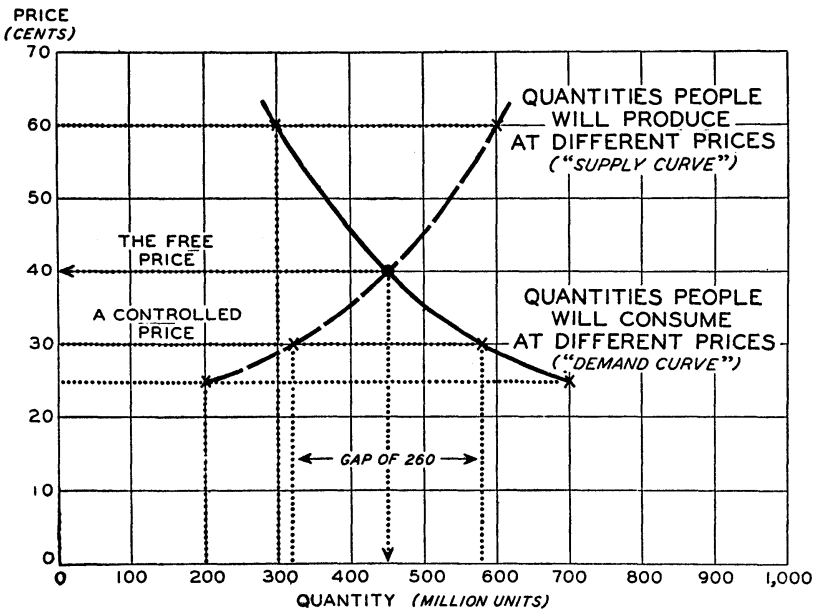
One can hardly accept the idea of preference for price freedom as against controlled prices without understanding how price freedom equalizes production and consumption. A free price finds that point of equality, and any other price—a controlled price—gets us into all sorts of trouble with artificial shortages and surpluses.

How do supply and demand function in the market, and how does this relate to the price aspects of reconversion? The answer can be visualized best by the use of a graph (Chart 2). The case it illustrates is hypothetical, but it might be thought of as applying to any product you may be interested in—varying in detail between products or services, but no different in principle.

The lower the price of this product, the more people will buy; at 60 cents, about 300 million units; at 25 cents, about 700 million. But as the price is lowered, they will produce fewer;<sup>30</sup> at 60 cents, about 600 million, at 25 cents about 200 million. The reasons behind these actions are not lawlessness and the despicable characteristics of people, but the mere fact that they are human and react in a rational economic manner. It is a simple and common everyday observation that at higher prices people will produce more but can buy less; at lower prices they will produce less but can buy more. Changes in price are warning signals in their economic affairs, and they react to them just as a person will recoil from a hot stove or step into the shade of a tree on a hot day.

At only one point on this chart, 40 cents, can a point be found where there is the necessary balance between production and consumption. That is to say, supply and demand are so incompatible that they meet but once—or rather, they can meet in only one place. Concealed in that simple idea lies the major consideration of our reconversion problem. Concealed in it is the justification for a free market and sufficient evidence to convict a controlled market.

CHART 2: PATTERNS OF PRODUCTION AND CONSUMPTION FOR A PRODUCT



The point where there is an equality between the quantity consumed and the quality produced is exact and specific—as much so as the answer to 2 plus 2. Any other figure as an answer is wrong. It cannot be changed by someone’s wishing that it were different, nor by edict and price control laws. To approve any other answer is in error as much as for the teacher to approve the pupil’s answer of “2 plus 2 equals 3,” accepting as justification for the approval of this answer the pupil’s explanation that he answered it that way because there is a war on, or because the production of numbers to be used in the answer has been interrupted by shipping difficulties or by the defense program, or because it is unfair to some other problem to use up so many numbers in the answer of this one, or because the answer of 4 would be unfair to the common man or to the low-income people or to the white-collar workers, or because such an answer would start an “inflation spiral” of answers to all problems of arithmetic

so that they would ultimately reach unbelievable heights. Yet these are the very same justifications given for controls to push prices away from their free-market points. Economists who reason that 40 cents is the only right answer to our price problem (Chart 2) in war or during the reconversion period can expect to be called purveyors of gloom who are blind to expediency instead of heralds of reality.

Let us assume that the price is set at 30 cents. At that price consumers are willing to buy 580 million units, but only 320 million are produced—a gap, or “shortage,” of 260 million units resulting in part from an increase in consumption and in part from a decrease in production.

We can interpret this situation further. In this illustration three things occurred: (1) price was controlled downward from 40 to 30 cents; (2) production would decline from 450 million to 320 million units; and (3) consumption would increase from 450 million to 580 million units. (At any other degree of price change, the figures would be different but the idea would be the same.) Knowing the evidence on the chart, one could relate amounts of reduction in price with the corresponding amounts of decline in production. That is to say, he could measure the “success” of price control by the amount of decline in production that occurred.



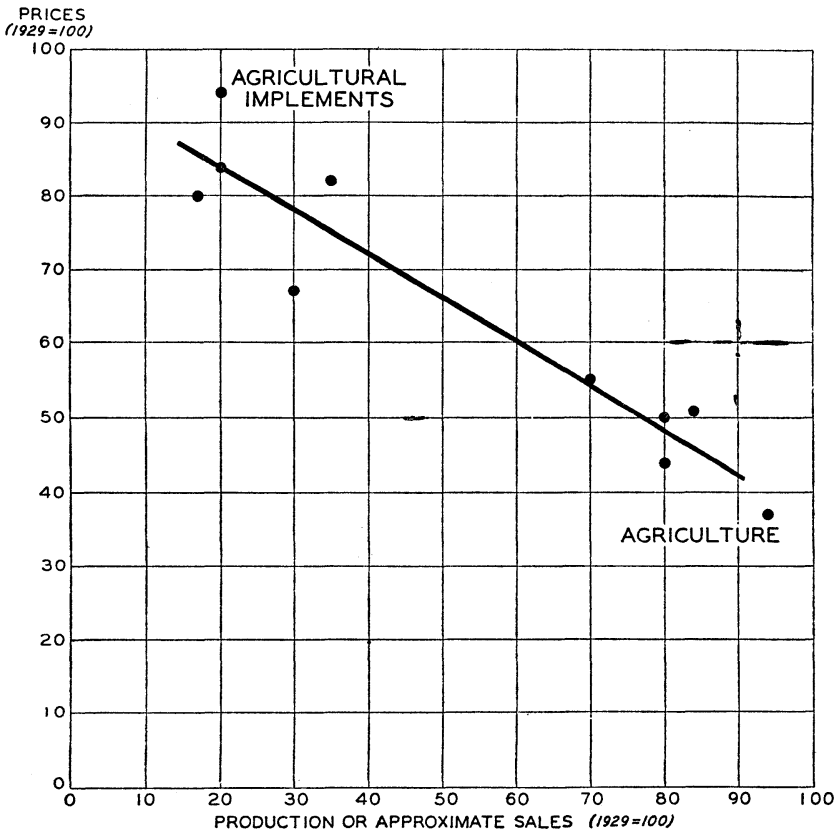
# Appendix V

## *Effects of Price Policies on Sales of Ten Industries*

Conditions prevailing during the 1929-1933 period are of the same nature as those brought about by price control. They illustrate the results of influences that throw prices out of bal-

**CHART 3: SALES OF TEN INDUSTRIES<sup>31</sup>—CHANGES FROM  
1929 TO SPRING, 1933**

Source: Basic data given in Senate Document No. 13,  
January 17, 1939



ance with one another. With almost worldwide deflation at that time, some industries had high production at low prices and others had low production (or sales) at high prices. Low production means unemployment, and results from prices out of line with the rest of the economy.

Industries with a large proportion of labor in their costs could not, with wage rates remaining too high, reduce their prices to the point necessary to align them with other prices. One does not hire \$1 of labor in order to produce an 80-cent product; he stops producing, and unemployment results.

Under price controls, when prices are arbitrarily forced out of line with each other, unemployment also results.

# Appendix VI

## *Our Money System and Fiscal Policies*

### *Functions of Prices and Money*

Ours is a price economy. That is to say, we have adopted the device of money to aid us in the easy exchange of economic goods and services. Of all the economic inventions of history, money is probably the one which has most clearly made possible our great advancement. It is difficult if not impossible even to imagine how the complicated economic processes and division of labor into specialized tasks could be carried on without money. We would have to spend so large a proportion of time in the marketing process that we could not produce the goods. Under those conditions we should have to strike a balance between time spent in production and time spent in marketing that would be little above the subsistence level. We should be producing largely for our own use at a necessarily low level of living, and stay tied there.

Some believe that modern genius has invented one or another type of economic system far superior to the price economy. On careful scrutiny these all reduce to the exact equivalent of a price economy by the very characteristics in which they are supposed to surpass it. The modern inventive genius has in reality discovered new names for this same type of economy. One or two of them are worth appraising.

“I believe in an economy of *production for use*, as preferable to a price economy.” What is the difference? A production-for-use economy is claimed to be one wherein the usefulness of the product, instead of its price, is the guide to production. That is like saying that price is not guided by usefulness. If we are willing to pay a price or its equivalent for anything, it must have use in an economic sense. If use does not guide price, what does? When you buy peanuts or a vacuum cleaner in a price economy it is because you anticipate some use for them, or plan to resell them to someone who does. Of course, production for use could mean

self-sufficiency, but that possibility is not precluded in a price economy for anyone who may choose self-sufficiency with its lower level of living. When you offer different prices for any two things, you do so on the basis of usefulness as you judge it. The creation of money and the trading of goods at a price does not change the principle of production for use, which existed previously under a self-sufficient economy or in an economy of barter.

Use is strictly an individual concept, not a social one. Society has no use for a shoestring, for instance; only individuals do, because society does not wear a shoe. Actually, then, production for use can really exist only under a set of rules of the game whereby individuals themselves call the signals, as in the price economy. Production for use cannot possibly exist if anyone except individual consumers call the signals which guide production.

The term "production for use," however, is sometimes used as cover for a proposed system not founded on production for use at all. The idea is that under guise of this high-sounding term, and a complete perversion of its meaning, we are asked to give up our individual rights to guide production into channels of greatest usefulness as we judge it. We are asked to transfer those rights to some dictator or delegated authority. He then becomes the sole judge of usefulness. If such a thing as a social usefulness did exist, which it does not, he could not possibly determine it for us because he is not society—he is only a Jones or a Smith like the rest of us. So instead of getting production by social usefulness we get production as tested by the wishes of the one in control, because to him usefulness can mean nothing but what is useful to him. If he does not like to chew tobacco, chewing tobacco is not useful and it will not be produced except as a reluctant concession to "perverted tastes." If to him a public project of a certain specific design would be useful, it might be produced under his system even though no one else would pay a nickel for it. Such a plan of production for use is a snare in terms of the very objectives it so enticingly professes.

Some form of *cooperative society*<sup>32</sup> is favored by many who



believe it to be a desirable substitute for the price economy. It is to be a society in which people work for each other rather than “selfishly” for price. This can have but one of two possible meanings. In working for someone else, either you expect something in return or you do not. If you do not, a form of charity is involved which is not prohibited in a price economy to whatever extent anyone wishes to practice it. One form of charity is practiced within families, in perfect harmony with the price economy that exists around it. The only other meaning, then, is that of working for someone else in the sense of doing something for him and expecting a service or product in return—in other words, an exchange economy. It is not correct to say in this second sense, either, that a price economy prohibits it. In fact, a price economy has as its primary virtue this function of aiding exchanges. If these exchanges are to occur at all, some device must be used to relate worth of the two things exchanged, and money does that job well. Even though something is substituted for money, the problem of relative worth remains. Under a price economy, probably nine-tenths or more of our national effort is devoted to working for someone else in this sense of exchange and a division of labor; we do not need a substitute for the price economy in order to accomplish that. The price system conducts these exchanges with respect for each other’s economic wishes, as has been discussed. It finds out through price in the market place what people want, and funnels those economic orders, in a way seldom understood, back to the producers. The same thing can be done by barter, without money and price, but in a very inefficient manner.

A free price economy is the most efficient device yet developed to attain objectives like “production for use” and “cooperative” economic accomplishment. These purposes, instead of describing alternative systems, are precisely the functions of money and prices in a free price economy. The cooperative as a form of business organization is not an alternative to the price system; it is another form of business organization that can exist within a price economy, to live or die on the basis of efficiency as any other form has to do.<sup>33</sup> What is more, coopera-

tive organizations can have no place in any system of centralized control and can exist there only on borrowed time under a sort of grant of life imprisonment.

In summary, then, the functions of money and price are to remove the obstacles and resistances to the free exchange of goods and services, and to give each individual consumer his rightful share in the decision of what shall be produced.

### *Efficiency of a Money System*

Money affords a means whereby the original producer and the ultimate consumer can trade without, in most instances, ever meeting each other or giving the other even a thought. It reduces the time of marketing to a minimum. So today we spend only a small part of our total effort, on the average, in the meetings of buyers and sellers or otherwise arriving at business deals. Nearly all our economic effort can be devoted to activities such as the making of products, their processing and distribution, and to the services, in contrast to the inefficiencies of barter or other methods of exchange.

Money, then, is the intermediary for economic transactions. It is an acceptable common denominator in the exchanging of goods and services. It is the means of avoiding the near-impossible task of finding, in a complex and prosperous society, the matching of needs that is required in barter. How could a coal miner, for instance, contact each of hundreds or thousands of widely scattered users of the coal he mines and arrange with them to exchange it for something other than money? The exchange rates would have to be dickered for between the coal and each of the thousands of items for which it would be traded. Then each of these thousands of items would have to be dickered for each other and their exchange rates calculated separately. The number of exchange rates would become astronomical.

The average person probably consumes thousands of different types of purchased goods and services in a year, and numerous units of many of these types. The complexities of the price system as applied to controls were discussed earlier. At this point

we wish simply to illustrate the advantages of money in our economic system. It serves as a common denominator in the exchange process, with advantages that can be realized by trying to add a list of several thousand varied fractions without the aid of a common denominator.

A system of money functions well to the extent that everyone wants the money, and to the extent that it can be kept and easily carried around. If everyone wanted unlimited quantities of ice cream and it did not melt or spoil, it might serve in the place of dollar bills so that the coal miner would accept it from the thousands of persons who use his coal; the automobile manufacturer would accept it in exchange for his sales, and similarly for the doctor, the baker and the candlestick maker. Few commodities have all the qualities desired of a money. At one time cattle were used for the purpose, but they were a little awkward to carry around, and they grew old and died. Later, silver was used, then gold, then paper representing gold. Money now takes forms in most countries whereby it finds acceptance largely for the buying power it represents and in spite of its uselessness in its own right. It is like a mirror which is used because of what it reflects rather than because of what it contains, but not without some dangers in this respect, as will be discussed later. Money overcomes the principal weakness of direct barter, its awkwardness, while retaining the important virtue of barter—the virtue that individual decisions of buyers and sellers are preserved, which is so important in a free economy.

A system of money is not without disadvantages. In order to make the record complete, these should be listed in order to curb any overenthusiasm about the money device. Its principal weakness is that it seems to allow fallacious thinking and profound theories-in-error to crop up. Many of these theories show their error in bold relief when thought of as proposals within a barter system, whereas under a money system the error seems to be enough concealed so that most persons cannot see it. The mere existence of money as an intermediary in exchange contains just enough economic indirection so as to allow these theories to exist and thrive like weeds in the onion patch.

Here is one illustration. With money in your pocket you can go to the store and buy goods. So can other people. Why can't a government, with the welfare of its citizens at heart, simply send to each of them \$100 a month, or some other amount, so that no one need work for a living? Under a barter system this scheme could not even be proposed, because there is no money to be sent. But, under a money system the proposal is possible, and after a little doctoring of it with complexities and economic jargon, the "catch" is not so plain. The plan gains credence in the presence of a money system because people come to think of money as wealth itself, rather than as warehouse receipts that are of no use unless there is something in the warehouse.

Prices are simply the reports of economic deals using money. Money is merely a catalyst for exchanges. It is the means to our economic ends, not an end in itself. We may save money, and put it away for later use, but it is not productive wealth in any direct sense as are land and machines. It serves us best when we are the least conscious of its operation.

### *Money Substitutes*

If we are to recognize fully the needs of reconversion as they relate to money, we must recognize the various forms of money substitutes that came into existence during the war and added to our "national emergency." We have not ordinarily thought of these as moneys, but that is in many respects the way they function.

Rationing has introduced one money substitute in the form of coupons. They became rights to scarce goods in the market place in the same sense as the money in our other pocket. The price of butter became 55 cents plus 24 ration points rather than, perhaps, 70 cents and no ration points. These coupons were bought and sold for money in the black market, indicating that they possess values that substitute for dimes and dollars. Their value lay in the buying power they carried, like money, rather than for their intrinsic worth, like hot biscuits. People came into original possession of ration coupons by means of their birth certificate or some other similar basis, rather than as pay for

work done or services performed. At most, the only effort needed to get them was to go to the ration board office and pick them up—or perhaps do a little pleading in addition.

“Queuing,” the art of standing in line for scarce products, is another money substitute. It is not a substitute which you can carry around in your pocket as you can a dollar bill or a ration coupon. One is, in effect, “employed” in the process of acquiring goods. One trades his time (spent in the queuing process) for the privilege of possession. Of course, he has to pay some money too, but less than if the free market prevailed and no queues were necessary. So one may pay 55 cents plus an hour of time queuing as the sacrifice for his butter, rather than 70 cents and no queuing. This type of money substitute became highly important, for instance, in the markets for cigarettes and candy.

Many other forms of money substitutes can be lumped together under the general description of “sources of information and positions of power and influence.” Some of them are within the government and some are without. Many elements of the black market are of this type, and many valuable “connections” exist where the regulations are written, the orders administered, and the policing carried out whereby violators may be traced down and prosecuted. These devices need not be listed in full, because we all know them well. They are money substitutes of a type because they are the means of getting things under conditions of control, and would not exist under free prices.

### *The Confusion of Competing Moneys*

Economic civilization has tried many different moneys at different times in its history—cattle, wampum, silver, and gold. We have even tried two moneys at one time, operating simultaneously, as with bimetallism in the days of silver and gold currency, but that did not work so well. The trouble is that, try as you may, multiple money systems will not function democratically. One is bound to rule over the others, sooner or later. Multiple money systems have one other characteristic in common with dictatorships—“the worst gets to the top.”

In the early days, when every new discovery of the scholarly and learned became a “law,” the characteristic of one money to become a sort of dictator over the others came to be known as Gresham’s Law. This law states that the bad money always drives out the good. The reason why this happens is so simple as to make us wonder why it deserved becoming a law. If I offered to trade eleven dimes for a dollar, you would take it. If this offer was freely made to all, we would all trade our dollars in for dimes, and dollars would be driven out of existence as money. As between the two, the dimes would be a cheaper, or a “poorer,” money than the dollars; it would come to rule as the dictator money. So we say that poor money drives out good money.

Our concern with Gresham’s Law in the reconversion period is that we should consciously and directly return to a *one*-money system, rather than to have several additional moneys which have no intrinsic worth, and which are a confused assemblage of expressions of scarcities that result solely from a controlled price system. We now have at least four moneys competing with one another—dollars, ration coupons, queues, and influence or position. These are entirely separate, and they function with confusion and lawlessness. These four moneys are clearly competitive; they do not serve in perfect harmony with one another as do dollars, half-dollars, quarters, dimes, nickels, and pennies—all of which are tokens intended to serve as different denominations of *one* money system, thoroughly acceptable and interchangeable with one another.

What is to be done to straighten out this situation? We must do away with the environment in which these various moneys can exist, namely the divergence between the legal price and the free market price. We must do away with controlled prices. If we do not, and the confusion continues, we shall continue to have unnecessary confusion in the exchange process and thereby lose much of the benefit of a smoothly operating one-money system.

### *The Need for Stability*

A smoothly operating one-money system requires that money be a reasonably stable reservoir of value. Money by itself need

not be of intrinsic worth to perform the function of facilitating exchange, provided—and this is *highly* important—public confidence is maintained in the stability of its worth and in the continuance of its wide acceptability whenever one wishes to convert his money into goods.

This statement of the reconversion problem does not aim to go fully into the problem of our currency system and its base. That is an important problem for consideration at some other time. But there is one clearly important reconversion problem connected with our present currency system. That is the problem of stability in the worth of money, so far as possible. Our money has seriously lost value during this war. There is no way of knowing the exact amount of loss, because we lack reliable price data, but it appears that a dollar saved in 1939 in worth only about 60 cents today in terms of what we can get with it. Such instability does not give us the kind of a money we should have.

We face the task of restoring stability in the worth of money, and of restoring it promptly. We have not been unmindful of what was happening, and “prevention of inflation” has been a prime cause of official worry. The difficulty has been that we have tried to wrap up the declining worth of our money in official concealment. We have dealt with the problem at its outlet (prices in the market) rather than at its source. We have tried price control, and constructed official price indexes which claimed a false degree of success—while dollars became further diluted and lost value. We have talked much about tax burdens, but out of a total war cost of some \$300 billion, we have put over \$200 billion of it (over \$5,000 per family) “on the books” as an increase in the national debt. This \$300 billion, in one way or another, became income to people, which in turn was put on the books of public debt. So “we owe it to ourselves,” but that is small consolation to one who loyally bought war bonds to help carry this huge national debt, only to find that the erosion of its worth amounts to several times the interest he receives on it.

What can be done? Among the first steps is that of halting the dilution of the national currency by public expenditures for unproductive or unnecessary things. These items need not be

fully enumerated, but among them are make-work projects, unemployment benefits that bid labor away from productive work, and subsidies and other devices for bailing the government out of the consequences of controlled prices. We must have taxation that is adequate to pay for the costs of government. Finally, it is of great importance to have reconversion policies that allow maximum production—not full employment in the sense only of everyone receiving a pay check every week, but full and voluntary employment at work that we want done. These, as we have seen, can best be insured by a free price, a free market system for *all* goods. We cannot have truthful and efficient money unless we let prices tell the truth.

### *Taxes*

No one likes taxes. This may seem strange when we think how much less violently we object to the price we pay for a loaf of bread or other items of our expenditure. But there is an important reason for the difference. When we buy items in a store, or go to a show, or call on the services of a doctor, we enter into a contract (in effect, though unwritten in most instances) for an exchange of a certain amount of our money for something specific which we have decided to buy. Though we may mildly object to the price, we are really only exercising the buyer's prerogative of pointing out to the seller that a lower price would be acceptable. The important point is that we consider the worth of the money to us and the worth of the prospective purchase, and then willingly accept the deal.

Taxes, as contrasted with consumer purchases, are not an exchange of our money for specific items that we may either choose or not choose to buy. A large part of the tax bill (income taxes, estate and gift taxes, etc.) must be paid by you whether or not you use the services it provides. There are exceptions, of course, like the liquor and tobacco taxes, which descend upon the users of those products much as does the cost of bread in a store. But in the main, "taxes are as unavoidable as death," and equally unwelcome to most of us.



The absence in most taxes of any clear link between the cost and the service provided, makes them more repulsive to us than the cost of goods we purchase. But that is not all. We do not even share this common burden of taxes equally. We do not share it equally per person, nor do we share it equally in terms of our incomes. The progressive tax—unfortunately named, because to most people it connotes fairness—is in reality a tax of economic regress. The inequality bears heavily on what is the foundation for our phenomenal growth in the country, savings invested in ways that increase the productivity and welfare of all the workers. That is how we have attained a productivity per worker that is many times the average of the rest of the world.

The reconversion tax problem is, then, of two main parts: first, we must somehow find ways to resume in governmental finance the policy of living within our income, or of acquiring income to match our spending habits; and second, we must find ways of distributing this tax burden equitably—equitably in terms of the economic consequences of alternative plans, and equitably in terms of the objectives stated at the beginning of this analysis.

Living within our income as a government is no more complicated than it is for an individual to refrain from buying groceries and pretty clothes he cannot pay for. In many quarters this is an accepted objective of national tax policy. The trouble lies in the means of attaining this end. The difficulty of making both ends meet in governmental fiscal matters may be due partially to our setup which separates responsibility for budgets of expenditure from responsibility for budgets of income. Any family would likewise have difficulty balancing its budget if one member had full power over spending and another over income, and if each took the attitude that the other side of the account was something for the other person to worry about. For this and other reasons, we seem to have great difficulty on a national basis in balancing the budget. When we fail, there are always some economists around who can be hired to put into technical economic terms and into roundabout processes of reasoning the idea: “Don’t worry, it doesn’t matter anyhow if we don’t balance

the budget during the present emergency; in fact, lack of balance really means the salvation of the country.”

In failing to balance the budget while professing to the attempt, and in doing other things that seem to have become a part of our reconversion policy, we have created many contradictions. One is the proposal to reduce taxes as an aid to business so that it will help attain full employment, but at the same time adopting, along with retail price controls, a policy of allowing wages to go up provided prices are not raised (meaning, as has been pointed out, reduced profits). This sort of contradiction culminates as a process of funneling an unbalanced budget around through the accounting departments of business and then back to the wage earners as increased dollars of income. Then they cannot spend all their incomes at legal prices. Then we rationalize about their predicament, and try to induce them to buy government bonds, which came into existence to finance the process. We take pride in the fact that the citizens are building up such a large nestegg of savings, but it is a nestegg that we cannot eat, and that will not hatch into anything productive or useful.

Equitable sharing of the tax burden precludes a tax program built around the idea of “soaking” anyone in particular; or of applying taxes twice on some basic portion of our national economy; or of using taxes to attain some social (istic) objectives; or of surrendering the privilege of tax evasion to some especially powerful pressure group, even though it may be a majority of the people. It is not our purpose to go fully into the details of tax policy here, but only to outline briefly the nature of the problem that faces us at this time.

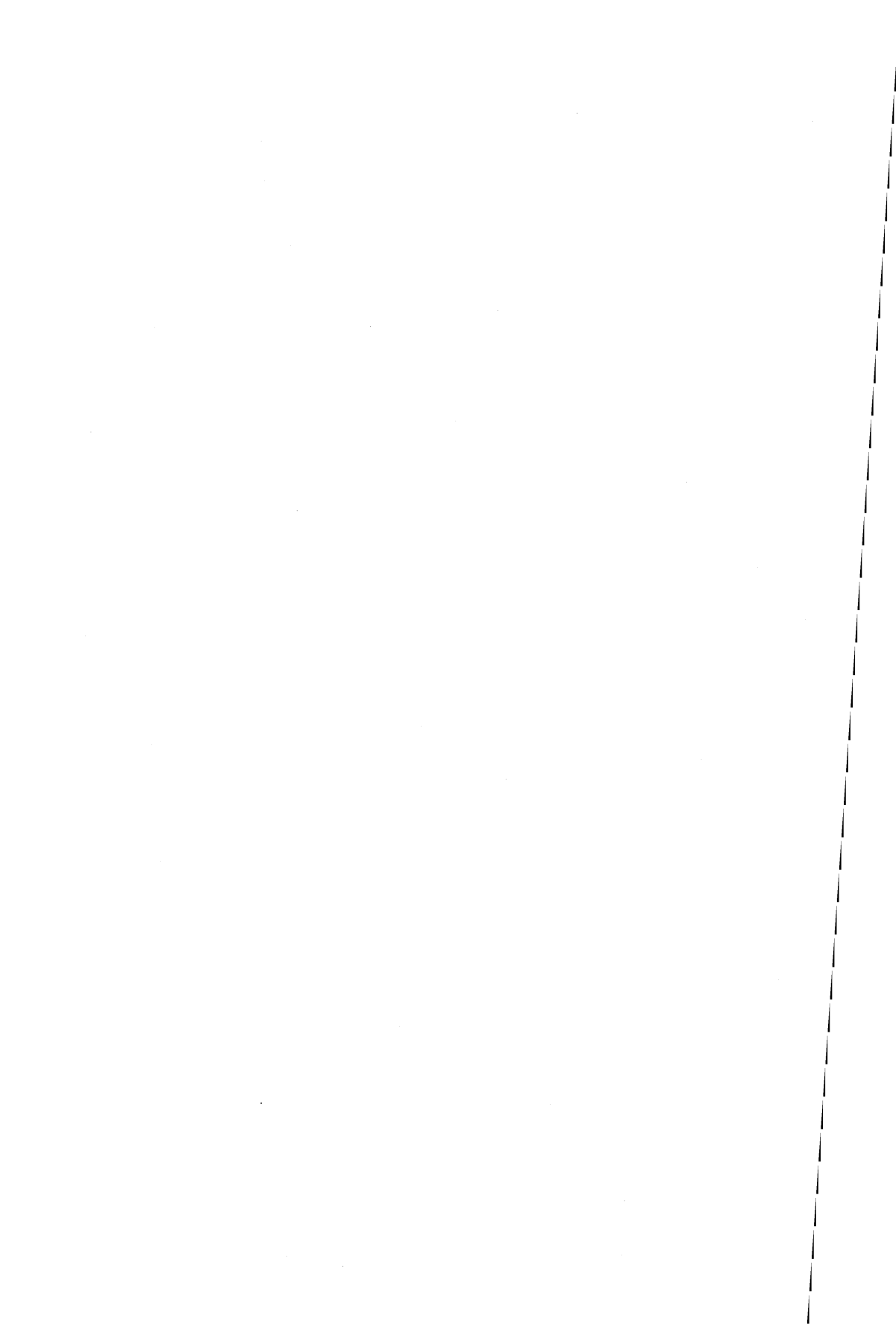
Many Congressmen are giving these tax matters careful study, for which they are to be commended. Facing as we do postwar federal taxes of perhaps \$25 billion, keeping them to a minimum and properly dividing their burden among us are problems of real concern. This postwar cost to be covered in taxes amounts to more than one-fourth of our prewar national income and to one-seventh of our peak wartime national income. That is big business, and it deserves careful attention if its weight is not to

sink the economic ship of state.

How does the tax problem square with the concept of a free market? It does not, in one sense. Most taxes are not a commodity traded over the counter where the free price system can operate. They are by their very nature a controlled price. About as near as we ever come to trading in taxes (aside from tax sales) is the buying and selling of votes on the basis of the tax policy that the elected representative promises to follow. That is a control of prices so remote as to be unrecognizable as a free market process.

Is there any other way, as a part of reconversion to free enterprise, that those who write the tax laws could come closer to using the virtues of the free market which we have found to be so beneficial in private business? They could use every possible means of placing the services of government on a cost-to-user basis. That is essentially the method of the postal system, where the postage rates are fixed as is done by the manufacturer of an automobile, and the consumer can then choose to buy or not to buy the 3-cent stamp and mail his letter. The postal system establishes some of the elements of a free market, though direct competition is prohibited. As a result of this sort of free market system, the postal system is not so badly abused, nor do pressure groups thrive in its environment nearly so much as in other areas of governmental operation.

For many of the services of government, however, the direct sale of services to its users at their cost seems impossible. There is no practical way, for instance, to have a relief system operated on the basis of direct charge to the users. All these types of governmental operation are, to the users, the same as controlled prices which are fixed below their free market levels. They are much the same as the price of butter which had been controlled to the zero point, and with the full subsidy of the cost necessary to sustain continued production. All that the free enterpriser can offer as a solution to that sort of problem is to advocate that the nation indulge in such operations with the greatest of reluctance.



# Appendix VII

## *Prices in the Future*

Our concern in the preceding discussion has been mainly with prices in the past. Experiences during this war have reaffirmed the evidence abundant throughout history as to what happens when prices and markets become enslaved to the edicts of the few rather than free to express the judgments of *all* whom they serve. We may expect the same results in the future, whenever such measures are tried.

What is the prospect as to the level of prices in the future? A precise prediction is hazardous, because no one can know the future of all the casual elements. That being the case, any precise forecast is bound to be in error and to make the prophecy a total loss. No precise prediction will be attempted here. Each must make his own estimate from whatever reliable evidence is available, some of which will be reviewed briefly. The question divides into two parts: (1) What would happen to prices immediately if all controls were withdrawn and all substitute forms of price were discontinued? (2) What is likely to happen to prices over a longer period of months and years? The prices we shall talk about are those that people commonly think of, and which appear in the official indexes and reports. They are the white-market prices, on the price tags above the counter, and quoted directly and fully in money terms.

If price controls were to be removed and all substitute forms of price<sup>34</sup> were to be discontinued, price quotations would rise immediately. The total price equivalent might not rise at all. The process would be one of gathering together all the various unofficial forms of true price, and restoring them to respectability as a part of the money price in a legitimate market, where they should be. The possible extent of the rise due to this cause was discussed under "Present Price Levels Compared with Free Market Levels."

A rise in money prices in the market, as the various forms of concealed price become revealed, should not be considered as letting the processes of inflation get out of hand. It would be

merely the restoration of truth to our quoted white-market prices, and a termination of devices by which we have been trying to delude ourselves about the extent of currency inflation that has already occurred. It should not be viewed with alarm, and used as evidence to justify restoration of strict price controls. *Instead, the removal of price controls and the abandonment of price substitutes such as subsidies should be hailed as a step in the direction of really fighting the processes of inflation at their source.*

What is the probable course of prices over a longer period of the months and years ahead, after, let us say, truth has been fully restored to money prices in the market? That is the most hazardous prediction of all, in part because there now exists a tremendous inflationary force in the form of accumulated savings. No one can predict the time and extent of their ultimate influence. We do know, however, the *nature* of this influence. The great accumulation of wartime "savings" is worth nothing for the nation as a whole. They are "savings" in dollars rather than representing true wealth in the forms of consumer goods, property, resources, or useful tools of production. They were created largely in financing the war—to pay people for producing things now destroyed or of no use. Either these savings, or an equivalent amount of people's current incomes, must be sterile in buying power. Goods are not now available to buy with these savings. Current production, when the goods are produced, will create its own buying power. The spending of these savings merely dilutes the buying power of money currently earned, without producing any goods in return. So, whatever buying power in the market is granted to savings must be taken away from the incomes of current producers. Either one or the other must sacrifice buying power.

We thus find ourselves as a nation in the uncomfortable position of either having to (1) reverse our current thinking about maintenance of high wage rates and current incomes while trying to hold prices down, or (2) prohibit the spending of wartime savings. In attempts to avoid this dilemma, we accomplish nothing, for continued inflation is assured. Inflation is one way, in fact, in which the buying power of savings is done away with and

the issue settled in favor of current producers, which amounts to a default on the arguments used for buying war bonds—"save now to buy that postwar automobile and refrigerator."

The following are some evidences of the extent of the inflationary force now accumulated:

	1939 Figure Billions	Current Figure Billions <sup>35</sup>	Percentage Increase
Accumulated savings by the public	\$65	\$165	154
Liquid assets,			
personal and business . . . . .	66	194	194
Currency in circulation . . . . .	7	28	300
Federal debt . . . . .	46	267	480

As an aid to judging the significance of these figures, it can be recalled that national income prior to the war was about \$70 billion yearly and the entire national wealth was estimated at about \$350 billion.

No one of these measures is adequate for a precise prediction of the ultimate extent of price rise. Each dollar of inflated currency exerts an influence of many dollars on prices, because the money is used over and over again in a year's time. We cannot now know when and where these savings will be spent, nor the extent to which future policies will add to the present inflationary force. Since 1939, currency in circulation has increased nearly three times in the United States, compared with two and a third times in France and about five times in Germany during World War I. By 1926, commodity prices in France had reached a peak of six times the prewar level, and by 1923 prices in Germany were completely out of control, in both cases following a continuation of inflationary measures into the postwar period.

A serious and immediate inflationary danger has already been accumulated, making the situation highly vulnerable to future policies. No one can predict what our future governmental policies will be, but the outlook is not comforting. The bulk of our current policies are inflationary. Continued governmental deficits are in prospect. Proposals in various forms, with widespread acceptance, are designed to support people in non-

production, to insure money “welfare,” and to maintain purchasing power and insure an “adequate national income,” irrespective of the quantity of useful goods and services produced. These new proposals, if enacted, would add further fuel to the existing inflationary fire. All the while we are attempting merely to sit on the lid of prices while the inflationary force is being accumulated underneath—an ideal way to create an explosion.

At some later date, presumably from a price level much higher than at present, a corrective downward price force can be looked for. That will become a highly important matter later, but it is not the primary threat of the moment.

If we are unavoidably confronted with continued inflation, how can it best be kept within bounds? The least eventual rise would occur with prices and the markets free, so as to have the maximum production of goods and services over which to spread accumulated savings and current income, while abandoning the policies that continuously add to the inflationary force. We must end the hopeless process of fighting fire with fuel while adjusting the thermometer downward to conceal the evidence.

In closing, two things should be pointed out about the threat of inflation. First, one does not cause inflation when he observes existing conditions and danger signals pointing in that direction; the weather man, who observes the weather and predicts a storm, renders a service thereby. Second, price controls may finally be discontinued at a time when the situation is badly out of hand, and undoubtedly voices would be raised to charge that the concurrent rise in prices to their true level was due to withdrawing the control medicine—despite its having proved ineffective.



# NOTES

1. Appendix III, "Different Types of Prices, and Their Interrelationships," explains the concept used here that every transaction or event for which money is used is a *price*. Wages, profits, and all the rest are forms of price for purposes of this discussion.
2. *The New York Times*, August 10, 1945.
3. For full explanation see Appendix IV, "How Price Freedom Equalizes Production and Consumption."
4. *Survey of Current Business*, July 1945, p. 5.
5. United States Department of Labor, "Productivity and Unit Labor Cost in Selected Manufacturing Industries: 1939-1944," May 1945.
6. Explained in Appendix III.
7. An increase of about 70%, or from a figure of 100 to 170.
8. \$54 billion in 1944, at 55% of consumer expenditures.
9. As used here, "excessive inflationary gap" refers to the excess of individuals' incomes over and above that taken by purchases at current prices, and above normal rates of saving relative to the size of incomes. It is also after taxes.
10. Dollar savings only, and not goods for which the dollars can be exchanged. So far as the buying power of these savings is concerned, the warehouse is empty.
11. These price relationships and ingredients of costs are discussed more fully in Appendix III.
12. For the full meaning of truthful prices see pages 54-55.
13. All commodities, wholesale.
14. Adjusted to provide for full employment, which we had in 1944.
15. Discussed in Appendix III.
16. National City Bank of New York, Bank Letter, August 1945, page 90.
17. See Appendix III.
18. Explained and illustrated in Appendix IV.
19. Privation in the sense of what could have been. Actually, our increased effort during the war was due largely to such things as utilization of the unemployed and of persons not normally in our working force, and longer hours of work.
20. As illustrated in Appendix IV, by the scarcity of 260 million units when the price was reduced from 40 to 30 cents.
21. NRA and AAA were attempts to "control away" these difficulties.

22. See page 30.
23. See Appendix V.
24. With 1929 wages as 100, hourly earnings in 1933 on Class I railroads had declined to only 95, and in 25 manufacturing industries to only 83.
25. See Appendix VII, "Prices in the Future."
26. Based on information supplied by courtesy of the National Industrial Conference Board. Some have since been discontinued or their functions shifted to other agencies of government.
27. Used here in its popular sense, exclusive of rents, wages, etc., considered separately.
28. This test of happiness presumes that people want to be free, in contradiction to the surface evidence among peoples who have been under subjection and seem to desire others to order them around. Furthermore, it does not preclude additional origins of happiness other than those arising out of economic welfare and freedom.
29. This does not mean that there is a 15-cent annual return on a dollar of capital. It is, instead, the proportion of the total national income that goes as return for investments of past savings. The amount of savings invested is far in excess of the national income, and so the percentage on that basis would be lower. In the late Thirties, for instance, the national wealth was about \$300 billion and the national income about \$70 billion. On the basis of national wealth, which includes some items not directly productive, such as residences, stocks of consumer goods, and currency reserves, the return for past savings would have been only about 4% yearly.

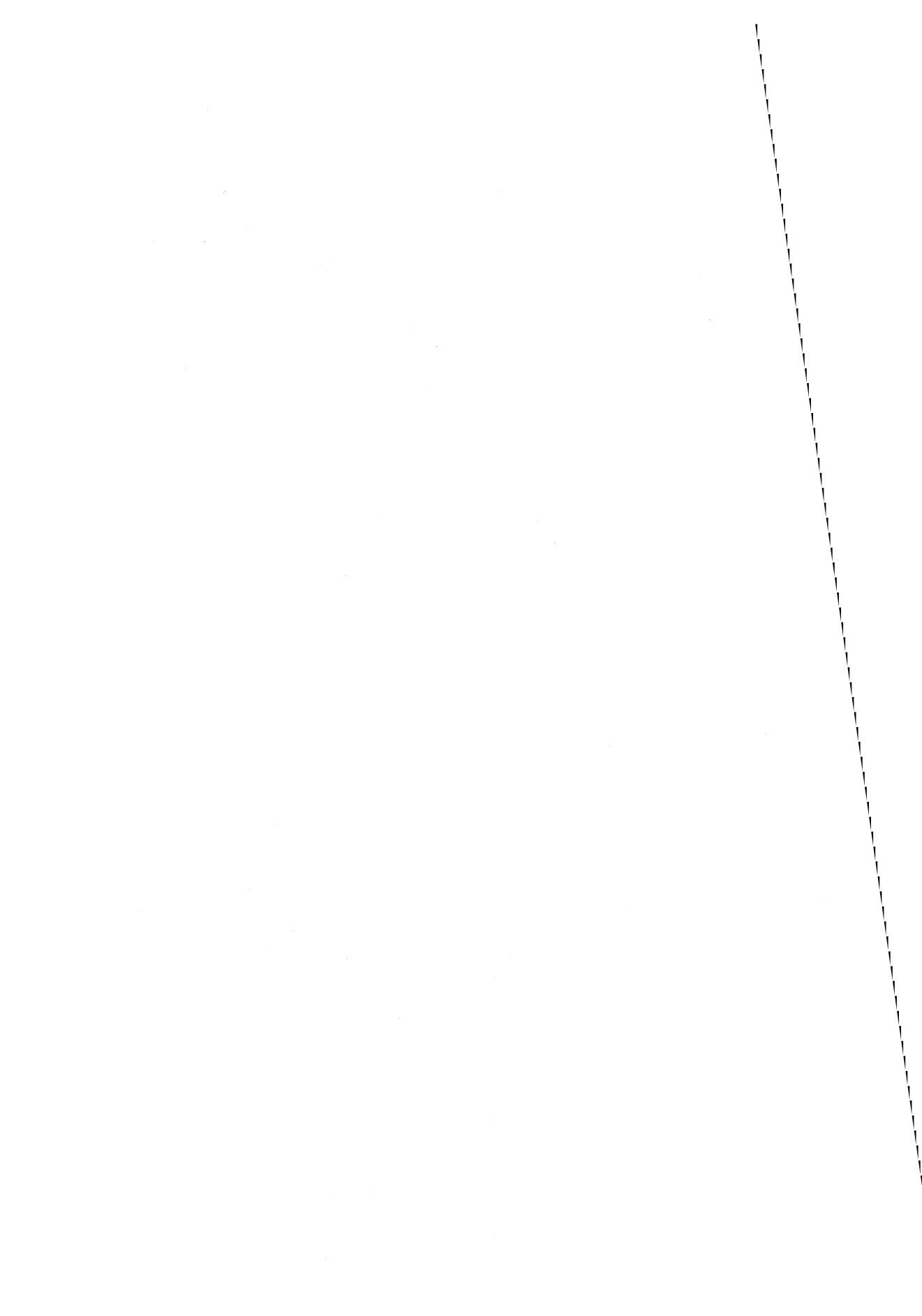
These figures may be expressed another way. On the basis of an average person in the labor force of the country in the late Thirties, he received \$1,320 income, of which \$1,090 went for work currently done and \$230 went as pay for the use of \$5,670 of tools, equipment, and other forms of national wealth at his disposal. By confiscating all of that part of his income paid as a return for the use of savings, and paying it to him as a reward for work currently done, the total would still be the same but the part nominally paid as "wages" would have been increased by only about \$4.50 a week. With wartime inflation, all these figures would be increased in dollars and the proportion going for work currently done would be somewhat higher.
30. The curve is used here to refer to production, or at least to production effort, instead of offerings for sale in the market. That is the problem we are considering. Inventory changes are unimportant except for temporary periods.
31. Agricultural commodities, agricultural implements, auto tires, cement, food products, iron and steel, leather, motor vehicles, petroleum, and textile products.

32. The phrase as used here refers to compulsory cooperation, which is really a contradiction in terms. Cooperation, in spite of opinions to the contrary, cannot be compelled. It exists in any useful sense only as it is achieved voluntarily.

33. Except as any one form may be given advantage over the others by means of subsidies or other forms of special privilege.

34. See section on "Outlets for Price Correction."

35. Involving some interpolations to bring published figures up to date.

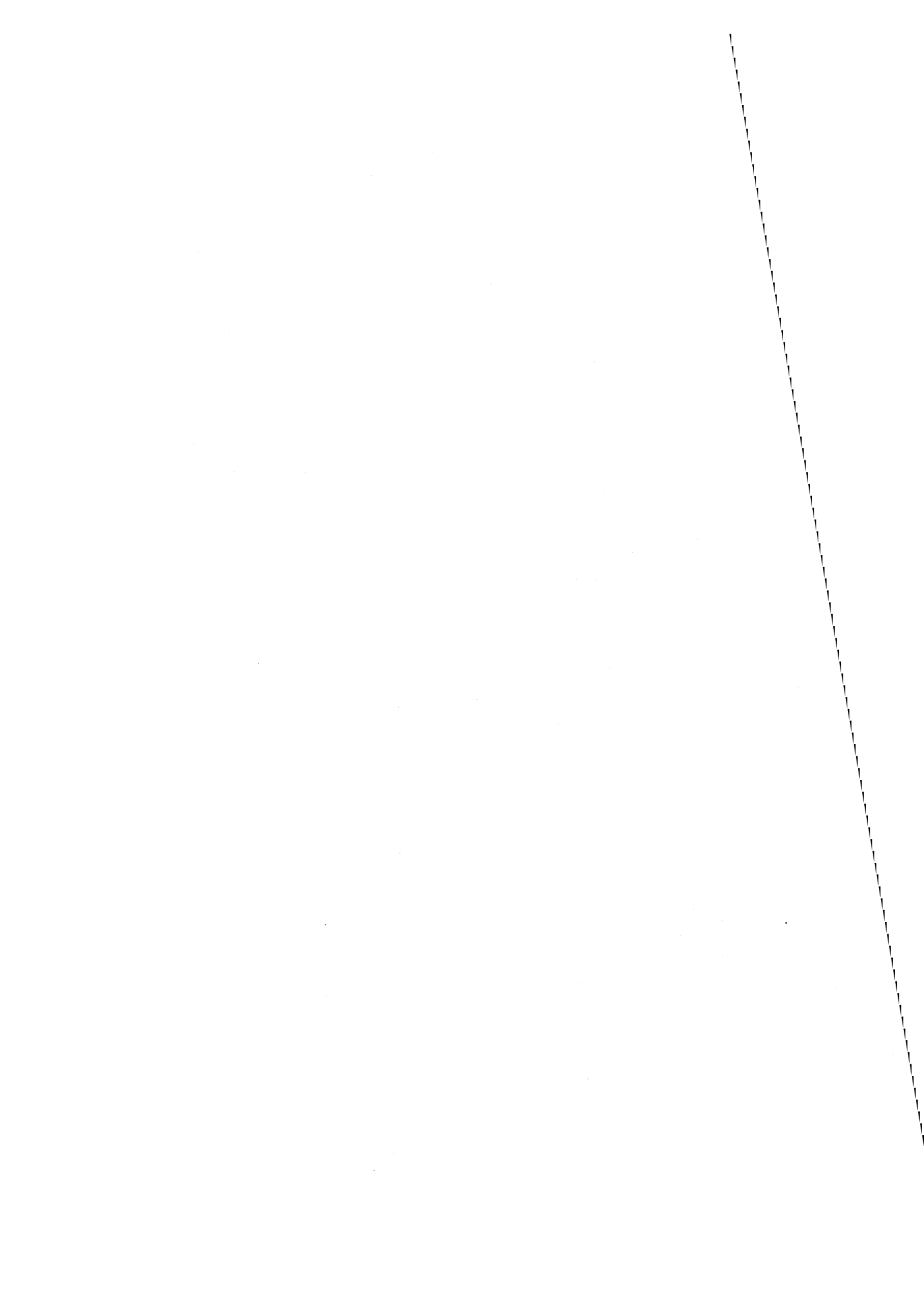


## II High Prices



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## II

# High Prices

*The American people, once described as 'a magnificent spectacle of human happiness,' are today confused and restless.*

JOSEPH P. KENNEDY  
*Congressional Record, May 27, 1947*

The problem of inflation, and the problems that follow in its wake, are of prime importance to every citizen and, therefore, to our nation if it would stand as a tower of strength in a chaotic world.

But people are badly confused about inflation; as Mr. Kennedy says, they are confused and restless.

### *When Concern Becomes Panic*

The purpose of this study is to help prevent a "panic of inflation," but first a word of explanation.

Although people in the United States have talked much about inflation, they have not yet become panicky about it. But here and there something akin to panic has appeared, threatening to become serious later. The only time panic can be prevented is before it starts. Waiting to meet it after it starts is too late; that is why it is a "panic."

Happiness has been aptly defined as the state of mind in which one finds himself when he meets up with conditions more favorable than he had expected, no matter how high or low his expectations may have been. Conversely, unhappiness is the

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reverse and may spring from the soil of luxury as well as from poverty. So it is with the people of this nation, who are confused and restless and enveloped in a mass of economic anxiety, despite a level of living perhaps ten times that of the poorer half of the world's people.

Panic, whether resulting from inflation, fire or whatnot, is the result of fear out of control. It is due to complete surprise coupled with intense fear. Panic cannot possibly develop, no matter how serious the events, if there is knowledge of what is coming and what to do when it strikes; for then a loss of mental balance cannot start and spread.

As evidence, witness the calm with which the citizens of Florida met the catastrophe of the recent hurricane. Why? Because they had been warned of its coming and were not surprised; they knew what to do about it.

Even animals, lacking "human wisdom," react this way. Research has shown that under repeated application of shock, differently applied, an animal may "go crazy" or be only mildly annoyed. The difference depends upon the timing of the shock in relation to what the animal can expect. If it is timed regularly, the animal knows when it is coming and can therefore predict its coming; he is only mildly annoyed by it. If, on the other hand, the same shock is given at irregular intervals, so that its coming is always a matter of surprise, the animal will develop a serious case of "mental frustration."

It is no wonder that the American people are today confused and restless. They have endured, for many long years, a constant chain of official "emergencies," one after another. Predictions of what was going to happen have gone amiss. And afterward, explanations have been varied and unsatisfying. Little wonder it is that so many people are suffering from the same mental fate as do those unfortunate experimental animals.

The emergencies being currently paraded before the anxious citizenry include "inflation," the "food shortage," the "dollar shortage" in Europe, and many other issues. We would be wise, for purposes of mental health as well as of economic protection, to catch our balance on these issues!

## *“It Is Dangerous to Discuss the Facts about Inflation”*

There are those who have advised against any public discussion of the facts about the inflation problem. They say that it is “so full of dynamite” that to discuss it might set off a panic.

In a free society, no public problem is too sacred or too dangerous for public discussion and understanding. Inflation is no exception. An understanding of the facts, and what to do about them, is the only possible way to *avoid* panic.

Perhaps the most scholarly, concise and vivid report of how inflation can develop into panic is that of Andrew Dickson White, “Fiat Money Inflation in France.”<sup>1</sup> The rule of passion and emotion came to supplant, in France, the rule of fact. The final collapse was then a certainty. If the people of France could have had the wisdom of White’s insight in the form of a prediction, *before* the event, its understanding would have prevented the panic; there could not have been any serious inflation if they had heeded the warning. Ignorance fed the panic and supported measures that fed the inflation, and perpetuated it. White’s report deserves study by those in this country who have not read it, and restudy by those who have.

The idea that inflation is a wave of psychological something-or-other leads to the superstition that it can be controlled by censorship; that the cure is to be found in exhortations, admonitions and threats from the throne of authority. These devices, instead of striking at the true economic causes of inflation, merely contribute to the panic of those who place false confidence in them.

Truth should never be feared, for it rules the court of justice. This discussion of inflation is offered as an assemblage of facts and an interpretation of them.

\* \* \* \* \*

What are the causes and cures of inflation? Why are the American people in such a confused state of mind about this problem?

## *The Inflation Criminal Is Sought*

The American people are viewing inflation as they would a criminal, to be caught and executed as promptly as possible. There is serious danger that the angry mob may lynch one or another of the innocent suspects without a fair hearing.

As prices rise, the search becomes more and more intense and the posse in search of the criminal grows larger and larger. Those who are victims of inflation join in the search, sincere in their purpose but quite commonly not at home in finding their way around in the jungle of economic affairs. A few highly vocal individuals are agents of unrest. But most conspicuous of all in the hunt is the government; it shouts alarm, calls instructions to the excited posse, claims ownership of some reliable bloodhounds, and arrogates unto itself the right to prejudge the outcome of this trial.

As a method of attempting to arrive at a judgment of guilt, various suspects will be presented, one by one, before the court of fact. In harmony with judicial procedure in a society founded on individual liberty and justice, each will be considered innocent until he is proved guilty after a hearing before this court.

And you comprise the jury.

### *The Array of Suspects*

Nine of the accused and the cases presented against them, briefly, are as follows:

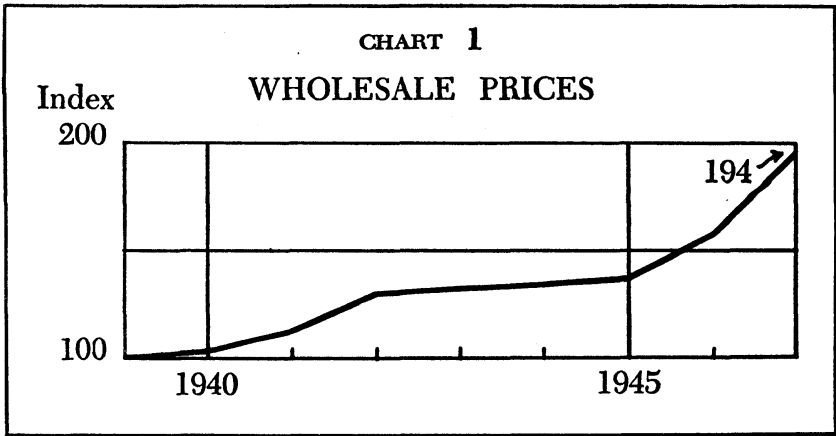
#### *High Prices*

First among the accused to be brought before the court is *high prices*.

The evidence presented in support of this view is that prices have gone up 94 per cent since 1939 (Chart 1).

By this view, the criminal is thought to be identical with the crime (high prices and inflation).

“Prices,” it is said, “must be restrained directly and by force.”



### *The Consumer*

“The Consumer is the guilty party. If he had not paid these high prices, they would not be high. It is just that simple!”

### *Speculation*

“Speculation is the cause of high prices.

“People buy things for later sale at a profit. They do not buy them for use. This holds things off the market and pushes prices higher, which induces more people to speculate—and so it goes, with prices rising higher and higher.

“The cure is to regulate the market, or to force it to close down.”

Methods of regulation in use or proposed include limiting the amount that prices may rise or fall in a day, which forces the market to quit operating whenever this point in price has been reached. Or certain markets may be prohibited from operating completely, as in England and elsewhere.

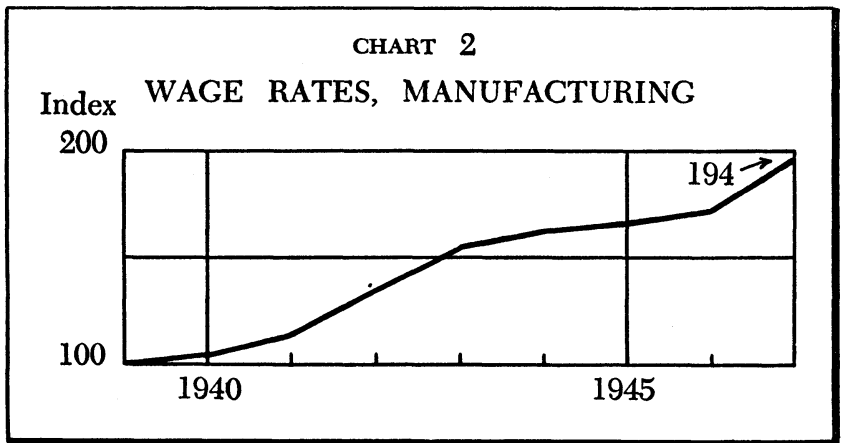
### *Corporation Profits*

“Corporation profits in 1946 were \$21 billion, which is about four times their prewar level. And this year, 1947, they are

running at a rate of near \$30 billion. The corporations, many of which are monopolistic, are taking advantage of shortages which enables them to raise their prices far above costs. These profits raise prices, and come out of the consumers' hide."

### *The Labor Unions*

"Rising wages are the real cause of the price spiral. The labor unions have forced round after round of wage increases. Earnings per hour in manufacturing, for instance, were \$0.63 in 1939 and \$1.23 in midyear 1947, or about double (Chart 2).

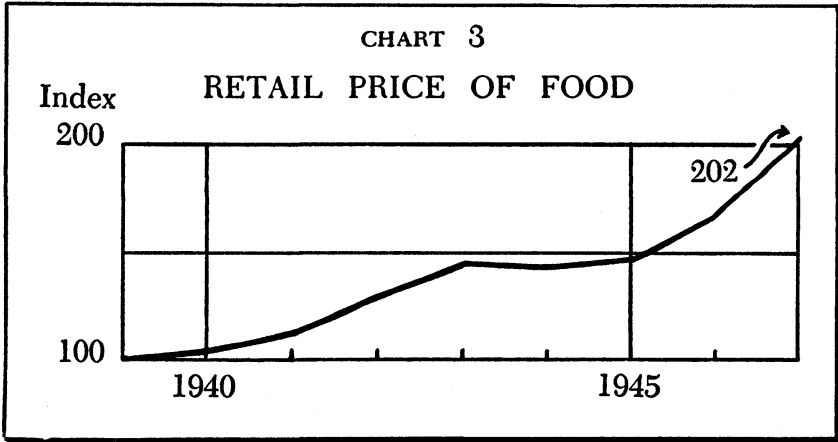


"Since wages (or their equivalent for those who are self-employed) are about 85 per cent of the cost of producing things, every increase in wages must soon become an increase in the price to the consumer.

"Wage rates must be fixed by law so as to prevent further rise."

### *The Farmer*

"The price of food has risen more than any other important consumer item (Chart 3). This proves that the farmer, who produces the food, is the leader of guilt in inflation.



“His income, percentage-wise, has gone up more than that of any other principal occupation. Farm income, after production expenses, which was \$5.7 billion in 1929 and \$4.5 billion in 1939, rose to \$15.2 billion in 1946, and in 1947 is running considerably ahead of last year.”

### *Marketing Costs*

“Though the retail price of food is high, it should not all be blamed on the farmer. He receives only a little more than half of what the consumer pays for the food he buys. The cost of marketing this food, from farmer to consumer, is about as much as the farmer receives. So the marketing agencies, along with the farmer, should be held as partly responsible for present high prices of food.”

### *Foreign Aid*

“The heavy drain of aid to foreign countries is the guilty party. In the first half of 1947, the amount of goods and services being sent abroad was at a yearly rate of \$10 billion in excess of imports—about double the rate of late 1946.

“This amount is more serious than it sounds, because of its double effect on prices. The goods are gone, which reduces the

supply available for domestic consumers and causes them to bid up the prices on the shorter supply that remains. And these goods have, in the main, been paid for by creating new money here at home. So more money is available to spend on fewer goods, giving a sort of double boost to prices in our home markets.”

### *Governmental Extravagance*

“The government is responsible. Its costs have been increasing at a fantastic rate (Chart 4).

“In 1946, the expenditures of government took 31 cents out of each dollar of personal incomes. This becomes a part of the cost of living, in one way or another, and must be paid for by *individuals*. Much of it appears in the prices of things they buy, causing prices to rise.

“Extravagances of the government in the past have poured tens of billions of dollars of new money into the pockets of people, who then pushed prices ever upward with this ever increasing supply of money at their disposal.

“Prices and wages much higher than before the war are, then, here to stay because they are supported by what has *already happened*. They are here to stay, that is, until at some unforeseeable date in the future some offsetting factors come to dominate the scene.

“And if such extravagances of government persist, prices and wages will not remain even at these high levels; they will continue to rise.”

Thus are the nine suspects presented to the jury by their captors, and such is the evidence presented against them.

If you, as the judge, feel confused at this point, you are in a position to sympathize with the congressmen. All sorts of pressure is being brought to bear on them to do this or to do that as curbs on inflation. But what is to be done? Neither hanging all the suspects, nor turning them all loose, would render justice. More evidence is needed; guilt must be focused more clearly.

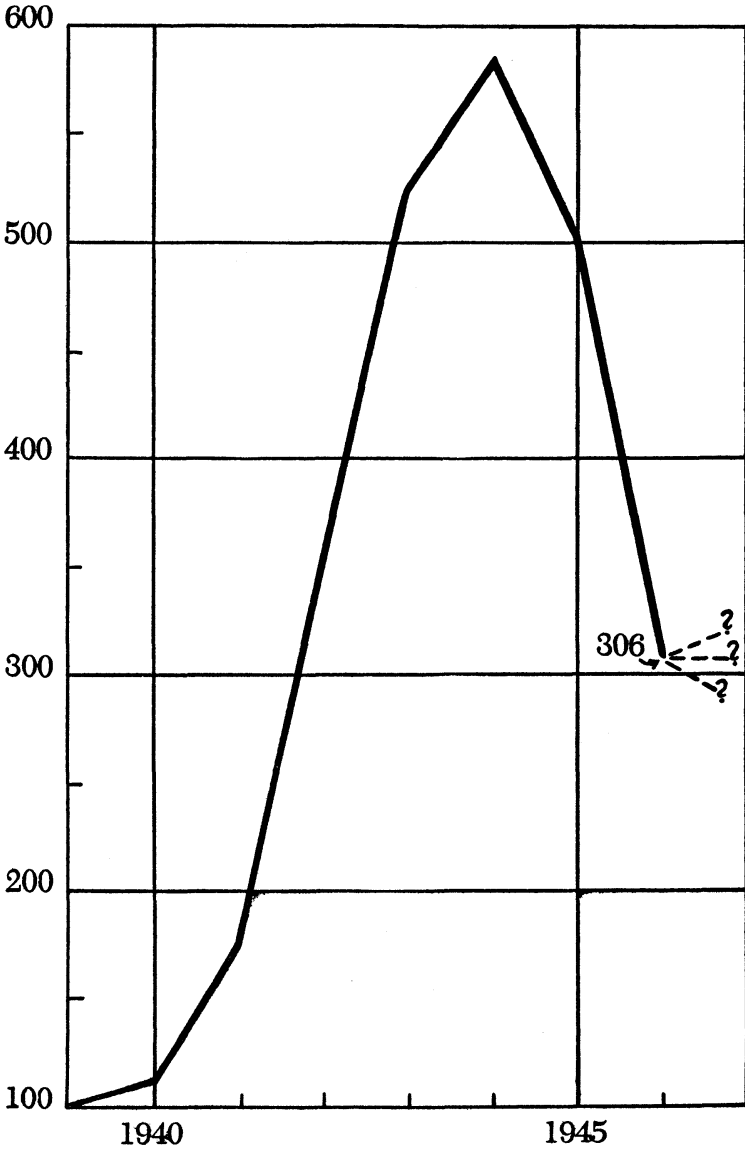
Now, let’s hear from the “State’s Attorney.” His job is not to



CHART 4

GOVERNMENT EXPENDITURES

Index



present evidence to protect a special client. His job is to represent *all* the people and the nation, with the object of preserving justice and a sound economy.

The nine suspects will now be considered in terms of evidence as to their innocence or guilt. But they will not be discussed formally, one by one, in the order of their previous listing.

## *High Prices, the Tracks of Inflation*

High prices are not the criminal. They are the *tracks* of the criminal.

If you were trying to protect your children against a bear in the forest, you would not feel that they were safe if you merely covered the bear's tracks. That would be worse than doing nothing, for it would deprive the hunter of his only means of trailing the beast. The tracks are the evidence that reveals where the bear is. The children, if told that covering the tracks would take care of the matter, would be in more danger than before because they would acquire a false sense of security and would be thrown off their guard.

So it is with inflation.<sup>2</sup> High prices are the tracks of inflation, not the inflation itself. Prices are merely the record of the voluntary actions of consumers, acting freely in the market place, *buying items of their individual choice at prices agreeable to them, using their own money for the purpose.*

Did you ever know of a person paying more for a thing in the market place than he was willing to pay? He may have wished to be able to buy it for less, but that does not mean that his purchase was at an unwilling price. He would, of course, *like* to buy it for zero or less. The lowest price at which buyers would like to buy (zero), and the highest at which sellers would like to sell (infinity), are concepts of fantasy rather than of the market place. Exchange can take place only by voluntary agreement, as to price, between a buyer and a seller.

This concept is important in judging the case of inflation. The high prices people are paying are being paid voluntarily, from money they have, however much they may desire to be able to buy for less. And these high prices are merely the evidence of inflation, its tracks. Inflation is something back of the high prices, causing them and leaving them in its wake. So *high prices*, as a suspect, cannot fairly be accused of guilt.

When the real criminal is caught, the matter of prices will take care of itself from there out, but damage already done will remain.

## *Shooting at the Tracks of Inflation*

When the accusation of guilt is misplaced, and is aimed at the tracks (high prices) rather than at the real criminal, what form does the fight against inflation take? How, in actual policies and programs, does a nation shoot at the tracks of inflation?

It takes the form of all sorts of schemes for direct attack on the prices themselves. It leads to the belief that prices can be restrained by direct force, or "price control."

The process sounds simple. Some price is selected, arbitrarily, above which any trade is adjudged to be illegal, like theft. Even though the buyer and seller both want to trade at this higher price, unlike the case of theft where only the "buyer" is willing, the trade is judged nonetheless to be illegal by this concept.

Such was the hope of controlling inflation during the war, under OPA. The real criminal of inflation, as will be shown later, went merrily on its way of marauding during this entire episode of attempted control. Inflation mounted ever higher. This is because the quantity of money, the mechanism for higher prices, was constantly being expanded and people were for this reason able to pay higher and higher prices with as much ease and willingness as before. And pay them they did, price control or no price control. The driving force of free will, coupled with the wherewithal, made all these prohibitions on free exchange and free contract anathema to people. They rebelled. The widespread popularity of violation, "the black market," is too fresh in our memories to warrant description here.

The OPA type of control is at present supposed to be highly unpopular in this country. Most people look back on it as they do last night's nightmare, and would not relish its return. The sincerity of this rebellion against controlled prices may be seriously questioned, however, when some price controls like that of rents are still retained and defended, and when other forms of violation of freedom in price are championed with vigor by the same persons who have been active in the fight to get the OPA off their necks.

Instances like this are to be found:

Price ceilings on livestock, and Government requisitioning of cattle if growers refused to sell at maximum legal prices, were recommended yesterday by the National Meat Industry Council.

*The New York Times*, October 6, 1947

In the back of people's minds always lurks the desire to buy things at a lower price. And with the hope that some way can be found to make it possible, they become easy prey to new schemes. How pressing the *need* actually is for lower prices, for different classes of people, will be discussed later.

### *Shouting at the Tracks of Inflation*

Since there is now so much ado about the danger of inflation, since pressure is being brought to have something done about it, and since measures of force like the OPA are supposed to be unpopular, what form of attack can be used now? These comments still apply to the condition of misjudged guilt, where the high prices themselves are popularly judged to be the criminal.

Well, if it is politically unpopular to attack the tracks of inflation by direct force, as by the OPA type of price control, then some more gentle means must be found. If the government is not to be allowed to shoot at the tracks of the beast, it may shout at them and beseech them to please go away.

Such is the nature of our current official attack on inflation in this country. The government asks retailers to refrain from charging higher prices, and to reduce them, *please*. Some "patriotic" retailers have joined in the attack, offering "at great sacrifice to themselves" to reduce prices—provided wholesalers will go along and reduce prices too (in order that their retail margins may remain as large as before). The wholesalers gladly offer to go along with the plan, provided the manufacturers will reduce their prices. And the manufacturers will gladly go along, too, if the railroads will reduce freight rates, and if coal will be reduced in price, and if labor will accept lower wage rates. Finally, laborers will be glad to demand not-so-large an increase in wages as

they had planned, or perhaps even forego any increase at all, if retailers will reduce prices so as to reduce the cost of living. Thus the circuit of buck-passing is completed. Nothing has been gained so far as controlling inflation is concerned; some breath has been wasted in futile pleadings and denunciations.

If the business firms refuse to cooperate in the control of inflation, then why not enlist consumers and implore them not to pay these high prices? They would be glad to cooperate and get their purchases at a lower price, except for the fact that—just as with the black markets under OPA—others have the money and are willing to pay the higher price. Thus to stick with the buyers' strike means going without, which is the least desired solution of all.

The result of all this is that different persons representing different segments of the economic machine accuse each other of non-cooperation, or more serious things, and of *causing* the inflation. Strangely, what started out as official beseechment turns into a rather general brawl. It reminds one of the game of "shake the cats," which has been described as follows: take several peace-loving cats and put them in a large sack; shake the sack thoroughly for a time; release the cats, and watch them attack each other as having caused their plight; you may feel safe, because none of them will attack you—the real cause. If the shaking is political, as by a candidate for public office, it will also work when people are confused over a problem like inflation. Only if the human cats have the game figured out in advance, before being put into the bag, will they attack the real culprit instead of each other.

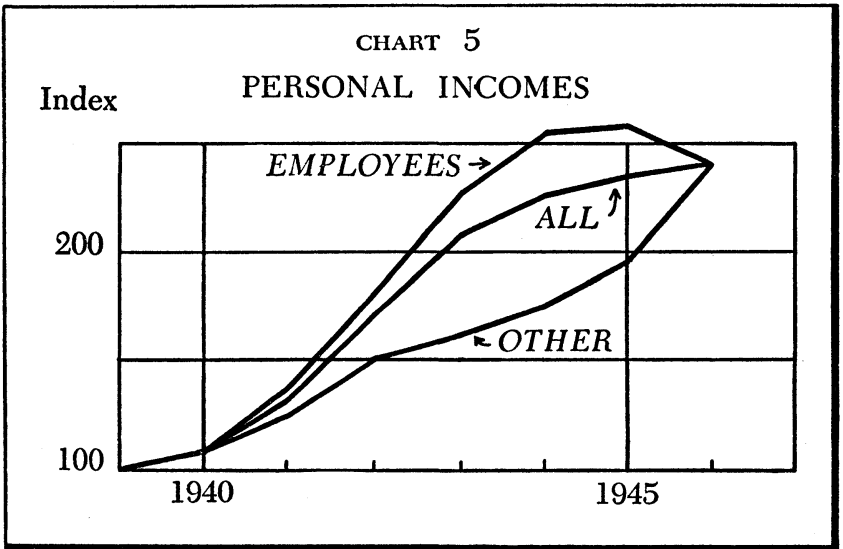
When viewed with understanding, why should consumers be accused of a crime when they are merely spending their own money as they wish for lawful goods and services in the market? To challenge that right is to challenge the right of a person to use his own earnings; it is equivalent to the belief that control over the use of one's earnings should reside with the government or with one's neighbor. All who believe in liberty and who claim to be opposed to communism should take a long and careful look at that package before buying it!

And why should the sellers be accused of a crime when they sell to consumers at prices they are willing to pay for the goods and services they want? Should any such sale, involving neither fraud nor misrepresentation of the product, be treated as contraband and as the exchange of stolen goods?

## The "Burden" of High Prices

The clamor for somebody to do something about high prices, either by direct control or by admonition, is based on the claim that people cannot afford to pay these high prices. So let's take a look at the merits of that claim.

The total of personal incomes *in dollars* was 144 per cent more in 1946 than in 1939 (Chart 5).



This will seem fantastic to many. "It can't be true; at least not for me." For many persons it was not true, because not all incomes marched up the inflation road abreast.

More especially it was not true in earlier years. An ever widening disparity developed during the war between the incomes of the employees and of others (those who worked for themselves and those who supplied capital). Employees' incomes in 1944 reached a point two and one-half times as high as they had been before the war, compared with less than double for the others in the nation. By 1946 this gap of difference had closed, at 244 per cent of prewar.

Employee groups, in pleading for more income, have fre-



quently built their case on a comparison with 1945. They claim that their buying power has declined. They claim that others have fared better than they have. True, since 1945. But note (Chart 5) how favorable their position was in 1945. The changes in 1946 merely brought the incomes of these two large groups back into their prewar relationship with one another.

The rise of incomes shown in Chart 5 is in terms of dollars. Incomes had not increased that much in buying power, because each dollar bought less than formerly.

In testing changes in the buying power of incomes, many use the government's "cost of living" index. The accuracy of this index, as representing the amount of price rise, is highly questionable, especially as it relates to items under government control. For instance, housing is an important part of our living and is represented in the index by rents; it shows a "statistical rise" of only 4 per cent from 1939 to 1946. It is well known by those who rent that many items of upkeep and operation, formerly covered by the rent, are now extras. And it is well known by those who have had to change locations that one is usually forced to buy a house at double—more or less—its 1939 price. In contrast to the Department of Labor's figures showing a 4 per cent rise, figures from the United States Department of Commerce show an increase in "rental income of persons," for the nation as a whole, of 98 per cent during this same period. It would seem that if someone's income from rent has gone up 98 per cent, the rental expense of someone else must have gone up much more than 4 per cent. The Department of Commerce figure is not, of course, an index of rent; but it is more representative of the national rent situation as a whole, which is what we are talking about. Such items raise doubts about the official index of the cost of living, which appears to understate the amount of price rise generally for the nation as a whole.

Using a somewhat higher figure to represent the rise in general prices since prewar, it appears that prices were about 60 per cent higher in 1946 than in 1939.<sup>3</sup> Applying this to dollar incomes means that the *buying power* of the average income in 1946 was 53 per cent higher than in 1939 (Table 1). This means that

Table 1.  
Changes in Buying Power of Incomes, United States

<i>Income grouping</i>	<i>1939</i>	<i>1946</i>
The national income	\$1.00	\$1.54
Those employed by others	1.00	1.53
All others	1.00	1.53
All personal income	1.00	1.53
All personal income, before taxes	1.00	1.53
Taxes	1.00	1.98
Personal income, after taxes	1.00	1.38
Non-corporate private business:		
Pay to their employees	1.00	1.45
Income to owners for own work and capital:		
All types of business, before taxes	1.00	1.60
Farming, before taxes	1.00	2.11
Other than farming, before taxes	1.00	1.40
All corporations:		
Pay to their employees	1.00	1.53
Taxes on profits	1.00	3.68
Net profits, after taxes	1.00	1.15
Capital and savings, before personal taxes:		
All corporate dividends	1.00	0.92
All interest in the national income	1.00	0.47
Common stocks, "excellent"; yield	1.00	0.60
Preferred stocks, "excellent"; yield	1.00	0.54
Corporate bonds, "excellent"; yield	1.00	0.49
U.S. Government bonds; yield	1.00	0.38
Municipal bonds; yield	1.00	0.37

Note: Sources and interpretive notes are given in Appendix 2.

the average person had income enough in 1946 to buy—even at the higher prices then prevailing—one-half more goods and services than his 1939 income bought; but he did not actually buy half again as much, for two important reasons:

- (1) Not enough things were produced and available to buy to enable him to do so; the output of all goods and services was only about one-third more in 1946 than in 1939; so it was possible to buy only about one-third more, not one-half more, than in 1939.
- (2) The government took a much bigger slice out of incomes in 1946 than in 1939, reducing the buying power of the remainder from the 53 per cent figure to 38 per cent, in excess of 1939.

## *Non-Corporate Business and High Prices*

Farm and other unincorporated businesses had incomes before taxes in 1946 that were 60 per cent higher than for 1939, in buying power (Table 1). Incomes were up 111 per cent for farms; 40 per cent for non-farm businesses.

Pay to employees in this type of business was up 45 per cent, compared with 53 per cent for the employees of corporate business.

## *The Corporations and High Prices*

It is true that the prices of things sold by corporations in 1946 were much higher than in 1939, but who got the increase?

	<i>Per cent of increased corporate incomes</i>
Employees got	80.9
The government got (taxes)	15.3
Capital:	
Stockholders, net from dividends, got	1.8
Undistributed profits were	3.2
Those who loaned them money got	-1.2
Return on all capital was	<u>3.8</u>
Total	100.0

So to the extent higher corporate incomes have been responsible for higher prices, 96 per cent of the proceeds was taken by employees and government; 4 per cent was left for capital.

With this in mind, one can more accurately judge the place of further wage increases—"round three now coming up"—in this problem of high prices.

The above figures apply to the *increase* in corporate receipts, or the increase in what they charged for their output.

Gross profits of corporations in 1946 were 107 per cent above those of 1939. They are frequently quoted as evidence of the cause of high prices; as justification for higher wage rates; as reason for the government to prosecute corporations for monopolistic price policies; as an excuse for the government to take over certain industries like the railroads, coal and steel.

This gross profit figure, so often quoted, is before taxes on the corporation's profits. These taxes in 1946 exceeded *net* profits by \$1,067,000,000. So in this sense the corporations have already been more than half taken over by the government.

The concept of gross profits, before taxes, makes no sense in judging the prosperity of a business. One might as well speak of "profits" before meeting the payroll, or before paying the bills for materials, heat and the phone. The tax bill, as everyone

knows who has tested the matter, is not a charge to be paid if convenient and provided there is enough money at the end of the year with which to pay it—otherwise to be forgotten with a smile; it is a vigorous claimant, lacking in compromise or charity. The only reasonable concept of profits is *profits after taxes*.

But some will say: “Yes, but evidence on wages and salaries, as commonly used, is before personal income taxes. Why not do the same with corporation profits?”

The same is done with corporation profits. When they reach individuals as dividends, or the equivalent, a personal income tax must also be paid on them. This is the “double tax.” After the corporation pays its profits tax, the individual must pay another tax on the dividends he receives from what is left.

This is approximately what became of each \$1.00 you paid to United States corporations for their products in 1946:

	<i>Cents</i>
You paid the corporations for their products	100.0
Less their costs before “gross profits”	<u>76.3</u>
Gross profits	23.7
Less fictitious “inventory profits”	<u>5.3</u>
Gross profits, adjusted	18.4
Less tax on profits <sup>4</sup>	<u>9.8</u>
Net profits	<u>8.6</u>
Dividends paid out of profits	6.1
Less personal tax on dividends	<u>2.9</u>
Investor’s income after personal tax	<u>3.2</u>
Profits undistributed by the corporations	2.5

“Gross profits” is frequently used as a measure of corporate responsibility for inflation. This is the figure quoted earlier in the charge against corporate profits as one of the nine suspects. It was 24 cents out of each dollar you paid corporations for their products, which does appear large. But after adjustment for fictitious inventory profits, for corporate taxes on profits, and for personal taxes on dividends, *the individual investor had only 3 cents left*. He also had a share in some undistributed profits, but

they too will be taxed again whenever they become income to the investor, and will shrink to less than 2 cents.

Even these figures for net profits are overstated, for another reason, by an amount unknown. This is because of too small a charge for depreciation, the buildings and tools “used up” in the year’s operations. It is customary to charge on the basis of original cost, which is probably little more than half enough for present replacement costs. When replaced, the builder and toolmaker will not make their charges according to original cost; they will charge according to *present costs*. And the banker, if he loans for the replacement, is concerned with the cost today, not that of many years ago. Profits as currently reported, then, are seriously overstated—an amount estimated at between \$1.5 and \$5.0 billion, for 1946. The effect is to pay operating costs and dividends out of operating capital, thus causing the business to go into debt and weaken its financial position whenever capital replacements have to be made.

In contrast to these amounts which the investor received after taxes, the government took 13 cents in the form of these direct taxes, as well as a considerable amount of other indirect taxes buried in the price. It has been estimated, for instance, that there are 52 hidden, indirect taxes in the price of a loaf of bread; 154 in the price of a cake of soap.

If there had been no return whatsoever on the capital of corporations in 1946, those who spent \$1.00 for their products would have been able to buy them at a saving of only 9 cents, or for 91 cents instead of \$1.00. The 9 cents includes not only profits, but also the interest on borrowed money and personal taxes on dividends. If there had not been these profits, the government would have lost about as much revenue (in the form of personal tax on dividends) as the investor received as dividends after taxes.

Another way to look at the matter would be this: If capital (loaned and owned) had received the same share of corporate incomes in 1946 as in 1939, it would have been necessary for corporations to have *raised* their prices by 7 per cent—with all of the increase going to capital and none of it allowed to go to either

employees or to the government as taxes. On this basis of judgment, corporations operated so as to retard prices rather than to cause them to rise—a conclusion further evidenced by the fact that many of their products, like cars, have been priced below what consumers would pay and *did* pay in the “black market.”

### *Corporate Profits 5 Cents in a Dollar of Living Costs*

The above discussion dealt with the profit and interest payments of corporations, as a part of the price of *their* products—9 cents out of the dollar. But since corporations supply only about half of all things consumed in the nation, the return on their capital would be much less than this 9 per cent of people’s total cost of living. It would be only about half that important.

In 1946, people spent \$143,670,000,000 for living, as measured by “personal consumption expenditures.” Net corporate profits were 5.2 per cent of this amount, \$7,534,000,000.<sup>5</sup> This means that if corporations had been entirely without profits—not a cent—in 1946, and if all the difference had been reflected in retail prices, it would have saved the consumer only 5 cents on his dollar. And this would be only *one-eighth* of the rise since prewar in the prices of items in people’s living.

In the case of an automobile for which the consumer pays \$1,500, profits of the manufacturer are estimated to be \$40 and taxes, both direct and indirect, are about \$392.

It is not correct to say that people would have been saved as much as 5 cents out of a dollar of their living costs if profits had been at zero. One would have to take into account many far-reaching effects. Against the apparent saving of 5 cents in retail prices, one would have to consider as an offset its effect on his bank account, on his life insurance policy, etc.—in short, its direct and indirect effects on the value of all his various shares in the capital structure of the country, in all its forms. For a preview of the conditions that would prevail in the absence of profits, one need only recall conditions in 1931-1934 when approximately this situation prevailed.



So unless one desires to have one worker out of three unemployed again, and to have practically every bank and insurance company and other business of the nation—in fact, the nation itself—bankrupt, he would not advocate any measures to eliminate the return on private capital as a means of combatting high and rising prices. Only one who desires widespread confusion, chaos and catastrophe would advocate such measures.

## *The Plight of Capital and Savings*

In the preceding discussion of corporations, their profits were found to be innocent as a cause of high prices. It was found that profits after taxes, compared with prewar, rose less than the income of either corporation employees or of other employees, less than the income of farmers or other non-incorporated business, and far less than the costs of government.

Not alone corporate stockholders, but every major class of investor has lost buying power since 1939 (Table 1). This includes corporate dividends, interest on all forms of loans, and yields on various classes of government securities and other bonds. Many lost around half of their former buying power. The yield on United States Government and municipal bonds has lost nearly two-thirds of its buying power.

In speaking of the plight of capital and savings, it is a serious mistake to think of it as having to do only with the plight of the "filthy and idle rich—so let 'em squawk." Few people in this nation—*other than retired persons, widows, invalids and orphans, of which there are many*—live solely on the income of capital and savings. Those who do live solely on this type of income are, in many instances, "indirect capitalists." This means that they live on the income from trust funds, bank accounts, savings and loan associations, life insurance policies, or other forms where the investing is done for them by others, as agents. The use of an agent to manage their savings does not insulate these persons, however, from the burden of any great decline in the return on capital and savings.

The present plight of these persons, and of endowed institutions like hospitals, churches and universities, can be illustrated with bonds. Government bonds and municipal bonds have traditionally been the apex of safety and of security for invested funds. Many of these types of bonds have been yielding from 1½ to 2¼ per cent yearly; let us say 2 per cent for illustration. What happens during inflation?

If a bond yields 2 per cent when prices are stable, a person or an institution will get \$2 of real, undiluted income from each

\$100 invested; he could invest \$100 of his savings at the beginning of the year and get back \$102 at the end of the year. But if prices should rise 2 per cent during the year, his \$102 would buy only the same amount at the end of the year as his \$100 would have bought at the beginning, leaving *no* real interest income whatever on his invested savings. If prices should rise more than 2 per cent, his interest income would be more than offset by the price rise, and would become a minus—a larger and larger minus as prices rise faster and faster. Under those conditions, and as rapid inflation develops, these former types of investment, usually considered to be the apex of safety, become the apex of loss of buying power.

It is thus not surprising that many people concerned with these matters have joined the ranks of the confused and the restless. The rules of the game, by which they have been strictly drilled by a lifetime of training and experience, have suddenly turned upside down. Real value has been eroded away from their “safely invested” savings, because of the loss in what a dollar will buy; the loss rate in recent years has been several times the interest rate. This applies to government “savings bonds,” which were bought during the war with patriotism and pride. If this continues, it is only a matter of time until people generally will lose financial confidence in government bonds. That will be a sorry day for this nation, as it has been for every nation in history where continuous inflation has been practiced. No one wants to buy shares in national bankruptcy, or in a bankrupt dollar.

The year 1939, which has been used as a base for these comparisons, was not one of high profit rates. This is not the reason why 1946 appears unfavorable by comparison. One kind of evidence from which to judge this is unemployment. The reason why a person is unemployed is that no one believes that employment of him, *at the wage rate asked*, would gain him anything or be worth the trouble. The rewards for the risks of management and enterprise were so low in 1939, in relation to wage rates, that 9 million workers—one out of six—were priced out of the market for jobs. Not only that, but the working tools of the nation were not even being maintained—aside from being increased as has

been traditional in the history of this nation and which has been the reason for its phenomenal economic growth. Lack of incentive for enterprise, in the period of which 1939 was a part, was causing the first extended decline in "capital formation" in the history of this nation.<sup>6</sup>

If this nation is to resume its former rate of economic progress, capital formation and incentives for enterprise must be supported not only at the 1946 rates, not only at the higher rate of 1939, but restored to the levels all history demonstrates is necessary for progress. Otherwise economic progress will become a dead duck in this country and our role will become that of a participant in the dry rot and stagnation of most of the rest of the world. Political ideologies cannot alter this economic fact. The economic machine will no more run and progress without more and more tools to aid the worker than a car will run without gasoline.

These are the facts about "capital," "capitalists," and "profits and profiteers" as they bear on the problem of high prices. They are presented here, not to defend the various forms of return on capital as such, not as special pleading for these interests, but as bearing on the welfare of those who "labor for their living"; they receive the lion's share of the output of capital goods, even though someone else owns them and receives a profit. Beware of the dogma of class hatred, with its kindred ideas and its offspring of policies. For, like the caretaker of the goose, whose acquired hatred for the goose should not be allowed to overrule his desire for the eggs, any hatred of "capitalists" should not blind us to the product which capital alone can yield. This is a simple matter of self-interest.

## *Swimming in the Flood of Inflation*

Brushing aside all the details about the income of this group or of that group during inflation, the people of a nation during inflation may be compared to people caught in a flood. The high waters are like high prices. The cause of the flood is not to be found where the people are swimming in it. It is farther up the river. The cause of inflation, likewise, is not to be found where the people are frantically swimming around in high and rising prices; it is to be found farther up the economic river.

In a river flood it would seem foolish to try to stop it by taking one class of victim or another and tying them down to the bases of the trees or to the fence posts. It would be foolish to expect that this (which is like the concept of fixing prices) would keep everyone from drowning. It would seem especially foolish to tie down those who are building boats, or those who have boats and know how to operate them (which is like the concept of closing the markets and prohibiting free exchange of goods and services).

And would you tell the workmen who are submerged in this inundation that the situation can be met if only they will demand more water—enough to keep them afloat (which is like the concept of subsidies to keep down the cost of living; or of raising wages—which are about 85 per cent of the cost of producing things—as a means of enabling people to meet the rising costs of living and to buy back the product)?

And would you take some of the rescue boats and send them off somewhere (which is the concept that we must send great quantities of goods abroad in order to prevent prices from dropping and causing a depression in this country)?

And would you take more and more control over the boats away from those trained in their operation and give it to those who have been hewing holes in the dams upstream, bringing further inundation to the already flooded valley (which is the concept of increased government controls of all sorts over the processes of production and trade; of keeping government costs and taxes high; of large scale “loans” abroad from newly-created money; etc.)?

Probably you would do none of these. Instead, you would probably drain off all the water you could, try to curb every possible source of inflowing water, and pray for a dry spell in the weather upstream. And while awaiting the delayed effects of these measures on the flooded valley, you would probably swim like all get-out and try to adjust to the level of the water where you found yourself, because otherwise you would drown.

That is what people have been doing during this inflation period. They have been trying to adjust to the conditions in which they find themselves. Incomes have not risen equally, as we have seen, and so the burden of high prices has not been shared equally. No relief from this is to be found, however, in submerging other victims of the flood.

## *Speculation during Rising Prices*

A common charge is that speculation is the cause of rising prices.

In any period of rapidly rising prices, all commodities more or less join in the rise. An owner can sell the part he owns for more money tomorrow than he can today. He will “profit,” in a money sense, by keeping the commodity for later sale rather than by selling it now and keeping the money. *When he does this, however, he is not causing the inflation; he is merely participating in its effects.*

Another important point must be borne in mind. Every owner of *anything* is a “speculator,” since whatever he owns will rise and fall with the tides and torrents of inflation and deflation. When a farmer holds his wheat crop he is “gambling” on the price; likewise if he sells and puts the money in his sock under the mattress, he is gambling on the price of wheat as well as on the “value of money” (what his dollar will buy when later he wants to spend it).

There is, at any time, a certain quantity of commodities in existence, no more and no less. And each part is owned by someone—owned by him and no one else, no more and no less. If one part is sold, these statements still hold true. Or, if it is *all* sold, once or many times, they still hold true.

A bushel of wheat will illustrate. Let us say that Smith, a farmer, produced it and owns it. No one else can own it until he sells it. If he sells it to Brown, then Brown becomes its owner instead of Smith. During the economic life of that bushel of wheat, from production through distribution and manufacture to consumption, its ownership may pass from person to person. When another gains ownership, the previous owner loses it.

If prices are rising, he who owns the wheat will gain the amount of its rise in price during his ownership, and no more. In sum total, the rise in price from the day it is harvested till the day it is bought by the consumer will be divided among this chain of owners. If Smith had kept the wheat for the entire period, he alone would have gained as much from its rise in price as this whole chain of owners gained from it; the total will be the same

both ways.

Returning now to the problem of “speculation” as a cause of rising prices, what is meant by the term? Does it mean ownership of the wheat as discussed above? As we have seen, someone must own it all the time, and only one person can own it at any time. Speculation, in this sense, is necessary for any commodity in existence; there is no more speculation if it changes hands many times than if it changes hands none at all; there is no more speculation if the price is high and rising than if it is stable or declining.

Admittedly a person may buy wheat because he thinks the price will rise. And the owner always *hopes* it will rise. But the gain from the rise in price, which inflation causes, is not due to speculation in this sense. The only way to avoid this sort of “speculative gain” would be for there to be no commodities in the nation at all—a most unsatisfactory alternative and one hardly to be advocated as the route to lower prices.

As inflation progresses, it is true that people more and more become interested in owning commodities rather than in owning other things like money or bonds or life insurance. This is illustrated by people’s actions during the uncontrolled inflation in Germany in the twenties. People, it is reported, would take their pay checks and rush to the markets across the street where they would buy commodities, or old pots and pans—anything that even remotely could be considered as a possible reservoir of wealth. It was not *because* of these acts that prices rose; prices rose because of money inflation, and people acted in self defense under the circumstances.

These exchanges neither increased nor decreased the number of pots and pans then in existence; they only changed hands. And neither did the amount of money in people’s pockets increase or decrease; what was there merely changed pockets.

The same is true of government bonds now. A government official recently said that there should be no speculation in these bonds. Of course, everyone who owns one is speculating in them since the price of the bond and its buying power will either rise or fall. So this plea amounts to a request that people liquidate their



government bonds—sell them back to the government—and spend the proceeds!

“But,” some will say, “how about speculation on the organized exchanges, the ‘futures’ markets? Wheat (or other things) is bought and sold there as paper contracts and not as the physical commodity itself. People buy, and make a profit from the rise. Doesn’t that force prices up and up?”

Trade on these exchanges is not a one-way operation. It is a balanced, two-way operation. Every purchase contract is balanced by a sale contract. There is, then, among the outstanding contract interests at any time, exactly as much speculation for a fall in price as there is speculation for a rise. There must always be two equal and offsetting parts. In this respect it is like a bet, which must have two sides with two opposing interests in the outcome, otherwise there could not have been the bet.<sup>7</sup>

How, then, can it be said that even this sort of speculation *causes* the rise in prices during a period of inflation? The mere fact that more people, as a rule, participate in this type of speculation when prices are rising than when they are stable does not prove that it is the cause of inflation. No one can become a participant and buy into the market “to ride it up” unless someone else, being in complete disagreement or wishing to protect himself against a drop in price, becomes a participant by selling in the market “to ride it down.” They can’t both be right. One must lose whatever the other gains, in *this* type of operation.

Now let us view a rise in the price of wheat by \$1.00 a bushel, as applied to these two concepts of “speculation.”

Let us say that there is in the nation a total of 1 billion bushels of wheat, priced at \$2.00 a bushel before the rise. The nation’s wheat is worth \$2 billion. After the rise to \$3.00 a bushel it is worth \$3 billion. The increase in worth is \$1 billion—whether one person owns it all or whether each of 140 million people owns a part. This measures the gain from the rise in price of the physical commodity itself.

Now suppose that speculators on the exchange bought 10 billion bushels of “paper wheat” in addition. They would have \$10 billion of profits which they could spend on cars and cookies,

and thus feed higher prices. But for them to be in the wheat market, someone had to take the other side and sell 10 billion bushels of “paper wheat.” They would lose \$10 billion, which would offset the profits of those who had bought. These unfortunates could buy fewer cars and cookies.

*The only net dollar gain, for all participants combined, arises from owning the commodity itself; it is no more than if there had been no “paper speculation” at all. It is for this reason that a nation could not become prosperous if all the people spent all their time betting on the horse races. Wealth changes hands that way, but it is not created that way.*

Speculation is like the game of flipping coins. An increase in the number playing the game does not cause heads to come up more frequently.

Speculation on the “futures” grain markets has recently been accused of causing the rise in the price of wheat in this country. Drastic measures have been advocated to deal with it. People who believe it to be the cause of the rise anticipate that these measures will handle the problem. If it is not the cause, the measures are doomed to fail and its adherents are doomed to disappointment. After margin requirements were raised, “to reduce speculation and hold prices in check,” wheat went from \$2.75 up to \$3.15 a bushel.

How do advocates of such measures for dealing with inflation explain the fact that the price of wheat “futures” in the United States is now lower than the “cash” price; that the cash price in this country is lower than in both Canada and Argentina, major exporting countries where trading in wheat “futures” is prohibited? This evidence would suggest that if speculation in “futures” has any effect on prices at all, it must be to hold them down rather than to force them up. Actually, it does neither.

“Futures” markets and organized exchanges, like any other market, do not make the price; they allow trade which *reports* the price. The price is a current one based on anticipated events of the future. If the signs of the future point to inflation, that threat, rather than the wisdom of those who see it, is what causes prices to rise.

An interesting question for the President's Committee on Civil Rights would be to ponder whether the general concept of freedom of speech might not logically include freedom of expression in the market place. When the government suppresses freedom of expression in the market place, isn't it the equivalent of governmental censorship of the press?

Those who judge future events correctly render a service, not a disservice. Only thus can anyone prepare for the future. The government in many of its activities attempts to do just that—to let the people peer into their crystal ball for a peek at the future. If it is evil to judge the future, then all those activities are evil; in fact, doubly evil because taxpayers' money is used for it. In view of their own activities why should government scorn and prosecute those who do likewise with their own judgments in the market place?

Two forms of attack on rising prices are: (1) shoot anyone who appears to have the wisdom to see what is coming, or otherwise attempt to muzzle him, or (2) curb inflation at its source, which changes the signs of the future. The second, much to be preferred, will now be considered.

## *Dealing with Causes*

A simple rule of logic is that in order to prevent a thing you must deal with its *causes*.

In medicine you cannot curb a fever by misreading the thermometer that is recording the patient's temperature; or by fixing it so that it cannot rise above 98.6°F.; or by throwing it in the river.

Likewise in economics, you cannot prevent inflation that has already taken place by falsifying the evidence recorded in the market places where the people do business, or by attempting to fix prices, or by closing markets and tampering with the free exchange of goods and services. Prices are the thermometer of the inflation patient, not the cause of the fever. To fool with the thermometer, and to claim that it protects the health of the patient, is the lowest form of economic quackery. Even if the quack loudly proclaims his love of the patient and concern about his welfare, it does not make his shenanigans any less futile or dangerous.

Curbing inflation requires the treatment of causes, not proclamations of prohibition directed at its effects.

## *The Causes of High Prices*

*There are two basic reasons why prices are now high: (1) the present high cost of government, much of which is buried in the prices of goods and services, and (2) the past dilutions of the money supply. Other causes are incidental and secondary compared with these.*

### *High Costs of Government*

The costs of government took 31 cents of your income-dollar last year (1946).<sup>8</sup>

About one-third of the cost of government was paid in the conspicuous form of "personal taxes." The remaining two-thirds, or 21 cents of your income-dollar, was extracted in ways more concealed but nonetheless extractive. It may *seem* that the concealed part does not exist, or that someone else is having to

pay it. But it becomes buried in the prices you pay, as a consumer, for the goods and services you buy. It is an important cause of high prices and of the "high cost of living."

Your grocer and others from whom you buy, since they are forced to act as tax collectors for the government, are often accused unfairly of profiteering. The ordinary consumer cannot be expected to know what part of the price of beans is for the beans aside from profit, what part is for profit, and what part is for the government; the label of "accurate consumer information" on the can does not tell this.

The average food bill, for instance, took 23 cents of the income-dollar. The private producers of that food got only 18 cents for their jobs of producing it and making it available in stores and restaurants. The difference, 5 cents, is for the *hidden* costs of government which were added to your food bill in one way or another; it is a form of tax bill. The net return on all forms of capital, as interest, profit and other, was only about 2 cents.

Relief shipments abroad have this sort of hidden effect on prices. (The merit or demerit of politically administered relief to Europe is a question separate from its effects on prices.) The government buys these supplies and sends you the bill—in large measure in the form of these indirect taxes which become buried in prices and cause them to be high. This is in addition to the boosting effect on prices of having the food and other things removed from the market. The market for food is such that when the supply is cut one per cent, the price goes up, perhaps, two per cent. So far as consumer prices are concerned, the effect is very much like your paying producers *not* to produce the things you want to consume.

It must never be forgotten that *individuals*, in the final analysis, pay all the costs of government; "things" do not pay taxes. A major part of the costs of government may be hidden from your view, but they cannot be hidden from your pocketbook.

There should be no doubt that reducing government expenditures, to the limit of the proper functions of an efficiently operated government, would be a restraint on prices. If the government continued to take taxes as before, the saving on its

expenditures could then be used to reduce the quantity of money in the country—the force of inflation; to do this would be to reverse the events causing inflation in the first place. And the manpower released could produce more food, clothing and other things for consumers to buy in the market place. Some materials would be directly released, too.

Or, the savings from lowered government expenditures could be passed on to people in the form of lower taxes, thus releasing money with which they could buy government bonds from the banks and thereby reduce the floating supply of money. Or it could be used to buy things from abroad instead of leaving all the money to press on the domestic market, at higher prices.

For one to contend that extravagance of the government does not cause prices to be high is the equivalent of saying that if the government took *all* of people's income and used it to pay them for leisure, prices would not be forced upward.

### *Dilution of the Money Supply*

The other basic cause of prices being high is the past dilution of the money supply.<sup>9</sup> As money is diluted, its buying power is also diluted. Most of us see this dilution only through its effect—rising prices. A rise in prices means that you get less and less for each dollar spent, because this dilution of the money causes each dollar to lose buying power.

A story has been told of the lady who went up to a bank window and asked for a dollar, for which she proposed to pay 63 cents. As the basis for her request, she said that the government recently reported 63 cents to be all it was worth.

The lady was close to the truth; she merely went to the wrong place in applying it. She should have gone to a store, and said: "Here is a dollar. Give me 63 cents worth of goods, because the government has said that 63 cents is what the dollar is worth (in buying power compared with prewar)."

Why has money lost buying power? What factors have caused it?

The units of our money—dollars—may be compared to trucks

hauling gravel. The gravel represents the work to be done by the trucks.

Suppose 100 trucks have 100 tons of gravel to be hauled during a given time. One ton per truck will do the job.

What will happen if the number of trucks is increased from 100 to 200? Twice as much gravel *could* now be hauled in the same period of time, but there is no more gravel to be hauled. There must be adjustment to the new situation. All the trucks might continue to work, and haul only half a ton each; or half the trucks might remain idle.

Now let us switch this illustration to the problem of money and inflation.

The truck may be compared to money or dollars.

The work to be done, the gravel to be hauled, is like the goods and services to be traded—the economic work of exchange.

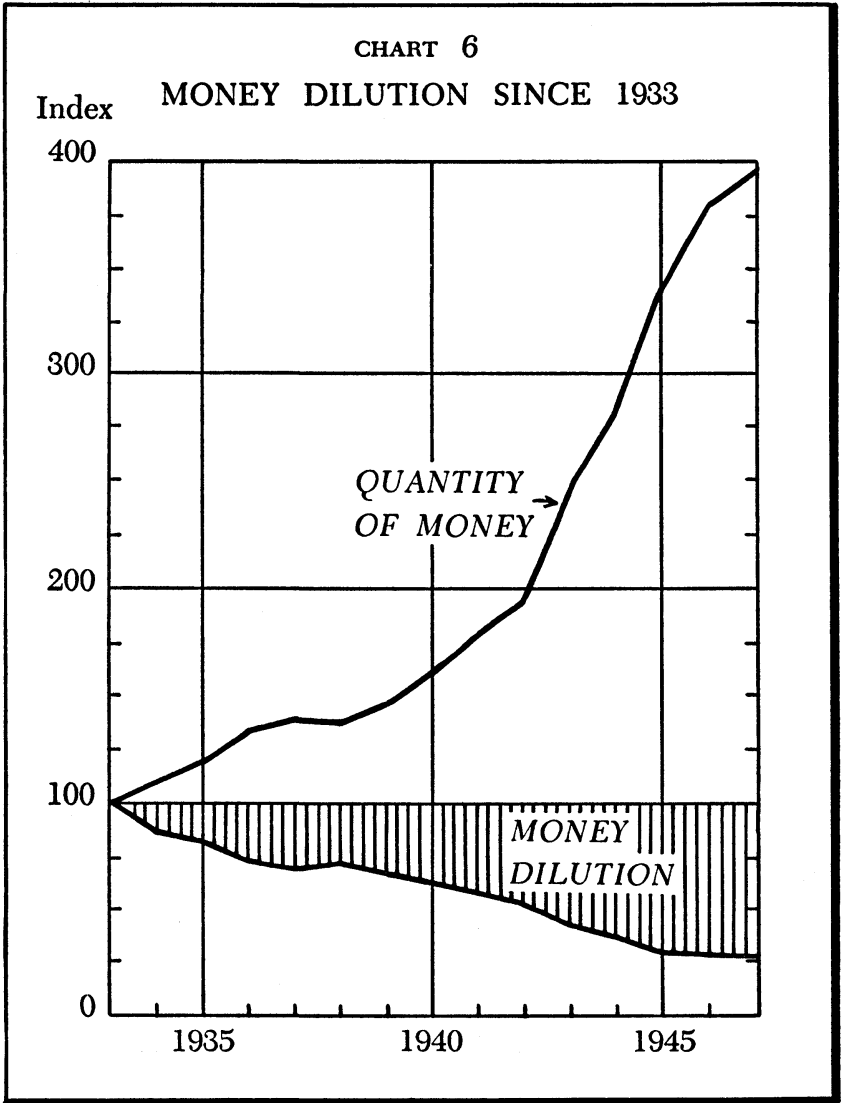
The number of trucks working (vs. idle) is like the use (vs. idleness) of money—indicated by the number of times it changes hands during a certain period of time in servicing the exchange of goods and services.<sup>10</sup>

The size of load is like the amount of goods and services that a dollar will buy. For instance, let us assume that 100 units of goods and services could be bought for \$1.00 in the prewar period.

Since 1933, when the quantity of money (comparable to the number of trucks) reached its low point of the depression, there has been an increase almost constantly (Chart 6). From 1933 to 1946 it increased to 3.8 times; from 1939, to 2.6 times. This measures the degree of dilution of the money.

If nothing else had changed during this period, we might have expected that each dollar would have “hauled” only 38 per cent as many goods and services (1 divided by 2.6) as it did in 1939. That is, we might have expected each dollar to buy only 38 per cent as much in 1946 as in 1939. But several other things happened too, which must be taken into account.

About one-third more consumer goods and services (comparable to the additional gravel to be hauled) was produced in 1946 than in 1939. This neutralized a part of the money dilution. Taking this into account, the estimate is raised from a “38 cent



Note: The following explanation assumes that factors other than the money supply remain unchanged.

Increasing the quantity of money dilutes its value and causes prices to rise, thus reducing what a dollar will buy.

Portrayed in the manner of this chart, the lower border of the



dollar” to a “51 cent dollar.”

And money was used less efficiently in 1946 than in 1939 (comparable to some of the trucks remaining idle); “turnover” was less by 17 per cent. The effect of this is to neutralize some more of the money dilution. This adjustment results in a final estimate of a “61½ cent dollar.” *When we look at prices that prevailed in the market place, we find recorded there a “62½ cent dollar.”* Expectations were about as close to what happened as the accuracy of the data would allow us to calculate.

Judging from the money dilution alone, one would have expected every dollar to have lost about two-thirds of its value from 1939 to 1946. The loss was less than this amount, in part because some of the dollars remained idle; that is the same, so far as its effect on prices is concerned, as if the dollar either didn’t exist or was worthless (during the period of idleness).

In part the loss was less because about nine million idle workers of 1939 went back to work, many part-time workers became full-time workers, and there was some increase in the number of people of working age—all of which made possible the increase of one-third in total output of goods and services.

### *The Cause of Recent Price Increases*

Prices rose considerably from 1946 to midyear 1947. The consumers’ price index rose 13 per cent, hourly pay to workers in manufacturing rose 13 per cent, hourly pay to retail workers rose 12 per cent, etc.

Many attribute this rise in prices to the termination of price controls and rationing. Believing this, they then urge the reestablishment of price controls and rationing, in the sincere belief that their termination was the cause of the rise. Before accepting the proposed cure, let’s see *why* prices rose.

Judging from figures that are still preliminary, this is about 

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 “money dilution” wedge shows the worth of a dollar or what a dollar will buy. For it to be reduced to zero, the quantity of money would have to increase to infinity. The shaded area, or money dilution, is determined by the reciprocal of the quantity of money, with the starting base (1933) as 100.

what happened from 1946 to midyear 1947:

1. There was slightly more work for money to do (production of goods and services).
2. Some idle dollars, by about 12 per cent, were put to work (“turnover” increased).
3. There were 4 per cent more dollars (quantity of money).

When these forces are combined, one would expect prices to have been about 15 per cent higher in midyear 1947 than in 1946. And that is about where they were. Some in short supply, or previously having been kept down by subsidies, rose by more than this amount. Others, previously reported in terms of the *legal* price, now came to report reality on the price tag. Black market prices came into the indexes, quality goods came back into the indexes, things unobtainable at previously reported low prices came back into the markets at the higher prices.

How, then, can it be said that the removal of price controls and rationing caused the rise? Did the removal of these controls cause an increase in the quantity of money in use, or did it *decrease* the supply of goods and services, or did it cause the rate of turnover of money to increase? If one believes that it did none of these things, then termination of controls cannot be held responsible for the rise in prices since 1946.

And if the removal of these controls did not cause the rise, their reestablishment would help *none whatever* in restraining any future rise of prices. In fact, we would then become further saddled with these controls and with all their resulting problems and effects, such as reduced production. That would boost prices, not restrain them.

In the van of public concern now is the high cost of food. The heavy drainage of supplies from our markets for shipment abroad, which raises prices here, did not arise because price controls were removed! And farmers, who merely produce this food, did not *cause* the rise either. Interestingly, two or more decades ago the farmers of this nation pressed with vigor for a scheme that would have subsidized exports at public expense; their efforts failed; the plan never became law. Now they find themselves accused of causing the rise in food prices when they

are the recipients, albeit not reluctantly, of benefits from subsidized exports not of their doing. The only sense of guilt a farmer might have in the whole matter is when he cashes his check for a part of the six or seven hundred million dollars of benefit payments from the government (the taxpayer).

## *A Look toward the Future*

In previous sections we have seen how the price-making forces have changed over recent periods of inflation. We have seen how closely they explain the changes in prices as reported in the market places of the nation.

This serves to illustrate the forces involved in determining prices. In summary, it includes the money people have to spend, the extent to which they spend it or allow it to lie idle, and the quantity of things on which it can be spent.

This record of the past also serves as a means of judging the future. It identifies what must be done in coping with inflation, and what measures would be futile—or worse than futile.

The fact that an estimate of prices, on this basis, was close to prices found in the market place should not be taken to mean that prices will stay where they are—controls or no controls. Prices in the future, as in the past, will change to the extent that these price-making forces change.

What about each of them?

### *Production of Goods and Services*

Unlike increases in the quantity of money and in its “turn-over,” which boosts prices, an increase in the production of goods and services works in reverse and *restrains* prices. What are its future prospects? Can we expect production to increase rapidly, and to curb prices?

Following 1939 when nine million unemployed persons went back to work, the increase in production which their reemployment made possible restrained the rise in prices that otherwise might have occurred. The increase in goods and services for civilian use by 1946 was equivalent, in its effect on prices, to a reduction of perhaps one-fourth in the money supply. That is, because of this increase in production, prices were restrained by perhaps one-fourth (other things remaining unchanged). But restraint from that source—unemployed persons going back to work—is now at the end of its rope. It can bring no further relief

from inflation because there is now essentially no unemployment.

The only way to increase production from here out is by other means than unemployed persons going back to work. Further increases in output (aside from the slow growth of population) must come from:

1. Working longer hours (at no more pay, if this is to restrain prices).
2. Turning out more product per hour, by
  - (a) Reducing “feather bedding” and other practices of leisure on the job, and by
  - (b) Increasing the efficiency of workers, which means more and better tools and techniques, with greater output per worker.

Production could be boosted greatly, and prices restrained, if self-discipline were to be reestablished so as to reduce leisure on the job. This requires payment of workers according to performance in production, not according to presence on the premises. If this were done and known to continue, the effect on production and prices would be prompt and probably of considerable proportions in some occupations, though it is hazardous to guess how much.

Increasing production by more and improved tools and techniques gives little hope for quick help. It is a slow process. In the best periods of this nation’s history, the rate of increase was only about 2 per cent a year in the output per hour of work. And for the past two decades the “tools of production” per person have been declining. That is not a rosy picture for the near future.

To correct this situation, as previously discussed, measures must be adopted that will encourage private capital investment and enterprise. Then, slowly, new tools of production will be added and output gradually increased.

Output of consumption goods is being kept at present levels only by robbing the larder and by wearing out the tools of production. This cannot long continue. It is like eating up your seed wheat, which allows you to live well for the time being, but

next year you must go without.

Working longer hours would increase output and make more goods and services available. But its cost would be high because of overtime wage rates in the wage contracts.

*If increased production is to reduce prices, or restrain their rise, it will have to be with more output per dollar of wage cost.*

This is the important point about the “wage spiral.” Wages can and will go up and up, so long as the money of inflation makes it possible to finance higher and higher wages from increased prices to consumers in the market place. This is what has happened to date.

Inflation is mainly responsible for the *general level* of wages being where it now is. Despite high taxes and their effect on profits (previously discussed), consumers have had the money and the willingness to buy all that was produced, and maintain full employment. There have, to be sure, been exceptions where wage rates were far out of line with the market for that labor, and where the output of labor has been notoriously low. And for an earlier date this conclusion probably would not hold. But as to the excitement over wage rates that *now* prevail, inflation rather than unbalance in the powers of negotiation is believed to be mainly responsible; it is like an exciting prize fight where the decision had already been determined in the locker room in advance.

The “wage spiral” and coercive methods of setting wage rates contains, however, great danger. Any coercive or monopolistic method of setting prices for either jobs or mouse traps naturally cannot be depended upon for restraint in the use of its power; it sets the price too high; jobs or mouse traps are priced out of their markets; unsold labor (unemployment) or unsold mouse traps (either piled-up inventories or unemployment from reduced production) is the inevitable outcome.

Coercive methods of setting wages are a threat to the jobs of workers, and a threat to high production of goods and services. A critical time is in the offing!

Other arbitrary methods of setting wages, such as on the basis of the cost of living, may retard production if the wages are set so

high as to price the worker out of his job. Any wage set so high that you do not get the job at all is a poor way to meet the high cost of living. An idle machine fails to produce any goods of living. High wage rates mean nothing to an idle laborer whose idleness is the counterpart of the lack of output from the idle machine.

### *Money "Turnover"*

Another factor affecting prices is the amount of work done by the money supply. A dollar left idle is nonexistent, so far as its effect on prices is concerned.

Since 1929, the proportion of money remaining idle has varied greatly; "turnover" has varied between 10.7 and 29.9. This shows how important it is as an influence on prices. During the past year it has been the most important factor in the rise of prices. What will happen in the future?

Money turnover dropped to a very low point during the war, when people allowed their "savings" to lie idle in anticipation of postwar cars, refrigerators, etc. If turnover of money should return to the level of 1935-1939, and other factors remained unchanged, prices would be about 20 per cent above their 1947 levels. And if it should return to the average level of the 1920's, when last there was an extended period of peace-time full employment and general prosperity, prices would be up by about 80 per cent from the levels of mid 1947.

Velocity seems to be mainly a reflection of many influences, and little can be done to control it by direct means. Much can be done by indirect means.

When people draw checks on their bank balances, or spend the money in their pockets, it is because they want the things they are buying more than they want the money. The proportion of money in use is thereby increased. Velocity tends to be low when people wish to hoard money, and are reluctant to spend it for any reason. It tends to be high when they think money is going to lose value and when they lose confidence in the future of the money; when they want goods instead of money; when business

is booming; when they are anxious to spend. The things that cause people to change their actions in these respects are what affect velocity.

The course of least resistance now seems to be toward higher velocity.

### *Quantity of Money*

The most important cause of the rise in prices since prewar has been the increase in the supply of money. *That is inflation.* Any *violent* changes in the supply of money in the future, as in the past, will dominate the course of prices, though as we have seen it is not the only factor of influence.

Most of the increase in money supplies causing present high prices was the result of the government's living beyond its income. The connection between the two is most important in understanding the origins of inflation. Money cannot retain its buying power, over time, if the government budget is not balanced. This has been demonstrated over and over again, from before the bread-and-circus days of Old Rome to the dismal episodes of modern times.<sup>11</sup>

In this country the Federal Government lived beyond its income every year from 1931 through 1946 (Table 2). Much of this, in amount, was during the war while the illusion was being pursued that the costs of war can be postponed. In attempting postponement, pieces of paper were substituted for the goods and other products of labor destroyed during the war.

When the government, like a family, lives beyond its income it must go into debt; or if it cannot borrow or beg, it starves. The debt of the Federal Government has increased by \$253 billion since 1931.

Not all this increased national debt has become "money," as that term is commonly used. But it has all become either money or a possible rain check on money-creation in the future.

Of the increased amount of national debt since 1931, about two-fifths of the total has already become money through "monetization of the debt." This means that the government, in



Table 2  
Deficits of the Federal Government

<i>Year</i>	<i>Yearly deficit per family</i>	<i>Cumulative deficit per family</i>
1931	\$ 13.39	\$ 13.39
1932	66.37	79.76
1933	63.14	142.90
1934	104.59	247.49
1935	145.94	393.43
1936	122.20	515.63
1937	67.48	583.11
1938	33.20	616.31
1939	81.80	698.11
1940	88.55	786.66
1941	149.53	936.19
1942	519.78	1,455.97
1943	1,398.28	2,854.25
1944	1,250.21	4,104.46
1945	1,308.84	5,413.30
1946	511.33	5,924.63
	.....	.....
Total	\$5,924.63	\$5,924.63

Total deficit for all families  
in the nation

\$244,153,000,000.00

Source: *Economic Almanac*, 1946-47, by the National Industrial Conference Board.

Note: Number of families considered to be the 41,210,000 "consumer units."

order to meet its excess of expense over tax income, created new money in the banks for the purpose. This process stopped its rapid rise in 1946. Whether or not it is resumed will depend on whether the government resumes spending beyond its income, and on how it makes up the difference. "Spending," as far as this

problem is concerned, includes “loans” to foreign nations—anything, in fact, for which the government pays money to someone. Whether the government is to balance its budget, or have a deficit or surplus, is a speculative guess.

In addition to bank loans to the government, as a source of new money, net loans to private business and to individuals may affect the future quantity of money. The increase in money supply during the last year has been mainly of this type. If business continues to boom, there will be a greatly increased demand for bank credit to meet the high costs of capital replacements and other increased costs of doing business. And if the credit base permits, this demand will be met. A sizable expansion of this type could still occur.

Government credit now outstanding with the banks could be reduced and thus allow expansion of private capital to meet its needs without further expansion of the money supply. One way would be to reduce government expenditures and over-balance the federal budget, using the balance to reduce government credit held by the banks. Another is to move government credit from the banks to non-banking sources, which merely postpones the threat of expansion of the money supply until a later date when the bonds may be turned into cash.

The other three-fifths of the increased national debt required to meet the federal deficits since 1931—the part not becoming new money at once—was financed by government loans to individuals and non-banking institutions, and taken from their “savings.” Herein lies a great threat of future increases in the money supply. Some of these loans are due on demand, and if cashed might immediately become new money. The remainder comes due at some future date, and at that time the owner will have the option of taking money instead of a new bond in its place. If he takes the money, it may have to be met by the creation of new, inflation money.

This present and overhanging threat of a *forced* increase in the money supply is tremendous, aside from any additions in the future. About \$160 billion of government securities are now held by non-bank investors. This can be compared, in judging its

magnitude, to the total quantity of money in the country which was about \$60 billion before the war and \$165 billion now.

When one notes these things: when one notes what has already happened to the money supply of the country (a dilution to nearly four times since the early thirties or nearly three times since 1939; a deficit since 1931 amounting to one and one-half times the estimated wealth of the nation before the war in all forms of real property and its improvements—farms, homes, everything);<sup>12</sup> when one notes the tremendous addition of new money in the form of the government securities now redeemable or soon coming due; when one notes the present and possible future level of government expenditures;<sup>13</sup> when one notes all these, it then becomes clear why there is a fear of talking about the problem. There is ample reason to fear that panic might ensue, if people fully realize what *has* happened, what is *now* happening, and what is being schemed up for the future. Who wouldn't become greatly concerned over such a progressive destruction of the currency?

As explained previously, panic results from ignorance and surprise, not from understanding. For only out of understanding can come the wisdom necessary for corrective measures. The only safeguard is to put the nation's financial house in order, promptly and fearlessly. This is no time for mere gestures and half-way measures.

\* \* \* \* \*

Such is the nature of the economic sin that has been, and is being, committed. Like other sins which are visited unto the third and the fourth generations, this one has an effect that may be delayed but is unavoidable.

As to where responsibility lies for the money factor in high and rising prices—the inflation itself—no better authority can be given than this:

The Congress shall have Power . . .

To coin Money, regulate the Value thereof, . . .

Constitution of the United States

Article I, Section 8.

## *The Modern Route to Inflation*

In dealing with our present inflation problem it is an absolute necessity to understand the nature and method of the present model of inflation.

Increase in the money supply by any means whatsoever is inflation.<sup>14</sup> Any increase in the quantity of money, its dilution, presses upward on prices. What gives money its value is the supply of goods and services for which it can be exchanged—the economic “good things of life” that are available for people to buy. The money is like warehouse receipts for goods stored in a warehouse. All the outstanding receipts are worth no more than what is in the warehouse.

Suppose that the warehouse contained 100 bushels of wheat, and that there were 100 of these receipts outstanding. Each would be a claim on one bushel. If you doubled the number of receipts, without any increase in the wheat, each receipt would lose half its “buying power”; it would become a claim for only a half-bushel of wheat. The receipts lose worth in proportion as they are increased.

It is that way with money. Dilution of the money, by issuing more of it, makes each dollar—each “warehouse receipt” for the nation’s goods—worth less. In Germany, for instance, the marks were diluted a trillion times during the early twenties and became worthless.

Making money and scattering it by airplane will not make a nation wealthy. It only destroys the value of each dollar, more and more as increased quantities are scattered.

The time was when governments, like families, lived within their incomes. This may be surprising, but it is reported by historians to be true. What the agents of government could spend was limited by what they could collect from the people in taxes. Sometimes the tax collector was quite ruthless and aggressive, but a checkmate was used by the citizens in those days who had their own unique ways of dealing with such intolerable conditions.

But time marched on. The art of financing government be-

yond what the people were willing to support by taxes developed a new technique. Money was in the form of metal pieces, coined for the purpose. Some genius thought of this: why not have the government clip a little metal off each coin, as it passed through the government coffers, and make these clippings into new coins. That would be much easier than tramping the roads collecting taxes. Individuals who tried the same trick were dealt with as criminals. But the government did it, and the practice became known as “clipping the coins.”

This caused a lot of confusion, and in many ways it didn't work out so well. Coins had different weights. People refused to accept the lighter ones. More uniformity was needed, more orderliness in clipping the money.

Many other devices were then used, having the same effect, and with varying and limited success. One was for the government to keep the metal (usually silver or gold) in its vaults. Instead of having coins made from it, for the people to use as money, they would issue warehouse receipts to be used as money—paper money, each piece of which was a claim on the same amount of metal in the vault as formerly circulated in the form of a coin. Then the dilution of the currency became easier and completely socialistic; each unit of money was clipped by an equal amount. It was easy now to issue warehouse receipts in excess of the gold in the warehouse. More and more could be issued as wanted. Each new piece of paper could be made to look exactly like the former ones, and they would circulate side by side without prejudice. When an individual did the same thing, it was called “counterfeiting,” and he was in trouble with this same government's policemen.

Now we come to the modern method, probably more subtle and less understood than any of the others.

Deficits of the government since 1931 (Table 2) total \$5,924.63 per family. This is the amount that the Federal Government spent in *excess* of its income from taxes, etc. Had it been collected as taxes from this family, so that the government would have been enabled to live within its income, the family would have been drained of \$5,924.63,<sup>15</sup> and would have had a tax

receipt to show for it. The deal would have been closed. The family would have had no claim on this amount to be returned to them at some future date.

But lacking enough income to meet its expenses, the government borrowed it. As previously stated it was borrowed from individuals directly or indirectly (through their non-banking institutions and their banks). Instead of having a tax receipt for \$5,924.63, with all accounts settled, the family now has this amount of "savings" in the form of government bonds, etc., owned by them either directly or indirectly.

Thus these "savings," arising from the governmental deficits which were created to pay for everything from raking leaves to trying to blow up Berlin, came into being as a substitute for taxes. And pieces of paper or bank accounts, called "savings" and now existing as money, are merely the equivalents of tax receipts.

But there is one most important difference. A tax receipt cannot be used for money; you cannot buy groceries with it. You *can*, however, buy groceries with these "savings." They are "legal tender," the equivalent in exchange of any other money by law.

Since these "savings" came into being by increasing the debt of the Federal Government, they are two-faced. If we call one side "savings," having buying power for its holder, we must consider the other side to be a debt, which it is, robbing someone of buying power. The way the buying power is robbed is through the high prices which result.

A piece of paper money originating from this source, which on its face says "\$1.00 of legal tender" should say on its hind side "\$1.00 of debt." But the hind side is less clear to our view. And whereas the legal tender side is the property of the owner alone, the debt side is an "obligation in common." You own some of the debt represented by the other fellow's "savings," and he owns some of yours.

These "savings" and the share of the debt have become misplaced between persons, as always happens, so that *your* share of the debt does not exactly equal *your* share of the "savings." If it did, the situation would be similar to having had the \$5,924.63 per family collected in taxes.

This new money has no backing, to speak of, in the form of real wealth and goods that people will buy. How much, for instance, would you pay for what is left of the bomb that burst over Hiroshima? Whatever you would pay for it is exactly what the new money should be worth that was issued to pay the costs of producing that bomb.

The new money is like warehouse receipts on an empty warehouse. Despite this fact, it has been given the respectability and acceptability of the other money that previously existed, for which there were goods in the warehouse to give it worth and buying power.

Rather than for certain dollars to be completely worthless, thus preserving the full worth of the remainder, inflated prices spread partial worthlessness over *all* the dollars.<sup>16</sup>

Like the devices of money dilution in the olden days, this newly created money is the equivalent of counterfeit money. The difference is in who does it. Both are inflation of the money supply. Both reduce the buying power of all other money earned for production of marketable goods. Both give the maker of the money (government or counterfeiter) a claim to the product of other's labor as a reward for merely making the money. Some may contend that the government will put its manufactured money to a better use than would a counterfeiter, but even that difference may be debatable.

It is much easier to manufacture new money than to manufacture ordinary goods and services. Therein lies the main "miracle of production" that occurred during the war—an accomplishment without substance or honor!

The Executive Branch of the Government, with the assistance of its Council of Economic Advisors, said in its midyear 1947 report, page 1:

At midpoint in the year 1947, we have surpassed previous high records of civilian production, and are now producing goods and services at a rate of 225 billion dollars annually.

This speaks of production in terms of dollars, at inflated prices. Nearly two-thirds of this miraculous increase in *dollar*

*value* of consumer goods and services since 1939 has been due to dilution of the money—the production of *money*, not of goods and services; one-fourth has been due to the miracle of idle persons going back to work; less than one-eighth of it has been due to all other causes combined—an amount hardly to be described as miraculous.

An exaggerated notion about our capacity for miraculous production can do great mischief. To correct any such false notion is to protect the future honor of industry and of industrial workers. Even a king of home runs in baseball becomes a “failure” whenever the notion becomes established that he can hit one every time at bat. Some have put free enterprise in a similar position, with seeming praise about a productive capacity sufficient to hold prices, no matter what. It has been said frequently that free enterprise was now being given *one more last chance*. One more chance to do the impossible, and if it fails, an authoritarian economy?

This is the nature of the modern route to inflation.

“What,” one may properly inquire, “has happened to the power and authority of Congress over the national currency, as prescribed in the Constitution?”

If the Congress is to protect the integrity of the national currency, prevent inflation, hold prices in check and preserve our progressive way of life, it will be necessary to prohibit this new process of “clipping the coins.”

\* \* \* \* \*

Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens.

JOHN MAYNARD KEYNES

*The Economic Consequences of the Peace*, p. 235

(Harcourt, Brace and Howe)

They knew!



## *What Should Be Done?*

The first necessity is to understand clearly the nature of the problem of high prices, which has been the primary purpose of this study.

With understanding of a problem, the answer to what should be done about it becomes almost self-evident—at least in general terms. Yet many specific measures are called for. The following questions point up some important considerations near the heart of the problem of high prices.

1. In order to reduce the money supply through a reduction in the government debt, should the government emulate that great institution, the taxpayer's family, by establishing a definite system of careful spending of a *limited* income?
2. Should the government be prohibited from monetizing any more of its debt with the banks?
3. Should interest rates be freed, rather than to continue depressing them artificially and encouraging buying at high prices with borrowed money?
4. Should control over credit be restricted to overall controls of the money supply, rather than to have a confusing patchwork of insufficient measures, thus leaving the credit agencies free to operate within this total?
5. Should the granting of loans and gifts, both within the country and abroad, be left to individuals and private agencies of credit and charity on a voluntary basis, as a means of reducing the money supply or of preventing its increase?
6. Should the government discontinue all forms of taxing enterprise, incentive and success, as well as thrift, beyond a proportional sharing of the *necessary* costs of government; and should it discontinue taxing the same income more than once?
7. Should public works programs be discontinued, and all private capital ventures be scrutinized with special care in view of the high costs and the inflation pressure?

8. Should the government discontinue *every* form of paying able bodied persons, both here and abroad, for not producing?
9. Should the government discontinue taxing “profits” and “gains” arising solely from inflation? Should the government, having first created the inflation money for its own over-spending (as a form of tax), then be permitted to tax the *resulting* rise in the price of things?
10. Should liberty be *fully* restored in the market place, for buyers and sellers of goods and services, for the monies of the various countries, for gold and all other precious metals? Should economic censorship—the prohibition of free expression by individuals in exchange of goods and services—be tolerated any longer in this nation which was founded on liberty?

## *Conclusion*

Such measures, in brief, point to the fact that agents of government have been mainly responsible for the inflation we have had. And if inflation is to be curbed, agents of government must reverse the processes of past years. Since inflation is basically a money question, and since control over money resides with the government, the placement of guilt for past events as well as responsibility for the future rests clearly on its shoulders. This means that it rests on the shoulders of those persons with authority in the government.

Instead of accepting this responsibility, and taking the necessary measures, we find some agents in government engaging in the old game of throwing decoys in the way of search for enlightenment on this subject. Whether done in innocence or with malicious intent, the effect is to increase the confusion and perpetuate the disease. The good intentions of a mistaken doctor will not protect a patient against a poisonous medicine given him by mistake.

In self-defense, agents of the government may contend that the ignorance of the people will not allow them to take sound measures against inflation. Perhaps there is some truth in this claim. Pressure groups have been conspicuous in supporting measures of economic quackery. But many leaders in government have studiously avoided statesmanship on these issues too! Like the pressure groups, these persons have pressed toward more and more inflation, not less; they have been feeding the patient toxin, not antitoxin.

Under the spell of rising prices—the present penalties for past sins of inflation—some persons in government have encouraged turning the search for truth into a witch hunt. One is reminded of the trick of a robber who commits a crime and then joins the angry mob in search of the robber. In this inflation crime, persons who have been parties to the crime divert attention from themselves by accusing innocent persons.

The situation calls for courageous statesmanship by members of the government, who should be encouraged in their efforts by

all intelligent citizens. Though the situation is serious, it is not hopeless.

The one sure hope, the only means of avoiding catastrophe and panic, is to have a thorough understanding of the problem—and then to act accordingly.

\* \* \* \* \*

Thus ends the case presented by the “State’s Attorney.”

As a member of the jury, where do *you* believe the label of guilt belongs? Therein lies the clue as to what must be done if inflation is to be curbed.

# Appendix I

## *Inflation*

Inflation means an increase in the means of payment, used in exchange, in relation to the volume of exchange being performed.

The means of payment may be in the form of coin, paper money, checkbook money, or other. If it has common acceptability as a means of payment in the stream of trade and commerce, it is included in the so-called "means of payment." All legal tender money is, of course, clearly included.

Unfortunately it is impossible to determine at any time with perfect and undebatable accuracy either the quantity of "means of payment" or the volume of exchange. Rather crude estimates or approximations must always be used. Any exposition on the seriousness of the problem of inflation, however, makes it imperative to accept one or another of these estimates in order to focus attention on the forces at work in inflation. Any one of several measures would give the same *general* conclusions, differing only in detail.



## Appendix 2

### *Information about Table 1*

Sources: *Midyear Economic Report of the President*, July 21, 1947; *National Income Supplement to Survey of Current Business*, United States Department of Commerce, July 1947; *In the Grip of Inflation*, by A. M. Clifford, April 1947; *Banking and Currency Statistics* and *Federal Reserve Bulletin*, by the Board of Governors of the Federal Reserve System; *Economic Almanac*, by the National Industrial Conference Board.

Note: These comparisons of buying power are based on the assumption that prices in 1946 were 60 per cent higher than in 1939 for all goods and services on which incomes were spent. Here are some samples of prices on which this assumption was based: "All commodities" up 57%, food up 67%, clothing up 60%, the cost of building or buying a house up about 75%, house furnishings up 57%, the cost of an hour of hired labor in the retail trade up 64%, etc.

Corporation net profits are after inventory valuation adjustments, a "paper profit" item which cannot become income to individual investors if the corporation is to continue as a going concern; it earns nothing in the business; it will have to be offset by "paper losses" in any period of falling prices. Leaving this item out of profits is consistent with treatment of it by the United States Department of Commerce in figures for "National Income" and "National Product."

Lack of information made it impossible to make all figures exactly comparable. For instance, it would be interesting to compare farming with other noncorporate business by a finer breakdown than this, which combines in one figure: (1) return for the owner's work, (2) return for his capital, and (3) pay to the government in taxes. Differences in the incidence of the many forms of direct and indirect taxes could not be determined for many of these groupings, and only partially for others.

“Taxes” on corporations included the direct profits tax but excluded all other forms of tax applied in one way or another to the product; it also excluded personal tax on the receiver of dividends from these profits.

“Taxes” on “all personal incomes” included all taxes, direct and indirect, wherever collected and in whatever form.



## Appendix 3

### *Quantity of Money*

The measure of means of payment used in this study is *total deposits, adjusted, and currency outside banks with a further adjustment for the abnormally high wartime balances of the United States Government*, which have since been reduced to near the prewar level. The term "money" was used instead in this treatise, as an aid to readability. But the author does not wish to imply thereby that this is a proper definition of money, or that it would serve all purposes.

This discussion deals with the problem of the money supply available for spending. It thus seemed advisable to include all deposits, since they can all readily become means of payment at the will of the depositor. Some other items not included might seem to fit this description, such as government bonds held by individuals and redeemable at will. But such items were excluded in order to have a comparable measure, readily available and officially published, of the degree to which "money" is idle as means of payment.



# Appendix 4

## *Idleness of Money*

The extent to which money is left idle, rather than being used to its full efficiency in exchange, is frequently called "turnover." That term is used in this treatise to represent this characteristic of money use (vs. disuse). The fact should not be obscured, however, that whereas one figure for "turnover" is used to represent the efficiency in the use of money in exchange during a specified period of time, it varies because of variation in the *idleness of individual units of the money supply*.

This feature of money use is difficult to measure, because of the complexity of forms and uses of money in exchange. But adopted for the purpose of this analysis was the *annual turnover rate of total deposits, excluding interbank deposits and collection items, for all commercial banks*, supplied through the courtesy of the Federal Reserve Board.



## NOTES

1. The Foundation for Economic Education, Inc., and earlier printings.

2. Appendix 1.

3. This figure differs from the 94 per cent in Chart 1 because the question here relates to the entire price structure of the nation, for 1946.

4. The tax was levied on the 23.7 base, including "inventory profits," even though the Department of Commerce *excludes* this item from estimates of National Income and National Product.

5. For method of calculation, see Appendix 2.

6. See: *The Prospect for Economic Growth*, by C. Reinold Noyes, President of the National Bureau of Economic Research, *American Economic Review*, March, 1947, Vol. XXXVII, No. 1; *National Product Since 1869*, by Simon Kuznets, National Bureau of Economic Research.

7. It should be noted in passing, though outside the scope of this discussion, that there is an important and useful function to be performed by these "paper contracts" traded on the exchanges. Hedging, for instance, serves to protect its user in the same way that fire insurance does. It is a system whereby the risk of price change can be bought or sold as a feature of protection, and carried by those willing and able to do so.

8. For a more complete discussion of this subject, see: "31¢," The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York, 1947; reprinted in volume 2 of *The Writings of F. A. Harper*.

9. Appendix 3.

10. Appendix 4.

11. For thorough reports on recent illustrations, see, among others: "Economie et Finances de la France, Passe et Avenir," by Robert Wolff, 1943, covering the financial history of France from 1919 to 1939; also, "The Economics of Inflation," by Costantino Bresciani-Turroni, 1937, which is a study of currency depreciation in postwar (I) Germany; also note current reports of continued serious unbalance in the budgets of France, Italy, etc.

12. As a result, the national debt now stands at \$258,000,000,000. Its magnitude almost defies comprehension. One way to judge it is this: at the rate of reduction in the federal debt envisioned in the President's recommended budget for the present money-prosperous year, this debt would finally be paid off by its continuation until the year 2145!

13. On this point, one cannot document the unknown. But the War Department has estimated that the total costs of World War II for this country, including veterans "benefits," will reach \$700,000,000,000 by 1972—and it would probably be unfair to accuse that source with

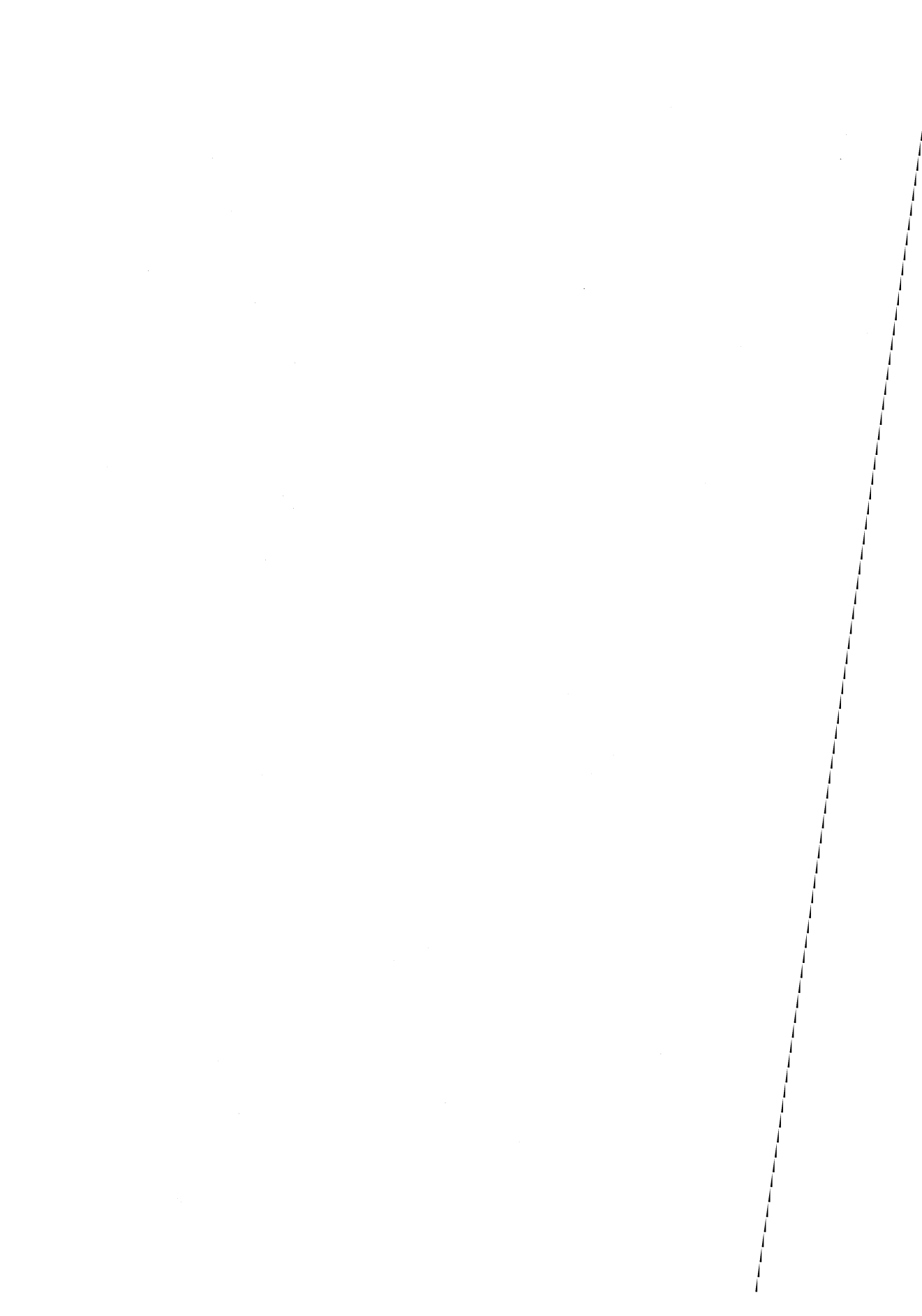
padding this estimate! As to possible transfers of United States wealth abroad, at the taxpayer's expense, estimates of the proposals total \$20,000,000,000 or more. And one hardly dares even guess a figure for the costs of all the "public welfare" schemes proposed for the old, the young and the middle aged.

14. Appendix 1.

15. Less whatever part represents the inflation dilution of the currency, under the situation that has prevailed.

16. *The New York Times*, November 19, 1947, reports an interesting proposal by a most high official of the British Government. It is the cancellation of all British currency, fully and completely, which he has been considering.

III  
Liberty:  
A Path to Its Recovery





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## *About This Exploration*

Mindful of the scope and complexity of the problem of liberty, these exploratory remarks on the subject are offered with humility as a progress report. It is hoped that they may stimulate further thought and study of this most important problem, among those who will disagree as well as among those who will agree.

Present associates and others deserve credit for the inspiration that has resulted in the development of these concepts of liberty. Probably most of the ideas have been contributed by them, though the origin of any idea cannot be traced. The parts that meet with their disapproval, however, are solely the responsibility of the author; he has not been asked to bend a word or a phrase against his own judgment, in deference to the differing opinions of any other persons.

Though these are the author's beliefs at the time of writing, he expects and welcomes honest disagreement. His own opinion will undoubtedly change on certain points as a result of evidence or reasoning not now at his command.

The path to truth is always strewn with the wreckage of ideas once held and later discarded, either by the person who held them or by others. Differing opinions and changes of opinion are the rights of persons under the subject being discussed—*Liberty*.

F. A. Harper

May, 1949

# Part 1

## THE DESIGN OF LIBERTY

*The world has never had a good definition of the word liberty, and the American people, just now, are much in want of one. We all declare for liberty, but in using the same word we do not all mean the same thing. With some the word liberty may mean for each man to do as he pleases with himself, and the product of his labor; while with others the same word may mean for some men to do as they please with other men, and the product of other men's labor. Here are two, not only different but incompatible things, called by the same name—liberty. And it follows that each of the things is, by the respective parties, called by two different and incompatible names—liberty and tyranny.*

Abraham Lincoln



## *Chapter One*

# The Nature of Liberty

Opinions differ widely about liberty. They differ widely as to what comprises liberty, as to how much of it we now enjoy, as to the amount that has been lost in this country.

The extent of difference of opinion as to what comprises liberty is indicated by the widely differing ideologies whose advocates claim to be correct in their particular concept of liberty. This includes the Republicans, Democrats, Socialists, and all the other political organizations. It includes most civilian organizations of various sorts, such as the churches. It includes the United States, Britain, and Russia. All claim to be championing the cause of liberty.

Many persons are unconcerned about liberty, which is still another attitude toward it. Many seem to consider liberty to be a thing of geography or of heredity. These persons loll in unconcern because they feel assured that liberty is safe in this country to which their ancestors once fled from autocratic tyrannies abroad. They seem to be unaware that the sons of free men may become slaves even in a land where a high degree of liberty has reigned.

Whatever the reasons for these widely differing beliefs about liberty, it is certain that harmony of action requires, as the first step, agreement on what comprises liberty; otherwise it is impossible to agree on its presence or absence, or on the conditions now suppressing liberty.

The main purpose of this study is to offer a concept of liberty that may serve as a guide to its recovery. First I will give my concept of the nature of liberty and of the function of government in maintaining a liberal society.<sup>1</sup>

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The spirit of liberty, denuded of philosophical terms, was expressed thus by a child of eleven years:

I'm nobody but myself,  
And myself is only me.  
I'm only myself in doings and ways,  
And my mind is mine only, you see.

This verse reflects on the fact that liberty is an individual matter; that without liberty for the individual, there is no liberty at all. To recognize the individual nature of liberty is not to deny, as will be discussed later, that it is possible for "government" or other agencies to serve in defense of liberty. But first there is need to survey the individual nature of liberty so that it will not be lost from sight in a discussion of "group action"—government, democracy, organization.

Liberty exists when a person is free to do whatever he desires, according to his wisdom and conscience.

This definition of liberty may well prove shocking. There may be an immediate temptation to say: "Yes, but . . .," and to consider it no further. But such a reaction may merely suggest how far we have strayed from an understanding of liberty, and from the intelligent devotion that is necessary for day-by-day decisions that would assure liberty. If that be our plight, and if liberty is to prevail, there must be a willingness to open one's mind to a discussion of the subject that may run head-on into some previously accepted beliefs. Unfortunately, it is impossible to discuss every aspect of this complex problem first, in order to relieve the shock; some choice of sequence in treating parts of the problem is necessary.

A hermit is unconcerned about liberty. To him it is not a problem so long as he remains a hermit. His problem, as a free person, is to live with himself and with his God. He is free to do as he wishes within the confines of his wisdom and conscience—a limitation not considered to be a restriction of liberty, as that term is used herein.

Liberty becomes a matter of concern only when there arises

the danger of losing it, or after it has been lost. Loss of liberty is possible only because of the things persons do to one another. The problem of liberty is, then, exclusively in the realm of relationships among persons.

The hermit, who lacks contact with all other persons, enjoys liberty to the full; it is no problem to him. But should he join "society," and come to have relationships with others, liberty would then become a problem to him because its loss would then have become a threat. Others might then infringe upon his liberty; as an extreme, they might make him their slave.

As a problem of our concern, liberty has to do with all those things that comprise "society," and nothing else. This includes all purchases and sales; it includes arrangements whereby some persons work for others; it includes voting for President, listening to the school teacher or to the preacher, and all other similar events common to everyday life. These are the areas where liberty is at stake. These are the realms in which one person may rob another of his liberty, and thus prevent him from doing whatever he wishes according to his wisdom and conscience.

Liberty is often termed an "inalienable right." It is inalienable (incapable of being surrendered or lost) only to a hermit while he remains a hermit. For all who live in society, liberty is alienable and may be lost. And that is precisely the reason for concern about it.

Although liberty is under threat in all human relationships, it need not be surrendered because of these relationships. Liberty need not be lost, as is frequently asserted, in proportion as these relationships are increased. In fact, the preservation of liberty is a requisite to continued social development and to an advancing civilization.

A relationship between persons must be either voluntary or involuntary. Liberty remains inviolate in any voluntary relationship because, being voluntary, the act is in accordance with the wishes of the participants—which is liberty. Thus it is only the involuntary relationships wherein liberty is violated.

The nature of voluntary relationships can be illustrated by two men who agree to exchange labor in the building of their houses.

The exchange is arranged because of the mutual advantage that is expected. One of them may be the better carpenter and the other the better mason. They can build their houses quicker and better by each working at his specialty on both houses. This is the principle of "division of labor," by which civilization has been able to advance and the level of living to be raised. Each person concentrates on his specialty, and trades any excess over his own wants for the excesses of other things offered by other specialists—all voluntarily exchanged in free markets. It is the same principle that makes possible a symphony instead of solos.

If one makes another person his slave and compels him to labor on his house, it is an involuntary act; the liberty of the person enslaved has been violated.

All voluntary relationships rest on the principle of cooperation, either consciously or unconsciously. They rest on the spirit of cooperation; that is, rather than on any special form of "cooperation" as defined in some law. The cooperative feature is evidenced by the fact that both sides of a deal enter into it willingly, because each of them expects it to be to his advantage. Each side, to be sure, enters the deal because of a selfish interest; he enters it for his own personal gain. But the same motive applies to the other side, too. By viewing both sides, the cooperative aspect of mutual advantage is revealed in every instance of a voluntary human relationship. Lacking the prospect of mutual advantage, the event would not have occurred voluntarily.

It is not necessary, therefore, that liberty be lost as society becomes more and more involved. Such an assertion, by the devout hermit or by one bent on the destruction of liberty, is in error. The development of society does, however, involve a threat to liberty. And any developing society which ignores the threat and fails to meet it, or which falls victim to the fatalistic view that a loss of liberty is inevitable under advancing civilization, will itself fail and fall.



## *Chapter Two*

# Forms of Liberty

In speaking of liberty, relationships between persons are sometimes classified into types.

One such attempt was the listing of the “four freedoms”—freedom of speech, of worship, from want, and from fear—which seems deficient since all these freedoms are enjoyed by an inmate of a federal penitentiary. Anyone who considers these freedoms to be complete in their coverage, and who is distressed because he does not now enjoy full freedom, can easily acquire “freedom” for the rest of his life by committing a crime leading to a life sentence in a penitentiary.

There have been other attempts to list the types of liberty. There could be any number of listings, because any classification must of necessity be arbitrary.

It may be useful, however, to consider three distinct areas of liberty:

1. Beliefs—thoughts, ideas, faiths
2. Physical relationships
3. Economic affairs

The natures of the first and second—beliefs and actions—include such commonplace items as one’s belief about the shape of the earth or the existence of a Deity, and the association of courtship or of a fishing trip.

Economic affairs are those of production, exchange, and use of goods and services, which are involved in human activity because they are both desired and scarce enough not to be free—potatoes, houses, opera, and all the others.

Confusion among the three areas of liberty may result from their being joined, as they commonly are in daily affairs. All three are involved, for instance, when two workmen discuss religion while operating at the ends of a crosscut saw, or when a man pays alimony for having beaten his wife after she had expressed her opinion of him.

The three aspects will be discussed separately, or unscram-

bled, as an aid to understanding the elements of the problem of liberty.

A belief is a purely personal matter, always inalienable so far as liberty is concerned. It is not a thing exposed in the same manner as a physical act or an economic act. One person cannot hold a belief for another, as he can hold the other's hand or his horse. Nor can a belief be bought and sold like wheat.

Such a concept of beliefs may be difficult to grasp, because beliefs are commonly confused with the overt evidences of belief. The distinction is important, however, in gaining a clear concept of the problem of liberty as it relates to matters of beliefs, such as thoughts, ideas, and faiths.

A belief is only in a person's mind. He may choose to reveal his belief to others, by speaking it or writing it. When he does so, the thing revealed is an overt expression of belief instead of being the belief itself. One may, in fact, proclaim a belief that is the direct opposite of the belief he truly holds, if he wishes to mislead his listener.

The difference between a belief and the expression of a belief may be illustrated by events in the life of Columbus. He believed the earth to be round, but that belief was independent of its being either expressed to anyone or indicated by an action. He expressed the belief to Queen Isabella in the hope of gaining financial help for his expedition to the Indies, and also by the act of setting sail. He might have falsified his belief, to avoid scorn or persecution, by declaring that he believed the earth to be flat while continuing to believe it to be round.

Communism offers another illustration. It is said to embrace falsehood as a proper weapon for purposes of concealment and defense. Laws and regulations aimed at it by its enemies must depend solely on evidences of belief that fall within the area of possible falsehood. How can a sincere denial of membership in the Communist Party or of devotion to that cause, be distinguished from a false one?

Expressions of belief are worth no more than the integrity of the person, and integrity is not to be judged by mere expressions

of one's belief or by any claims of integrity. The best evidence of belief is the nature of one's action. When Columbus set sail, he was offering worthy evidence of his actual beliefs. When a person opposes measures which give vehicle to the points in the Communist Manifesto, that is worthy evidence of his beliefs.

Liberty is not in danger so far as a person's belief is concerned, because in this respect he is of necessity a hermit and unavoidably free. He is at liberty to continue to believe as he will, in spite of all the dictators in the world and in spite of all the power they can grasp. The dictator may take a person's land, his cattle, his family, his life; but he can never grab a person's belief, because it lacks a handle for grabbing.

It is the expressions of belief, not the beliefs themselves, that are threatened with loss of liberty. The danger is in connection with those devices by which one reveals his beliefs to others, such as printing and distributing evidences of them through the mails, using the radio, or meeting with others in a church for purposes of overt expressions of religious belief. These are the things attacked by those who would destroy liberty.

Tools for the expressions of beliefs are mainly economic matters. If they are not directly economic matters, they at least employ economic devices for carrying out the exchange of information or for the demonstration of beliefs. The newspaper or the radio, or some land and a building where a meeting is to be held, all involve physical acts or economic considerations. The problem of liberty arises only in these spheres.

"Thought control" is then an impossibility, in any direct sense, because thought is a personal process with no handle for direct control. Possibilities of control are restricted to the devices for influencing thought, which are usually economic matters. Devices for control include prohibiting free exchanges of ideas, or the mechanisms for censoring factual information and the expressions of ideas. Hitler burned the books which seemed to him to interfere with the expansion of his power. In Russia there has been censorship of the Mendelian ideas of inherited traits. Unknown to most of the youth of Europe, due to censorship and neglect, are the concepts of a liberal society; these ideas are to

them unknown rather than rejected, because one cannot reject an idea without knowing what it is. So it is only the range of choice that may be narrowed by the use of censorship.

“Freedom of the press” relates to the several means of transmitting ideas, which are mainly economic means. The issue of freedom of the press is fought over the right of a person to own and operate a newspaper, or to use newsprint, or in some other way to use economic goods and services in the transmitting of ideas to others.

“Freedom of speech” relates to the expressing of ideas to others rather than the having of ideas. As a problem of liberty, it is closely akin to the right of assembly, where the censorship of speech takes the form of trying to break up assemblages of persons who would listen to a speaker. It is impossible to prevent these persons from thinking and believing what they will, but it is possible to control the use of places where the meetings might be held.

“Religious liberty” is ever secure. Since one’s religious beliefs are a personal matter, the threat to liberty is restricted to the overt manifestations of religion—the church property where a meeting is to be held, the right to print and distribute literature, or the right to hire a specialist to teach matters of religious belief.

“Political liberty” is a problem only in connection with the expressing of political beliefs, rather than the having of these beliefs. It has to do with the usage of the political machine, and with the selection of those who will operate it. This political machine, however, operates mainly in matters of economics, and in that sense has to do with economic liberty rather than with liberty of beliefs. Votes buy things, and votes are bought.

Perhaps nowhere is the cause of liberty so much maligned as over these issues having to do with belief and ideas. One is prone to forget the personal nature of beliefs, with the result that other liberties are marauded in the futile effort to control something uncontrollable. We are prone to attack the professed beliefs of others with the weapon of power rather than reason. This complex problem of liberty as it relates to differences of opinion is, however, something aside from the main line of this discussion.

To whatever extent a person prevents the freedom of action of another, the liberty of that other person has suffered encroachment.

Two persons may desire to stand in the same place at the same time. This is a physical impossibility, and so long as both persist in their desires, the liberty of one or the other must suffer a loss. How can such problems be solved? Is there any way to preserve liberty in situations like that of two persons who may desire to stand in the same place at the same time, or who may bump into each other in other ways?

Physical relationships take many forms, among them being the outstandingly important one of "association." The hermit avoids the problem by associating with no one. But all except the hermit must face the problem of choice in association.

The only way to be totally "non-discriminating" in association with persons would be to share one's time and love equally among all persons on earth. As far as the time element of this plan is concerned, an average lifetime would allow a little less than one-half second of one's time for each other person.

Probably nobody wants to be a hermit. And total non-discrimination is a technical impossibility, even if one should desire to try it. So the problem of selection of associates is unavoidable; the question then becomes one of who shall have the rights of selection.

The selection of associates can be either by the person himself or for him by someone else. There is no other alternative.

Selection of associates by others can be illustrated by many commonplace events. A person in prison has his associates selected for him, for the duration of his stay. One who is forced to become a cog in a military machine, or who is assigned to civil tasks by a government that controls the labor force and employment, has lost his liberty in that realm of association. Parental or political selection of a spouse violates liberty in association, in a most important part of a person's life. Sometimes, for purposes of personal prestige or for other personal reasons, one may bring pressure to bear upon his spouse to join a club, or a parent may make little Susie go to a party where the children in atten-

dance are not to her liking. All these are instances of trespass on liberty in the matter of association.

Every voluntary association is a two-way deal, willingly accepted by both parties in the same manner as the free exchange of goods in the market place. The insistence of one person that another associate with him against the other's wishes is a violation of the other's liberty, in the same manner as forcing one to sell at a given price in the market place violates his liberty in that realm. In some of its more intimate forms, violating liberty of association is judged to be a criminal offense; but in other realms one is forced by law to violate his preferences as defined under liberty and freedom of choice—he is legally forced to “discriminate.”

Under liberty, the right to select associates is sacred. One person may prefer to concentrate his association largely on one or a few other persons; another may prefer to scatter his association widely. There is no one “right” way to do it.

A person is not able to tell exactly why he selects certain persons as associates rather than others. If he cannot tell for himself, he is certainly unqualified to pass judgments for others. No person can have the insight into the preferences and wishes of another sufficient to justify his trying to manage these affairs for another. A parent probably knows his own child as well as one person can know another, yet attempts to judge the child's preferences in association usually end in utter failure.

Selection of associates is, to be sure, “discrimination.” But if that right under liberty is to be judged improper or illegal, we shall have to make some drastic changes in our concepts about the propriety of monogamy, about the wisdom of several of the Commandments, and about other important concepts of morals and justice in human society.

It is often falsely assumed that liberty in the choice of associates means irresponsibility in those relationships. But legal and non-legal contractual obligations, founded on free choice in the origin of the arrangement, can be made binding under liberty; forms with which we are familiar include marriage and employer-employee relationships. Contracts are not a violation

of the tenets of liberty, but liberty requires that there be freedom of choice by the parties to the deal regarding the terms of the contract.

The only possible way to preserve liberty in physical relationships is to have acceptance of rules of the game such that situations of possible overlapping or conflicting desires are resolved in advance. What is needed is to have “rules for a ball game,” such as those discussed in later sections, accepted by the players in advance. Acceptance of necessary and workable rules of the game prevents it from developing into mayhem. There is no other way by which the game of human relationships can be played without destroying the liberty of someone.

Surrender, forced upon one by the other, is not a solution consistent with liberty. It may serve as a truce during conflict, but that is all.

Forced arbitration, for the same reason, is not to be confused with a voluntary solution that is in harmony with liberty.

The problem of economic liberty touches every exchange of goods and services, the ownership of property, and every contractual arrangement involving these “economic” affairs, because human relationships are involved in all of them.

Economic liberty is absent to whatever extent a person is prohibited from using his talents and his property to produce and sell (or exchange) anything he desires, at whatever price is agreeable to him and to the buyer. If he is prohibited from doing this, by another person or by any combination of persons who are not direct parties to the deal, his liberty is thereby transgressed. And further, it makes no difference, so far as liberty is concerned, under what name the act of prohibition is paraded; or whether it is by a corporation, a cooperative, a labor union, a trade union, the government, or what not.

Economic goods and services come into being as a result of the physical and mental acts of persons. Property and income have been called, quite appropriately, “the economic extensions of the person.” What has been said about liberty in physical relationships, therefore, applies also to all economic affairs.

Economic affairs absorb a large part of all human thought and action, either directly or indirectly. If one considers carefully his every thought and action for a day, he will see that economics touches nearly every part. Although the most highly prized things of life may be those beyond the economic pale—love, beauty, religious faith—the economic things of life tie in with most of these or are used in their behalf. Love may be expressed by gifts that are bought; intellectual enjoyment is aided by books; the trip to a religious meeting may be by auto or by train, to a meeting hall located on land owned by someone.

A high level of economic liberty is thus a requisite to all other liberties. Historical evidence shows that economic slaves enjoy none of these liberties, except as their masters may choose to allow a temporary slackening of their chains. The slave in old Rome, who is reported to have said to Caesar that he never really knew freedom until he became Caesar's slave, should have been the court jester; he exhibited a rare ability to compound foolishness!

A dictator who has full economic control over his subjects has in his hands the tools by which to deny them all other forms of alienable liberty, leaving them no recourse except rebellion. The dictator can use economic means to deny any person a place to stand and speak his mind, and even a place to sit and think, merely by having control of all the land.

Thoreau, who attempted withdrawal from society in his pursuit of liberty, was caught and jailed for refusing to pay his taxes—a small handle with great powers over liberty.

Jan Masaryk, the Czechoslovakian patriot, was called a great defender of freedom. But he said: “. . . Czechoslovakia must work out the synthesis between Russian socialism and Western liberty . . . I'll go all the way with Russia—all the way up to one point. Socialistic economics—okay. But if anyone tries to take away our freedom—freedom to think and say what you believe—the right to your own thoughts, your own soul. . . .”

That was early in 1946. On March 10, 1948, after living for a time under the socialistic economics he had okayed, Masaryk plunged to his death from his office window in Prague. We may



never know what induced him to suicide, but it may well have been that he came to realize the emptiness of his hope—the hope that persons can live in liberty after they have given up economic liberty.

It may be incorrect to say that economic liberty is the only form of liberty, but it seems correct to say that economic liberty pervades the entire problem of liberty and is an absolute requisite to liberty in general.

## *Chapter Three*

# The Foundation of Economic Liberty

The right of a person to the product of his own labor is the foundation of economic liberty. The requirements of liberty in the economic realm can be met in no other way.

The question at issue is how to distinguish between what is mine and what is thine. The hermit is not concerned about this matter, which becomes a problem only when two or more persons have relationships with one another.

There are three ways to handle this problem:

1. Each person may have whatever he can grab.
2. Some person other than the one who produces the goods and services may decide who shall have the right of possession or use.
3. Each person may be allowed to have whatever he produces.

These three methods cover all the possibilities; there are no others.

The first of these plans for distinguishing between mine and thine is the law of the jungle. It rests on the concept that might makes right; that the right of possession goes along with the strength and the power to take something from another. This method makes ownership hazardous and highly unstable. Under such a system, the one who produces anything faces the immediate danger that it will be taken from him against his will. It may then be stolen from the thief, and stolen again from the second thief—again and again until it has been consumed. An economy conducted in this manner will remain primitive, or will return to the primitive state, living largely on the “natural products” of the forests and the streams.

The law of the jungle discourages production and encourages consumption of even the little that is available; there is every urge to squander, and little or no incentive to thrift. He who

would be enterprising, and who would create and use the tools of progress, is discouraged from doing so because of the likelihood that they will be taken from him by robbers. Wolves live in this manner; members of the pack subsist on what they can grab from the carcass of a sheep that has been pillaged from the farmer who reared it. An economy of this design will never build a Detroit, or a Radio City, or a great institution of research and learning. And it violates the tenets of liberty, for reasons which will be discussed later.

The second method of determining the rights of possession is the one on which every form of authoritarian society is founded, no matter what its name. According to this concept, someone other than the producer is empowered to decree who shall have whatever is produced. The means by which this person has gained this power, and the claims of "justice" which he attaches to his decrees, are not relevant at this point in the discussion. Sufficient for present purposes is the observation that he is empowered to confiscate that which others have produced, against the wishes of the producers, and to do with it as he chooses. It gives to the dictator, and to no one else, the right of spoliation; so it must be rejected as the design for a society wherein widespread liberty is to abound.

The only method consistent with liberty is the one that distinguishes between mine and thine according to the rule that the producer shall have the right to the product of his own labor. This foundation of economic liberty is important above all other considerations. By this concept, the right of ownership arises simultaneously with the production of anything; and ownership resides there until the producer-owner chooses to consume the product or to transfer its ownership to another person through exchange, gift, or inheritance. The right to produce a thing thereby becomes the right to own it; and to deny one right is, in effect, to deny both. This concept specifies that no part of production shall properly belong to a thief, or to a slave master, or to a ruler by whatever title.

Each of the first two concepts for distinguishing between mine and thine accepts the right of a non-producer to take from the

producer the product of his labor; to that extent they are alike. The difference lies in whether the taking is to be a private matter or a “public” matter. Some claim that one is for selfish purposes and that the other is for unselfish purposes; that the thief takes things for his own consumption or use, whereas the dictator takes them in order to help his subjects. Capone is supposed to typify the first and Stalin the second. But all these distinctions are none too clear, and none too convincing as to any important difference. Robin Hood was supposed to have helped poor people with the fruits of his plunder; to which group should he belong? Some thieves are famed for their contributions to “worthy causes”; to which group should they belong? Many or most of the world’s dictators and leading politicians have thickly feathered their own private nests with the proceeds of their public plunder; to which group should they belong? The one clear conclusion is that, from the viewpoint of the producer, his product has been taken from him against his wishes in both instances alike.

Those who are devoted to the second, or authoritarian, concept often confuse the first and third methods. They claim that both follow the law of the jungle. They fail to note the important distinction that the third method gives the person the right to the product of his own labor only, whereas the first gives him the right to grab that of his neighbor. In failing to note this most important distinction, and in rejecting both, these persons then advocate the only remaining alternative—the one which gives to a third party the right to take the product from both the producer and the robber. It is as though a widening of the range of take, so as to include the producer as well as the thief, somehow turns a vice into a virtue.

The method consistent with liberty, which gives a person the right to the product of his own labor—that and no more—gives everyone the same right so that no person is granted a license to trespass on the rights of others. It should be perfectly clear that if all persons are to have the right to the product of their own labor, they cannot in addition have claim to any of the product of another’s labor; otherwise the rights of everyone will have been

violated. There is no way to make the whole equal more than its parts. Geographic property rights, similarly, are destroyed whenever each person is allowed to move his legal boundary wherever he may choose.

The three concepts by which to distinguish between mine and thine have been defined in their pure forms, as they would operate wherever they are followed clearly, logically, and without the confusion of dilution. Despite the current popularity of the “mixed economy” as a design for society, each person must accept as a principle of justice one or another of these three designs. In advocating and supporting another, either as part of a mixture or in pure form, he thereby surrenders his principle and engages in what his principles tell him will be economic self-destruction.

Anything produced is property, and the question of the right to own property is automatically a part of the question of rights to whatever is produced.

The terms “immediate consumption” and “saving” are commonly used in contrast with each other. Their difference is one of time only, not of type. That which is kept a little longer than the other is said to have been “saved.” The saving may be kept in kind, as wheat stored for winter; it may be sold, and the cash saved in a sock or in a bank or by putting it into some form of “investment” such as a farm or some other business.

The right of choice as to what is to be done with the product of one’s labor is the whole purpose of having the right to it in the first place. If one should have the right to the product of his own labor—the foundation of economic liberty—it follows that he should have the right to do with it as he pleases; he may eat it now or later; he may keep it as an aid to further production; he may give it to others, to family, friends, or organizations, now or later. To say that he shall be denied this full range of choice is to deny the essence of his basic right to the product of his own labor.

Permitting each person to take whatever he can grab is a complete denial of rights to private property. What the robber is thereby entitled to possess is the property of the one robbed.

The authoritarian concept likewise denies the right to private

property. Its violation of liberty is commonly camouflaged by enticing labels. It is claimed under this plan that “everything shall be owned by everyone,” with “ownership in common.” In reality, the dictator alone holds the right of ownership, because he alone can do with it as he wishes. The corollary of the right of ownership is the right of disownership. If a private citizen is prohibited from selling or consuming his share of what is “owned in common,” it is proof of the fact that he did not really have the rights of ownership in the first place.

Little progress could ever have occurred anywhere in the world without the right of a person to own private property. And continued progress requires full protection of this right.

Apparently nine-tenths or more of the economic welfare in the more prosperous nations of the world results from the use of the accumulated tools of production rather than from human effort unaided by these tools. The arts and other non-economic forms of progress, in turn, depend on a degree of economic welfare that will allow these products of leisure to be developed without imposing starvation on one’s self and his family.

The tools that are necessary for economic prosperity and for “cultural progress” will not be accumulated except as the person who saves them is assured of continuing rights to their possession, as a storehouse for his savings. Attempts of the past to “force” persons to save under some plan by which rights of ownership belong solely to the master or to the one that governs the people have met an early failure. Saving ends, and past savings are consumed in an attempt to prevent a decline in the level of living.

Persons save for themselves and for those they love and respect, not for others neither known nor respected as worthy. They do not save for others unknown and for uses unknown, beyond their control. When private property is in constant danger of being taken from the one who has saved it, he will “eat today’s production today” rather than save. If the marauding is prevalent enough, he will not even find it feasible to save the seed for next year’s planting of food crops; and once the incentive to save is that far gone, civilization will have reverted back to the

hunter society of primitive man.

It would seem, then, that the claim of one renowned person who said: "Only well fed people can be free," could more accurately be stated in reverse: "Only free people can be well fed."

Economic liberty prevails only if the individual person is permitted to save in the form of private property, and to use it as he sees fit. The famous philosopher Hume believed the right of private ownership of property to be the basis of the modern concept of justice in morals.<sup>2</sup> His belief deserves careful consideration.

Satisfying one's wants with the least possible effort is the basic economic urge; it is the economic equivalent of the geometric concept that a straight line is the shortest distance between two points.

If this basic urge is unrestrained by morals, and by the foresight of consequences flowing from various methods of satisfying one's immediate wants, the course of least effort is likely to seem to be that of stealing the food and things from one's neighbor. Animals, lacking these moral and intellectual restraints, act in that manner and live by marauding. Man's higher order of intelligence and foresight has codified into written and unwritten law a restraint from short-sighted fulfillment of his wants by marauding. He has established privateness of property, and stabilization of the rights of its possession. Under the intellectual and moral code of advanced forms of human society, man acts differently from these "lower animals"; and he can continue to live in an advancing society only so long as that code of conduct is not undermined and allowed to fall.

Of all the essentials for the establishment of an advancing human society, the right to private property, as a moral concept, seems fundamental. Socialism means: "A state or a system in which there is no private property." Yet advocates of socialism claim for it the virtue of its being a system of society advanced beyond that of liberalism and rights to private property. How could socialism be an advanced form, when it embraces a concept that would have precluded the advancement of civilization?

The only advancement to be claimed for socialism is its ad-

vancement in the sense of time because, due to its inability to generate any accumulation of the tools required for an advanced society, it must subsist on the confiscation of what has already been produced under some other plan; it has to parasitize something. The confiscation of private property is civilization in retreat.

Is there any aspect of what may properly be called human justice that does not rest in one way or another, as Hume said, on the concept of rights to private property? Rights to private property are human rights; it is not a question of “human rights or property rights” as is frequently asserted.

In the analysis thus far it has been concluded:

1. That liberty is a human right, unlimited except as it is necessary to restrain one person from trespassing on the liberty of another (as will be discussed in later chapters).

2. That economic liberty is the safeguard of other forms of liberty, and apparently essential to their preservation.

3. That the right to the product of one’s labor is the foundation of economic liberty.

4. That the right to private ownership of property follows from the right to the product of one’s labor, because it is the inseparable “time aspect” of that right.

Thus, by successive steps, there is established a direct connection between property rights and human rights. The connection is one of harmony rather than of conflict. And one who would assert them to be in opposition to each other, and who speaks of “human rights or property rights,” must identify the point in this series of deductions where he would disagree.

Does he believe that liberty is inhuman rather than human, as a matter of rights? That a demonstration of “human rights” is to be found in the slave auctions of early days, or in the slave camps of modern Russia?

If not, does he believe that an economic slave is likely to be allowed to enjoy the other forms of liberty, and that it is those other forms that comprise the “human rights”?

If not, does he believe that economic liberty means prohibiting a person from having the product of his own labor?



If not, does he believe that a person can have the right to the product of his labor while being denied the right to keep any of it even for an instant?

If he believes none of these, he must believe that rights to private property are inseparably entwined with human rights.

Dwight D. Eisenhower, on the occasion of his induction as President of Columbia University, listed the private ownership of property as one of four “cherished rights” of persons. He said further that these rights are mutually dependent for their existence, without which human rights would soon disappear.

Any bill of human rights that excludes the right to private property is doomed to futility and failure.

## *Chapter Four*

# Liberty and Charity

It is neither possible nor feasible to discuss here all the many accusations that may be directed at the author's definition of liberty, and at the foundation of economic liberty as it has been identified. But one accusation above all others seems to have wide appeal, and deserves some attention in even this brief treatment of the subject of liberty; it is the charge that liberty means selfishness and a lack of the spirit of charity.

Is liberty, as defined, in conflict with charity? Is it proper to accuse one who asserts his right to the product of his own labor, together with rights to private property, of being uncharitable and totally self-seeking? Those who hold the affirmative view, in answer to these questions, argue that "liberty" should include the right of one person to take from another the product of his labor for purposes of "charity."

The right to the product of one's own labor, and the associated right to keep it and to do with it as one may choose, is not in conflict with compassion and charity. Leaving these matters to voluntary action, rather than to apply compulsion, is in harmony rather than in conflict with Christian ethics. The distinction between the two ideas is this: Assistance given voluntarily and anonymously from the product of one's own labor, or from his property that has been saved, is truly charity; that taken from another by force, on the other hand, is not charity at all, in spite of its use for avowed "charitable purposes." The virtues of compassion and charity cannot be sired by the vice of thievery.

"Political charity" violates the essentials of charity in more ways than one. It is not anonymous; on the contrary, there is boasting about the process by the politician both in the form of campaign promises yet unfulfilled as well as by reminders during the term of office; this is intended to insure that the receiver of these fruits of "charity" is kept mindful of an enduring obligation to the political agent. And the source of the giving is not

from the pocket of the political giver himself, who has already violated the requirement of anonymity for purposes of personal gain; the wherewithal is taken by force from the pockets of others. And some of the amount collected is deducted for “costs of administering” by the one who claims personal virtue in the process. All told, the process of “political charity” is about as complete a violation of the requisites of charity as can be conceived.

Those who contend that the rights of liberty are in conflict with charity falsely assume that persons generally have a total disregard for the welfare of others, and that widespread starvation would result from liberty as thus defined. Evidence to the contrary is that the infant and the helpless members of the family, and other needy persons, do not ordinarily starve in a society where these rights prevail. The right to have income and private property means the right to control its disposition and use; it does not mean that the person himself must consume it all himself.

A matter deserving of thought, but which will be little more than posed as a question in this discussion, is that of the effect on compassion when welfare by force is attempted as a substitute for charity; when aid is no longer that of voluntary and anonymous donations from the product of one’s labor, for specific and known purposes.

Compassion is a purely personal thing. The body politic cannot have compassion. One cannot delegate compassion to a hired agent. Nor is compassion so cheap a virtue as to be practiced by the mere distributing of grants of aid taken from the pockets of others, rather than from one’s own pocket or from his own effort in production. A charity worker may be a kindly and lovable soul, but as far as compassion is concerned, he is only an employed person buying groceries and things for certain persons by using other people’s money, in a manner like that of the housemaid who goes shopping for her employer.

Under a scheme of affairs where a political body takes full responsibility in the caring for the victims of disaster, it is doubtful if compassion can long endure. When a taxpayer is forced to

contribute to "charity" in spite of his judgment of need, he will increasingly shun the sense of responsibility which is requisite to a spirit of compassion; he will lose compassion as he more and more accepts the viewpoint: "That is the government's business!"

Once compassion is lost on a wholesale basis in a nation, how is it ever to be regained? And once it is gone, what will then happen to the attitude of responsibility for supporting the churches and all other similar agencies which depend on voluntary support?

Advocacy of these rights of liberty is sometimes called "selfishness." "Self," if used in this sense, means the entire circle of the person's family, friends, relatives, organizations—anything which this person considers worthy of help from his income or savings.

If "selfishness" is to be charged against the one who demands the right to that which he has produced, selfishness of a far less virtuous order should also be charged against any non-producer who takes the income and wealth from another against his will.

If control of the disposition and use of income and wealth is to be called "selfishness," then it is unavoidable that someone act selfishly in the handling of everything produced. The question then becomes: Who should have the right to be selfish, the one who produced it or some other person? Is it selfishness to control the disposition of that which you have produced, but unselfish to control the disposition of that which you have taken from those who produced it?

For this argument to be accepted, one would have to hold that non-producers are better qualified than producers to judge the wise use of what is produced. He would have to hold that non-producers are somehow more virtuous than producers; that they have superior wisdom and conscience. He would have to hold that the taking away from the producer by force will not discourage him from production, since it is not possible to be charitable with something not produced.

The late Justice Oliver Wendell Holmes once said that someone must exercise command of the disposition of goods and services that have been produced, and that he knew of no way of

finding the fit man so good as the fact of winning it in the competition of the market.

If the members of the human race be so self-centered that they are judged to be unqualified to handle the use of what they have labored to produce, the advocates of “charity” by force—whether operated by a thief or by a dictator—must face an interesting question. How will it be possible to administer the program? Who can be found to operate a program of “wise charity,” if that be true? If one could be found, by what respectable means could he be expected to gain his throne of power over all those supposedly self-centered dregs of humanity? Anyone who would pursue this evasive hope should read Professor F. A. Hayek’s brilliant chapter, “Why the Worst Get on Top,” in his book *The Road to Serfdom*. They should also review Lord Acton’s famous dictum about the corrupting influence of power. And finally, they should review carefully their starting assumption that justice and charity and selflessness can best be attained through giving legal or moral sanction to the taking by one person of the product of another’s labor—by force. Whence comes the alleged superiority in the morals and wisdom of the taker: Is it the result of his having engaged in the taking, or in gaining power over others, or from where? More reasonable is the assumption that proficiency in these respects is found in a person lacking in morals and wisdom.

Liberty is not in conflict with charity. More accurately, charity is possible and can reach large proportions only under liberty; and under liberty, “need” for it would probably be greatly reduced.

## *Chapter Five*

# Rules of Conduct in a Liberal Society

Liberty has been defined in this discussion as a strictly individual matter. Further, as a problem of our concern, it has been limited to the area where relationships exist among persons—"society."

All who favor liberty, therefore, must favor the liberal society. They must favor "liberalism" (liber = free; al = pertaining to; ism = a doctrine or practice).

The structure of a liberal society is that which promises to preserve the greatest possible degree of liberty among those living in that society. The design of a liberal society requires the formulation of rules, acceptable to the participants, that will accomplish this purpose. The rules must apply to all situations where overlapping desires might otherwise arise to destroy liberty, such as when two persons desire to stand in the same place at the same time. Under adequate rules accepted by the participants, each will refrain from trespassing on the rights of others. The rules for conduct in society are accepted in the same spirit and with the same respect as a person accepts the dictates of physical law where the connection between cause and effect, between the breaking of the law and its consequences, is fairly conspicuous.

If the rules of the game are to be acceptable to the participant, they must be in accord with his sense of justice. But this sense of justice must, in turn, be in harmony with sound principles. "Just any old rules" will not suffice, because if in their operation they fail to perform their purpose in coping with the problems that continually arise, respect for them will end and they will be rejected by the participant.

Under liberty, one person has no inherent right to control another. One person may influence another by appeal to his

wisdom and conscience without violating liberty, because self-control and self-restraint are respected guides to action under liberty. Everyone is, in effect, a sworn-in policeman over his own acts; conscience allows neither evasion nor escape from self-responsibility.

This concept of liberty rests on the supreme dignity of the individual. Shunning responsibility for one's own acts is impossible because no one else has control over him with responsibility for his acts. Rights under liberty have their counterpart in duties under liberty.

Liberty (freedom to do whatever one desires according to his wisdom and conscience) in no sense means that one must ignore all the experience of the ages and wisdom of the sages. Evidence and guidance which one person chooses to accept from another, or from recorded history, are no violations of liberty. Liberty does not preclude learning from others. On the contrary, the absence of liberty prevents the process of free access to others and the free exchange of ideas.

One who chooses to accept all the accumulated knowledge of the ages as interpreted by his physician is free, under liberty, to accept his physician's advice and buy his pills. But liberty also allows him to patronize either of the two physicians who differ as to the possible cure, or it allows him to patronize neither and to be his own doctor.

The same reasoning applies to all other human relationships, and to the designing of rules of conduct in a liberal society. Intellectual and moral guidance, voluntarily accepted by the follower, is no violation of liberty; it is, in fact, a main purpose of liberty so that the blind are free to follow those who can see. The danger is that in the absence of liberty the blind may become authorized to lead those who can see—by a chain around their necks!

The terrific urge to prevent another person from making a "mistake" must be resisted if liberty is to be preserved. The "protective spirit" that leads a fond parent to prohibit his child from acquiring mature judgments, as he substitutes his own opinions for those of the child, leads the dictator to act as he does

in “protecting” his political children. There is no possible way to allow a person to be right without also allowing him to be wrong. The only way to avoid responsibility for another’s mistakes is to allow him the full glory and reward of being right, as well as the full dishonor and penalty of being wrong. Only in this way can one person isolate himself from the mistakes of another, whether it be a Stalin or a neighbor.

The rules of a liberal society must be in harmony with those forces beyond the power of man to alter, where any violation brings certain penalty. Similar forces prevent the mathematician from having the license to decree that two plus two is five or three; in observing these superior forces of truth, he is thus protected from a whole series of impossible mathematical situations. And similarly, the engineer and the physicist, if they are to avoid disaster in their projects, must work in harmony with the law of gravity rather than in defiance of it. The mathematician, physicist, and engineer all know that they are not God with an unlimited control over matter and over “truth.”

There are forces of a similar nature that cannot be defied in the conduct of a liberal society, if disastrous results are to be avoided. It is impossible, for instance, to grant to everyone a valid right to use whatever land he desires, at any time; it is inadvisable to permit plunder and pillage. Any such attempts to flout natural and moral law will bring disaster to liberty and to the society that practices it. It is not intended to propose here a complete listing of the “natural moral laws” requisite to liberalism. But it is at least important to note their existence and to suggest their nature.

The Golden Rule—the rule of doing unto others what one would have them do unto him—would seem to be one requisite of the code of liberalism. This is because, in the moral realm, the Golden Rule serves the necessary function of impartiality; it is no respecter of privileged persons, not even one’s esteemed self. It is the equivalent of the impartiality of rule by law instead of rule according to the whims of the administrators.

But the Golden Rule alone is not sufficient. Lacking any other moral guides, the Golden Rule may even be used to rationalize



thievery; the thief may claim in self-defense: "If I were in the victim's place, having two cars, I would be willing to have someone without a car take one of mine." Additional guides such as the Ten Commandments, or perhaps the Cardinal Sins, are necessary.

A set of rules, thus properly designed and accepted, is the requisite of a liberal society. When this objective is attained, liberty will be complete and undefiled in a society where persons are constantly engaged in all sorts of economic and other relationships with one another.

Such a set of rules prescribes the range of a person's actions in his relationships with others which, if observed by him and by others alike, allows full liberty to be enjoyed by all. Each knows that he is free to operate over a certain range and no more; if he is not free to operate over this range, he can be assured that others are imposing on his liberty; if he exceeds this range, he will know that he is infringing on the liberty of others. Such is the nature of liberal justice, without which liberty cannot be preserved.

Liberty, or the right to act as one wills according to his wisdom and conscience, is sometimes charged with being "license" and totally irresponsible conduct. But, on the contrary, responsibility of the highest order is required in a liberal society. What social design could be more challenging, in terms of responsibility self-discipline, and self-control, than that of liberalism in its requirements of self-restraint; in avoiding trespass on the rights and the property of others; in its respect for the rights of others to disagree without precipitating conflict? Liberty requires the highest order of conduct in its practice.

The disciplines of liberty, however, have their rewards. "Every man a king" has had great appeal as a political slogan. The nearest possible approach to it is to be found in a liberal society, in which everyone is king over his own affairs to the greatest possible extent. At the other extreme, one man is king over all men instead of every man being king to a degree.

Rules of society come into existence in different ways. Whereas this study deals primarily with government in its rela-

tion to liberty, it may be helpful to note briefly the other devices for developing the rules of society. Their record in attaining the ideal of liberalism varies throughout history, and the record of no one of them seems to offer a panacea.

Presumably the earliest rules for social conduct were those developed in the family, as an early social unit. They differed from family to family, but in all instances they were informal and easily changed.

Perhaps next in time of origin was "custom." Custom operated to develop rules of society in the same manner as Topsy developed—they "just grew up." Custom is an unwritten code of conduct, voluntarily accepted and enforced by self-discipline, assisted by the frowns and the approving smiles of friends and neighbors. The force of custom has been terrific at different times and places. But it is not a certain route to liberty, in any sense, though there is an important virtue to be found in its voluntary nature.

Both religious belief and the operations of the organized religious bodies have played an important role in designing rules of social conduct. They have varied; some have been formal and others informal; some voluntary and others users of force; some with rewards and penalties imposed here and others merely promised for the hereafter; some independent of government and others in collusion with government.

Many forms of social and fraternal organizations, operating as cells within society, have also established rules of conduct for their members.

In earlier days, the tribe was important in formulating rules for social conduct. In modern times, "government" has to a large extent replaced the functions of the tribal organization and has become a major factor in the development and enforcement of rules for social conduct. Because of its growing importance and its threat to liberty, government is given special attention in this study.

## *Chapter Six*

# Government in a Liberal Society

One of the most perplexing problems of the ages seems to have been that of finding the proper place of government in society.

Like any of the powers in the physical world, government is at once a power for good and a power for evil. Considerable success has attended man's efforts to use wisely the power contained in coal, oil, and the waterfalls. But the power of government in social affairs, like the newly developed atomic power in the physical world, still is an untamed and unharnessed force of great danger; and the supreme danger of our time is that these two forces may be combined somewhere in the world—even in our own country—as a force for evil.

The place of government as an agency empowered to intercede in the affairs of individuals may be thought of in the same way as the right of a person to own private property. In both instances there are limits to the scope of rights. A person's rights to private property are specific, clearly identified and limited—which is precisely the reason for the establishing of rights to private property. Similarly with government; to concede that there is a purpose in having a government with certain powers is not to concede that the scope of governmental power over the affairs of individuals should be all-inclusive, or that one power justifies another.

Government is a legalized entity. To view government aside from the persons who comprise it and aside from the personal powers they hold is to view an empty shell—or perhaps more accurately, it is to view “nothing wrapped in nothingness.” Thus it follows without exception that any power of government means, in reality, that certain persons are empowered to do something to certain other persons. It cannot be otherwise. In

judging the propriety of any specific issue of governmental power, an aid in answering it might be to reformulate the question as follows: Is it proper for this person (or persons) to do this thing to this other person (or persons)?

Government is, by definition, design, and intent, an agency engaged in force. It is not necessary, for instance, to empower government to decree that the citizens shall eat when they are hungry, or sing and be thankful when they are happy, or to do any of the innumerable other things that free individuals do voluntarily. Government is engaged in issuing laws and decrees, and in their enforcement. Government conducts “war” on outsiders and “law enforcement” on insiders. Its purpose and operation is well characterized by the statement: “There ought to be a law. . . .” Its operations involve force or the threat of force against certain persons, thus violating the liberty of those persons.

As is well known in our time, a government may be totally tyrannical. An all-powerful government, wherein all the citizens are under the heel of a dictator, allows no liberty to anyone except the dictator himself. It has been said that the authoritarian society is one wherein everything not prohibited is compulsory. The dictator may, of course, grant temporary privileges to some in the same manner as a prison warden grants privileges to a “trusty.”

Based on all that has been said, one might easily conclude that government is an entirely negative force so far as liberty is concerned. He might conclude that anarchy—the complete absence of government—would be the ideal society, and that liberty would be complete under anarchy. That would be true if all persons were perfect. But they are not. With human frailties as they are, anarchy affords an opportunity for certain powerful and tyrannical individuals to enslave their fellow men, to the extent of their power to gain and keep control over others. So some degree of governmental function—or its equivalent performed in some other way—is necessary if liberty is to be at a maximum; violators of liberty must be restrained so that the rights of liberty will be protected for those who respect them and play the game of society according to the rules of liberalism.

Thus at one extreme the absence of government allows anarchy to rob the people of their liberty, whereas at the other extreme the government itself becomes the robber of liberty. The task in a liberal society, therefore, is to find that point where all the people will enjoy the greatest possible degree of liberty. It will allow full enjoyment of liberty by all who refrain from going beyond their rights and imposing on the liberty of others. Those who violate this trust of rights under liberty, and who destroy the liberty of others in addition, shall be forced as a penalty for their avarice to give up their own liberty, in whole or in part, depending on their crime against liberty.

In the liberal society, any coercive power is viewed with suspicion, whether its growth has been attained in the form of business monopolies, labor monopolies, or government—which by its very nature is coercive and monopolistic. To government should be delegated, of course, the powers necessary to preserve a maximum of liberty under limited, precise law. Up to that point, government is an instrument that increases liberty throughout society; beyond that point, government reduces the liberty of the people.

A simple case may serve to illustrate the possible effects of government on liberty. Assume a society of two persons. One has enslaved the other, so that there is an average of 50 per cent slavery and 50 per cent liberty in that society  $\left(\frac{100 + 0}{2}\right)$ .<sup>3</sup> Now assume that the slaveholder somehow becomes convinced that the slave should be freed, and voluntarily frees him, thus allowing the society to operate so that the liberty of neither of the persons is curbed in any degree; the level of liberty would then rise to 100 per cent  $\left(\frac{100 + 100}{2}\right)$ . If, however, it should be necessary by force of government to restrict the liberty of the former slaveholder by 10 per cent in order to restrain him from imposing on his fellow countryman, the average level of liberty would be 95 per cent  $\left(\frac{90 + 100}{2}\right)$ —and under that assumption a 95 per cent liberty would be the maximum attainable in that society. The government, if it should exceed its proper scope

and functions, might further reduce the average level of liberty unnecessarily to 90 per cent, 80 per cent, . . . , 0 per cent.

Government may then serve as an agency to maintain liberty at the highest point possible, or it may restrict liberty even to the point of its near-complete destruction.

The definition of liberty as it applies to a society of persons might be restated as follows: A liberal society is one in which, with equality under law for all persons, each person can do most nearly that which is his wish according to his wisdom and conscience.

Under a government consistent with liberalism, the maximum of personal liberty that is attainable depends on the degree of human frailties; the persons who commit the crimes against liberty are the ones compelled to pay the penalty, as with all justice. A government of liberalism, be it noted with emphasis, is not one whose officials and employees are dined, wined, and eulogized for "statesmanship" as a reward for having contributed to the destruction of liberty!

## *Chapter Seven*

# Democracy and Liberty

It is generally accepted that a government can enslave the citizens. Enough Kings and Emperors and Generalissimos and Führers have done so to establish that fact quite conclusively.

But the belief prevails that: "It is impossible for liberty to be lost under a democratic form of government. Democracy assures that the will of the people shall prevail, and that is liberty. So long as democracy is preserved we can rest assured that liberty will be continued to the full."

The more a person leans on an unsure support the more certain he is to fall. Edmund Burke observed that people never give up their liberties except under some delusion. Probably no other belief is now so much a threat to liberty in the United States and in much of the rest of the world as the one that democracy, by itself alone, guarantees liberty.

Willis Ballinger's study of eight great democracies of the past—ancient Athens, Rome, Venice, Florence, the First and Third Republics of France, Weimar Germany and Italy—reveals how unreliable is this hope.<sup>4</sup> He reports that liberty perished peacefully by vote of the people in five of the eight countries; that in two of them it was lost by violence; that in one of them a dictatorship was established through the buying of the legislature by a fraudulent clique. One who would understand the problem of liberty must understand why it is possible for liberty to be lost even in a democracy, and how to guard against it.

The "democratic" form of government refers to one of the mechanisms by which the scope of government—the things to be done by government—is to be determined and how its management is to be selected. This may be done directly by decisions of the people themselves (in a "direct" or "absolute" democracy), as when a direct vote is taken on an amendment; or it may be done by delegating the power of decision in these matters to certain "elected" representatives (in a "representative" democracy or

“republic”). There is an important difference between these two types of democracy, but that distinction is not the object of our present concern.

In both instances, the plan rests on widespread sovereignty at its base. Decisions as to either the issues or the delegations of power are rendered according to the majority—or some other predominant proportion—of the opinions expressed.

The features that distinguish a democracy from any other form of government have to do with the mechanical design of the government, as distinguished from the composition of the load of authority which it carries. This is the same sort of difference as that of the design of a truck as distinguished from its load, or the shape of a cup as distinguished from its contents. In speaking of liberty, what we are really concerned about is what government does—the nature of the load—rather than the style of wheels on which it rides, or some other feature in the design of the vehicle; we are concerned, for instance, with whether or not the government should control prices rather than the department which shall do the job or the name of the person who is to head the department.

If an act of government in any country violates the liberty of the people, it is of little importance who did it or how he came to have the power to do it; it is of little importance whether a dictator gained his power by accident of birth, by force, or by the vote of the people.

Liberty has been defined as the right of a person to do whatever he desires, according to his wisdom and conscience. It specifies the right to do what he desires, rather than the obligation to bow to the force of others in doing what they desire him to do; otherwise slavery becomes “liberty,” and true liberty is lost. It makes no difference whether the transgressor of liberty carries the title of slave master, or King, or Führer, or President, or Chairman of the County Committee, or what not.

Historical enterprises which violate liberty are not restricted to instances of complete dictatorship, nor are they all political. The only difference between the aggressive bully under anarchy and the similar acts of the dictator is its formalization into gov-



ernmental authority. That may make the acts of the dictator legal, in a technical sense, but it does not make them proper or wise in any other sense.

Small dictatorships precede large ones, and destroy liberty to whatever extent they exist. "Power," which replaces liberty, is the irrevocable authority over others. One person's opinions, decisions or actions become substituted for those of another, for a long or short time, for a wide or narrow scope. This is the material of which dictatorships, either large or small, are made. The means by which power is acquired, whether by the "democratic" process or by conquest, does not change its status as power. It is true that under persuasion or demonstration, one person may influence the ideas or actions of another; but, as mentioned before, if there is no irrevocable grant of authority—even temporarily or for one single instance—it is not power.

Suppose, as illustration of encroachment on liberty, that I desire to produce some wheat on my land, with which to feed my family. I shall have lost my liberty in that connection whenever I am prohibited from doing so. The loss of liberty would be the same whether the prohibition was by taking my land, or by prohibiting me from growing wheat on it, or by taking the wheat away from me after it was grown. Nor would it make any difference what official title happened to be attached to the person who enforced the edict, nor how he gained his throne of authority. Further, and most important to the subject now under discussion, it makes no difference whether or not some of my neighbors approved of that act, or how many of them approved of it. It makes no difference because, in any event, my liberty in this respect would be gone.

It should be clear from what has been said that the citizens of a democracy have in their hands the tools by which to enslave themselves.

This is a far cry from the common belief that democracy offers any definite and automatic protection of liberty. This illusion, that the democratic process is the same as liberty, is an ideal weapon for those few who may desire to destroy liberty and to

replace it with some form of authoritarian society; innocent but ignorant persons are thereby made their dupes. Under the spell of this illusion, liberty is most likely to be lost and its loss not discovered until too late. Liberty can easily be taken from the individual citizen, piece by piece and always more and more, as more and more persons under the spell of the same illusion join in the Pied Piper proceedings. Finally, all liberty is gone and can be recovered only by a bloody revolution.

Liberty does not mean the right to do anything that is the product of a democratic form of government. The right to vote, which is the sovereignty feature of democracy, assures only the liberty to participate in that process. It does not assure that everything done by that process shall automatically be in the interests of liberty. A populace may commit both political and economic suicide under a democracy.

Anyone who will defend his liberty must guard against the argument that access to the ballot, "by which people get whatever they want," is liberty. It would be as logical to assert that liberty in the choice of a wife is assured to a person if he will put it to the vote of the community and accept their plurality decision, or that liberty in religion is assured if the state enforces participation in the one religion that receives the most votes in the nation.

There is no certainty whatever that liberty in a country with the democratic form of government is at a level higher than in a country having some other mechanism of government. There is no certainty that liberty will be maintained where the founders of a democracy may have hoped that it would be preserved.

The illusion that liberty is assured so long as a democratic government is preserved is well illustrated by an event reported in the newspaper. Items to illustrate the same point can be found in the newspapers daily. A news dispatch reports that an increase in rent ceilings has been "turned down" by "top administration officials." The mere fact that some officials have acquired the power to deny this liberty to those who own this particular form of property is evidence of the fact that liberty in this respect is already gone; no process of selecting the officials who made the

decision can make it not gone.

But let us pursue the matter further. It is argued that, since this act occurred in a “democracy,” the “will of the people” has prevailed and liberty has thereby been assured. Did you participate in this decision of “top officials”? Did anyone ever ask your opinion about whether this increase should be granted? Was the person who made the decision elected by the voters, or appointed by someone—perhaps by someone who was himself appointed by someone? And finally, coming to the elected official, did you vote for him or for the other fellow? Did you approve of his advisers, or were they perhaps defeated candidates-for-office of former years? Actually all these considerations are beside the point anyhow, so far as liberty is concerned. Even if there had been approval all along the line, it is a violation of economic liberty and of liberty in general for me, a non-owner, to be able to control the rent charged by a neighbor to a third party.

Being able to review a decision or to request its review, under the democratic design of government, does not assure that liberty will be protected. Reinstatement of lost liberty can be requested and refused time and time again, without end. A slave, similarly, might ask his master for his freedom time and time again; he is not considered to be free by reason of the fact that he is allowed to ask for liberty.

Consider in detail all the acts of all the units of government for one day. How many among them were the proper functions of a liberal government as you would judge it; of those that were, in how many instances did you have any opportunity or right to participate in the decision; if you disagreed with the decision, in how many instances was there anything that you could do about it?

Strange indeed is this concept of “democratic liberty” which has gained such widespread approval! Strange is a concept of “liberty” which allows you to be forced to pay the costs of promoting acts of which you disapprove or ideas with which you disagree, or which forces you to subsidize that which you consider to be slothfulness and negligence. Your “liberty” in the process is

that you enjoy the right to be forced to bow to the dictates of others, against your wisdom and conscience! Being forced to support things directly in conflict with one's wisdom and conscience is the direct opposite of liberty, and should under no circumstances be allowed to parade under the esteemed banner of liberty. It should be labelled for what it is.

The people of the United States now live under a President who was elected to that office by the expressed preference of only one person out of six in the land; by only one person out of four who were eligible to vote; by less than half of those who voted. And many of those who voted for this candidate will certainly disapprove of many of his official acts. This illustrates how the democratic process is a far cry from guaranteeing the liberty of the people.

It was said that Hitler was elected to power by a minor expression of preference of the German people in a free election—which certainly did not assure liberty to the German people! Even though the vote in a free election had been unanimous for Hitler, the destruction of liberty might have been even more rapid.

It will be argued that some government is necessary to prevent the loss of liberty through anarchy; that the liberty of certain individuals should be curbed in the interests of liberty for all; that the scope of government must somehow be decided, and that the officials must somehow be selected; that no better means is available than that of widespread franchise. I agree. For those matters that are the functions of government in a liberal society, and in the selection of the persons to operate it, the test of dominant preference is probably the safest. But it is not a cure-all for the troubles of society because it does not compensate for those human frailties which are the sole source of any need for government in the first place.

Government of even the best design should be used only where, in the interests of liberty, it becomes necessary to arrive at a singleness in pattern of conduct. This problem of variation in relation to progress will be discussed in the following section.

The maximum of liberty is the maximum of democracy, if by

democracy is meant the right of a person to have control over his own affairs. To whatever extent one person gains control over the affairs of another, that other person thereby loses his democratic rights in this sense. This is why the expansion of governmental activities beyond those in harmony with liberalism destroys these democratic rights, even though in a "democracy" there has been granted the widespread right to vote. All minorities are thereby disfranchised from their democratic rights in this sense, because their wishes become overruled in the process. Minorities become the slaves of the others, just as the inmates of Hitler's Germany became his slaves. Participation in these steps that make it possible for someone to rule others does not ensure liberty.

It is fantastic nonsense to assert that the democratic process will assure liberty to the individuals of any nation, whatever the other arguments in its favor. So long as this illusion prevails, it would be more accurate to say that it is a most certain path to slavery.

Decision by the test of dominant preference (majority vote, etc.) is the same operating principle as the one that might makes right. If might makes right, one must conclude that liberty is all wrong.

The test of whether or not a government is defending liberty is to be found in what it does, never in the mechanics of its operation. The test is whether or not the officials in any government, as well as the content of the laws and regulations, are in harmony or in conflict with the requirements of liberty as previously defined.

## *Chapter Eight*

# Variation and Progress

Liberty gives a unique form of satisfaction for which there is no substitute. And furthermore, liberty is the environment wherein the seeds of progress can sprout and bear fruit, for all to share who will.

What are the seeds of progress, and why does liberty offer the environment for their development? The contrast between humans and other forms of life may offer a clue to the answer.<sup>5</sup>

The Maker, we may assume, has a purpose in such differences that exist between various forms of life. This is evidenced by the fact that these differences exist. What is the special destiny, or purpose, of the human form of life?

The purpose is not clearly a matter of survival. Humans have no special claim to that blessing. Other forms of life have continued to survive, and presumably most of them will continue to do so.

The contrast between humans and other forms of life, suggesting the features with which humans have been especially endowed, might be found by contrasting them with trees or some other form of plant life. But it seems best to contrast some form of mobile life that operates in a manner more closely related to the problem under discussion—liberty. The social insects seem to serve that purpose well.

Much of the following discussion is, of necessity, a matter of speculation based on what seems to be known about these insects and about humans, and about the various biological processes such as “natural selection.” One’s certainty in speculating on these matters is limited by never having been a bee, and by not having been a bee among the bees of a few million years ago.

An ancient Russian myth asserts that ants were once men—the first experimental design of men. They developed as systems, not as individuals. In the development of this “perfectly planned society,” every minute detail was plotted. In this classless society,

each ant-man had at birth an appointed place. He was not allowed to either rise or fall, to move forward or backward, right or left. According to this myth, God took great alarm at this turn of events because the ant-men were incapable of adapting themselves to change. They no longer needed brains, so became brainless monsters of dependence. So He reduced their size to that of insects and began a new race of men.

The manner of operation of the social insects—the ants, the bees, and the termites—has been the envy of dictators and would-be dictators; of many well intentioned reformers of varied hues. In the pattern of these insects is found their ideal of an “orderly and industrious” society of humans. Every aspiring dictator, both large and small, would like to ascend to the throne of “queen bee” of a world-wide human colony, in which every human would become subservient to the dictator’s own wishes and would serve his plan with unwavering loyalty.

The social insects demonstrate a near approach to the ideal of the socialist society. What appears to be a devotion to duty among them cannot be denied. The members of the colony perform assigned tasks without question. Order and industry seem to prevail. The wishes of the individual insect are not allowed to come in conflict with his bounden duty to the colony. Unlimited cooperation, with a total lack of competition within their society, seems to prevail. In fact, the individual insect seems incapable of either a thought or a wish.

But other features should be noted about these insects, features that always accompany the ones so enticing to the dictator. It is impossible to have the one without the other. Even the queen bee, which they admire, is enslaved to biological duty rather than being free to carry out any personal wishes.

These insect colonies are highly materialistic. Moral and spiritual considerations play no part. They are coldly harsh in their purpose and performance. They are “inhuman” and wholly lacking in anything like the warmth of human love and compassion. Population is rigidly controlled. By killing those that do not work and by ruthlessly destroying the ill and the aged, full employment and “high” production is maintained—

however high may be possible under this unprogressive design of life. A high "national income" is maintained by imposing compulsion of labor at an early age, by compulsion of long work weeks, and by prohibiting vacations either with or without pay. Whereas the individual insect exhibits no self-interest, the selfish interests of the colony are substituted therefore; the two are in one sense similar, though the colony-selfishness operates on a huge scale whereby the mass of insects are driven into supporting it by blind allegiance. Not only is there a disciplinary violence of a cruel sort within the colony, but its members are forced to participate in violent wars with outsiders.

The devotion of individual insects to their assigned tasks is not, apparently, a work of love on behalf of a purpose embraced by conscious choice. Their diligence to duty is, instead, more like that of a locomotive which labors to haul a load. The engineer guiding their labors is the Unseen Hand of a biological control.

The characteristics of these insects have become nearly stable through untold ages of time. Their life task is somehow predetermined, and the shackles of their destiny are firmly attached from the very beginning of each individual's life process. The individual insect is born into a system of slavery that leaves him with even less control over his own activity and destiny than is enjoyed by the caste-born baby in India. Their unwavering loyalty is, so far as we know, a blind loyalty rather than one of understanding and choice. The social-insect design of life allows none of the luxury of individual choice; it allows no liberty.

The human individual is quite unlike the social insect in some important respects. He is highly competitive with some of his fellow men, while being highly cooperative with others. He is motivated, not by the materialistic purpose alone, but by moral and spiritual purposes as well. Having the capacity for independent thought and action, he possesses the urge for liberty and the will to be free. He is designed to be the master of his own destiny, within the limits set by the natural law of universal forces. These qualities induce him to reject and rebel against any blind loyalty or subservience to any of his fellows or to any other form of life, because his moral and spiritual concepts obligate



him to a Higher Order. He knows that he cannot serve two masters, which means that any earthly dictator who would be his god comes out no better than second in every race—second to his sense of personal responsibility to God and truth as he sees it. Thus the human seems to be cursed with a chronic itch to do something different from his fellows, to be always rebelling against something; we shall shortly see why.

Human rebellion takes many forms. It may be a small boy who decides to study piscatorial problems beside his favorite stream in the raw of nature, rather than to remain in the schoolroom where “compulsory learning” is administered by a hired teacher from an approved textbook. Or it may be a soldier who would break ranks to study a specimen of botany beside the road. Or it may be any one of innumerable other ways by which persons try their hands at some new task, or their minds at some new idea, or travel to view new sights. The recalcitrant human animal is the everlasting woe of the dictator, because he is constantly upsetting the dictator’s personal plans and hopes.

Change results from the desire for improvement. The human wants liberty to try new things. He wants to get ahead and to improve his personal abilities. The opportunity to do so is the source of his happiness, and that is why liberty and the liberal design of social conduct are so essential to human happiness.

The human urge for liberty and the will to be free cannot be cast off by a simple vow or by any other similar means, because these qualities are fixed into his nature as firmly as is the loyalty of the bee to his colony. It would take a long period of biological change to fix into the human form of life the qualities found in the social insects, even if such a change were desired.

Human capacity for independent thought and action, when coupled with variation throughout the universe, is what gives rise to progress. And there is progress only to the extent that this capacity is allowed to operate under liberty. So next we shall consider, briefly, the nature of variation and its relation to progress under liberty.<sup>6</sup>

Variation seems to be a universal law of nature. It seems to prevail everywhere and in the most minute detail. A person’s

fingerprint, for instance, serves to distinguish him from every other member of the human race.

Until a little over a century ago, variation was thought to have no pattern or purpose, and was considered to be an “accidental” and chaotic feature of nature. It defied all forms of scientific treatment, because it seemed to be totally unpredictable. Thus it was considered to be an evil, something to be prevented rather than being thought of as an inevitable force of nature with which to cooperate.

A little over a century ago the mathematical astronomers discovered, for the first time so far as we know, that there is an orderliness in variation as it occurs in nature. They found that variation appears to be disorderly and chaotic only because of a lack of arrangement, whereby its pattern is revealed. Once variation is placed in arrangement, these variations change from the ugliness of chaos into the beauty of an orderly pattern that is both interesting and predictable.

Admitting that a vast amount of scientific work is needed on this subject of variation, its present degree of development suggests that in it lies something of profound significance. If these concepts should finally become established as tenable, comparable to the law of falling bodies in physics, a person with any spiritual faith whatsoever is forced to conclude that variation is one of the “laws of nature”; that variation exists according to plan, and with a purpose of a High Order; that it has existed all along in spite of the ignorance that has prevailed about it.

When one comes face to face with the vastness of this subject of variation, and its possible import, a sense of humility emerges that all but silences him on the subject forever. Yet its possible importance and relation to the matter of liberty leads one to risk speculating about its design and purpose in the order of things. But in doing so, tolerance is requested toward probable errors in exploratory thought.

“Variety is the spice of life.”

Variation appears everywhere, and in one or another definite pattern of form. And so a purpose in variation must be assumed. What is its purpose?<sup>7</sup>

Variation is the source of change, and its only source. As a result of variation it is possible for “offspring” to differ from their “parents,” whether the process be that of reproduction of life or its counterpart in non-life such as the formation of compounds in chemistry. Without variation, no such changes could occur.

Change is, in turn, the source of “progress.” Progress, briefly, is a change in belief, concept, or their applications into “devices” which stand up under the tests of time and experience so as to have increasing acceptance among free people. In a word, it is an expansion of truth, or applied truth as tested by the only means at our disposal.

Not all change is what we call progress; change may be either progress or retrogression.<sup>8</sup> But progress is not possible unless there is change, which in turn is not possible unless there is variation.

In short, the opportunity for progress appears to be the purpose of variation.

Variation also affords relief from unbelievable—even incomprehensible—monotony. It is, therefore, a source of enjoyment for humans, which is made possible by their intelligence and capacity for discrimination.

A world without variation would be a strange world indeed. How could there be beauty? How could there be love? Courtship, at least, would be a strange process quite lacking in verve if all the eligible candidates were exactly alike. How could there be any purpose in going to the circus, or to the ball game, or engaging in any sport or competitive enterprise whatsoever, if all the animals and all the human players were exactly alike? From whence would come any enjoyment, if the monotony of ever-the-same were to be always present? A day of living in such a world would certainly lead a person to visualize heaven as a place where variation is rampant.

## *Chapter Nine*

# The Uncommon Man

Variation, as we have seen, results in progress when the changes are favorable ones. If favorable changes are to be made, they must be the result of free choice. Otherwise unfavorable changes and regression will be the result.

Free choice means liberty.

Thus it is concluded that variation offers the seeds of progress because it is the origin of change; that change will take the form of progress when, and to whatever extent, liberty allows these seeds to bloom into favorable changes.

The capacity for independent decisions and free choice is the precious attribute of humans that makes progress possible. The social insects apparently lack this capacity. That is why, under liberty, it is possible for humans to capitalize on the opportunities arising from the variations that abound in nature in a manner that the social insects cannot.

The analogy of growing a crop may illustrate the contributing forces that lead to progress. Variation is the seed of progress. Liberty is the soil and the climate in which the seed will sprout and grow. Human capacity for independent decisions and free choice is the husbandman who nurtures the crop during the period of its growth and harvest.

The capacity for free choice and intelligent action is a precious and perishable thing, to be nurtured and guarded with care. Rocks do not have this capacity for independent, intelligent action. Nearly all forms of life lack it. The social insects, if they ever had it, seem to have lost it long ago. When unused, it will apparently atrophy in the manner of muscles that are inactive. Without liberty the brain becomes imprisoned as though behind iron doors; thoughts and initiative die.

The capacity for free choice and intelligent action may also become lost in any species of life by the process of adverse selection. Presumably this is what happened to the social insects

in their early history, in the manner implied in the Russian fable. In like manner the capacity for progress could become lost in the human race; the firing squad of an authoritarian nation brings this about quickly and vividly.

Variation, and the human capacity to compound progress out of this variation under liberty, is the foundation of progress.

Human ability is highly variable. Presumably it follows the law of variation described by the harmonic series.<sup>9</sup> Human abilities are spread over a wide range so that very few persons are on the upside, and the number increases with a downward movement along the scale of ability into mediocrity. The “common man” is well named because there are so many of us. And the “uncommon man” is the one who has developed and put to use his extremely rare abilities.

The person is rare indeed who is capable of the basic discoveries on which progress is built. Among such persons have been Aristotle, Leonardo da Vinci, Beethoven, Pasteur, and Edison, to name a few among the distinctive ones whose accomplishments grew out of this variation among mankind.

But the mere existence of variation is not enough to generate progress. Rocks are highly variable, too, for instance, but something is lacking and they cannot generate progress. Nor can the social insects generate progress. If there is to be progress, variation must be accompanied by the capacity for independent thought and action, the capacity for choice, careful preparation so as to make use of accumulated knowledge, and the willingness and opportunity to proceed alone in the search for truth. Man has these qualities in varying degrees, but only a few persons have all the necessary qualities in the combination required for important contributions to progress. It is to these few that essentially all progress is due.

Extreme glorification of the common man may be popular, but it involves a serious threat to an understanding of the essentials of progress. It feeds the evil of vainglory, dangerously.

A great deal of credit is, of course, due each person who performs as best he can the task he has tackled, using the abilities

with which he has been endowed by nature. Most of the activity in the world is that of the seemingly menial tasks necessary for life and happiness to which we have become accustomed; but the performance of all these worthy tasks is not the progress of which we are speaking.

A person with  $x$  ability who performs an  $x$  sized task with  $x$  perfection deserves as much personal credit as one with  $100x$  ability who performs a  $100x$  sized task with  $100x$  perfection; and he deserves more credit if the latter person should deliver to the extent of only  $50x$ , or half his capacity.

In appraising a person, it is what he does with what he has that counts. In appraising the requirements of progress, we are unconcerned with personal glories and it is what is delivered that counts.

Contrary to general impression, the path to greatness is as difficult as it is rare. It is not a rosy path of ease. It is a path strewn with hazards and failures. Just as most mutations are self-destructive, most attempts to discover new truths and to peer into the unknown yield either illusion or failure. The mutant dies of its inborn deficiencies; most pioneering of thought or action ends in failure, and at best one can expect to fail time and time again before any final success.

Not alone that, but the uncommonly great person is generally misunderstood. That is the expected result of being uncommon. Both the genius and the idiotic dunce are "peculiar" persons, misunderstood by the large number of us who cannot really understand either of them. One cannot exceed his own limited capacities to understand which is which, as between the two ends of an array of human abilities.

Most contributors to progress have been treated with either indifference, scorn, or derision in their time. Pasteur was forced to endure the greatest of intellectual indignities when first he pronounced his discoveries.

The pioneer of progress most likely will be a lonely and persecuted soul, who must learn to find his reward elsewhere than in the concurrent appreciations of his contemporaries. As Professor John R. Baker has explained, the pioneer of discovery and

progress is one with an independent spirit who will tolerate no master; he will bear privation and starvation, if necessary, rather than to surrender to another his rights in the pursuit of truth.<sup>10</sup>

Only in history are his accomplishments likely to be recognized as noteworthy. To do his work, and to contribute to progress, he must unavoidably be different, act differently and think differently from his fellow men; if it were not so, his works would not constitute discovery and progress. He finds his satisfaction in the discovery of truth as a discovery, not in the personal glory involved; in being right rather than in being popular. He must expect persecution of a sort from many persons, and perhaps even from the “authorities” in the field of his discovery, as Pasteur experienced.

The pioneer of progress is one who believes truth to be something different from the beliefs that prevail around him. There is not much chance for progress when these persons are prohibited from practicing honesty in the expression of their rare beliefs. In requesting the privileges of liberty, he is merely asking for the privilege of practicing honesty in the search for and expression of his beliefs.

He should, of course, be willing to grant the same right to others as that which he requests for himself, and to be tolerant of disagreements. A person of rare beliefs—including the genius of progress—in many instances has so little understanding of liberty and such an intense devotion to his own unpopular beliefs that he tries to impose his personal beliefs on others by intellectual authoritarianism, and tries to grasp the power required for the attempt. That may be the reason why so many renowned pioneers in various fields of knowledge become addicts of a controlled economy, and contribute to the destruction of liberty which is so essential to their own work. This was noticeable in Hitler’s Germany. It is noticeable in our own country, in our day, and has become a serious threat to liberty.

The race for discovery and progress in society is a peculiar sort of race. The actual winner seems to lose and the losers win. As we have seen, the winner of discovery must often endure scorn and

other forms of indignity from others who assume that the poor soul is suffering from dangerous hallucinations. Yet the benefits of discovery and progress go largely to those who lost in the race of discovery, and who have even scorned the winner. It is unavoidable that they shall come to consume most of the fruits of discovery and progress.

The "common man," who has lost the race of making the actual discovery, reaps the harvest of the seeds that he has scorned. It takes little ability to press a light switch, after the rare developments of a Franklin and an Edison have thus mastered and simplified its uses. The world has to wait a long, long time for a Ford or a Kettering, but most anyone can learn to drive a car. The capacity to consume is common, not rare, and most of us are capable of consuming what only the uncommon man is capable of discovering and producing.

The pioneers of progress, as distinct from those who process and use the fruits of progress, derive little direct benefit from their own work. Pasteur consumed little of the vaccines that have been made as a result of his discoveries; he had only one life to lose from disease, but these discoveries are saving innumerable other lives. An automobile inventor drives few of the cars resulting from his invention. Beethoven consumed little of the enjoyment that has resulted from his talents. Those who stood on the shores and derided "Fulton's Folly" were among the multitudes who later rode on such craft. And among the crowds at the ticket windows of airline offices have been those who jeered at the "foolish notions" of the Wright brothers; little ability is required to climb aboard a plane that is to fly from New York to Bombay. None of these pioneers of progress gained much wealth from their work of discovery, which so many others enjoy.

In this age of political glorification of the common man, of mediocrity, and of the masses and the opinions of the masses, it must not be forgotten that if there had been only common men down through the ages we would still be living as savages. Except for the progress that stems from the uncommon man, ours would still be an existence like that of the lowest animals.

An excellent expression of this idea appeared in an interpreta-



tion of Toynbee's *Study of History*.<sup>11</sup>

It will be seen that Toynbee's is a great-man theory: "human individuals and not human societies . . . make history." In a growing Civilization the creative leaders lead "the uncreative mass" by enlisting the faculty of *mimesis*; in many subtle ways the mass of people "imitate" the Creative Minority so that the whole body social is able to grow *en masse* and in harmony. In a dying Civilization the Creative Minority is displaced by the Dominant Minority, and repression is substituted for *mimesis*. The mimetic song of Orpheus, who leads his people into the light of Civilization, is drowned out by "the raucous shouts of the drill-sergeant," who herds them back into the darkness.

Progress will be slowed to whatever extent the demands of the common man are allowed to rob the uncommon man of the opportunity to generate progress. Liberty affords him this opportunity to use his talents, and nothing else does. Discovery and progress cannot be forced; at best they can only be allowed to occur.

Most discovery results from a seemingly accidental hybridization of ideas, in a like manner as strains of corn are crossed to produce the rarely outstanding hybrid. Perhaps this is why basic discovery so often occurs in unsuspected places, by unsuspected persons whose rare powers of observation and comprehension have permitted them to grasp the significance of something that occurred within their scope of vision or experience, for which they may not even have been searching. Perhaps this is why rigid over-specialization and restriction in the search for new discoveries so often ends in failure to attain the objective; the narrow confines of the search prevents a hybridization of ideas from which progress so often springs. The new things of progress are often found by those who "know nothing about the subject."

Such is the story of why variation contains the seeds of progress. That is why the fruits of progress will be born only in the environment of liberty, where free play on the scale of variations can generate discovery and progress. That is why the destruction of all liberty would stop all progress, and set in motion the forces of retrogression.

Only under liberty can discovery and the origin of progress rear its lonely head, in some wholly unpredictable time, place and form, by some “unknown” person. Progress cannot be plotted and blueprinted in advance; that is why it is progress. Only in retrospect can discovery be identified.

If the planner could plan discovery for others, he probably would have made the discovery himself in the first place. If he is more able in this respect than the others, he is wasting his time not to do it himself; if he is less able, he can hardly plan it for others who are more able than he is. The notion that a blueprint for discovery can be drawn in advance is to assert that the planner somehow has the power to scrutinize the inscrutable, or fathom the unfathomable. It is not an act of discovery for a planner to buy the discoverer’s groceries or clean his tools, or to be the nominal head of the political bureau which pays his salary.

Much false credit is given to planning for “accomplishments” that would have taken place anyhow. One is reminded of the story of the fly on the chariot wheel who thought that he was the source of the power that propelled the vehicle. A governmental agency empowered to plan the size of the potato crop, for instance, is likely to change its “plans” after learning that farmers’ intentions to plant are at variance with their plan as previously announced. It is hardly respectful for a planning agency to have its plans proved “ineffective” (a wrong prediction of what farmers would do in spite of the plan). If a person should become empowered of “planning” the migration of the birds, it would be helpful for him to have some factual information on which to base his plans; he could then plan to have the birds go toward the equator in the fall and back toward the poles in the spring.

Truth, when newly born, is always an ugly stranger amidst the untruth and superstition of its time; it cannot live except as it is allowed the protection of liberty, which serves to protect newly-discovered truth in the same way as a mother protects the newborn child. For the seedlings of progress, like the more advanced forms of life, are unable at birth to care for themselves. They will die in infancy except for careful protection.

## *Chapter Ten*

# Government and Progress

Government, as previously discussed, is a repressive force. Within its scope, it prescribes patterns of conduct whereby the citizens are forbidden from doing certain things. Every deviation from these decrees is judged to be “lawlessness,” punishable even unto death.

The first recorded laws under government, for instance, were those of 3800 years ago which decreed that any market transaction other than at a specified price was unlawful. This, within its scope, was an attempt to eliminate all variation.

In the acts of government, a singleness of conduct is attempted which by its very nature defies the law of variation. Every violation of a decree is officially judged to be an evil. The exercise of human capacity for independent judgment, free choice and action is curbed by government. This is in violation of liberty, the requisite of progress.

As previously discussed, however, certain governmental activity increases the scope of liberty throughout society. The repression of certain actions of persons that are in violation of the rules of a liberal society results in a net increase in liberty. Up to that point government can generate progress, but when it goes beyond that point in enforcing a singleness of conduct it destroys liberty and progress in that society.

The result of an expansion of governmental action beyond that defined as the objective of government in a liberal society is to make human conduct more and more similar to that of the social insects—involuntary servitude to the unknown. These insects offer an illustration of what happens when variation is considered to be a thing of enmity, and steps are taken to reduce it more and more in scope. Thus, over the ages, these insects have developed into their present form.

In the attainment of a fixed purpose and socialistic design of the insect colony, any individual insect that exhibited any capac-

ity for thought and free choice presumably had to be destroyed in a continuous purge. If one of them should evidence individuality or dissimilarity from the pattern of conduct prescribed in The Plan, he was an enemy of that society. He was a traitor and met the fate of a traitor. The question was not whether he was right or wrong.

This ruthless purge of all dissenters from the "pattern of conduct in harmony with an orderly society" left only those insects having a minimum capacity for thought and independent action. It left only a living counterpart of the fixed qualities of chemical elements in a stone or a brick. As a consequence, variation, so far as it relates to the matter of intelligence, the urge for liberty, and the will to be free in making decisions of choice, was bred out of these strains of life. So we now find among these insects a high degree of standardization of these particular qualities. Theirs is an unintelligent conformity to an unprogressive society. Their lack of progress is the unavoidable consequence of a bounden duty to a predestined role. The same will happen to humans, if they should ever bow in bounden duty to the wishes of a dictator over a period of time.

Carried to the ultimate in eliminating variation and its manifestations, a completely authoritarian government becomes the result. Such a government would declare all progress to be illegal. This would, of course, be unintentional. But the fact remains that the extreme egotist is a natural dictator, one who would control others with the intent of preventing them from making "mistakes"; and he deems himself to be the only one worthy of judgment in the matter of what is and what is not a mistake.

In response to these observations, one may inquire why a government that acts in harmony with variation and change could not become an agency of progress. This would mean allowing the individual to follow his wisdom and conscience without prohibition or penalty, provided he does not trespass on the rights of others under the concepts of liberalism. But why would it be necessary for government to decree that a person shall do as he will? That is precisely the type of thing that does

not require an enactment of government. A policeman would not be very busy making people do what they want to do!

For government to act in such a manner is not to govern at all. Thus to argue for governmental permission of variation and change is to argue for an absence of government. The small boy, in similar vein, was said to have asked his “ultra-progressive” teacher if he had to do what he wanted to do.

For government to issue permits for the rule of variation is a rather questionable claim to authority. If variation is a universal law, governmental bodies need not notify the Maker of His rights in guiding the affairs of the universe, nor can they without false authority issue any such decrees to the citizens. The truth of the matter is that these governments do not wish to grant rights of variation. It is not surprising that an authoritarian government declares the laws of inheritance and of variation to be not to their liking, and attempts to make both religious belief and inheritance of variable characteristics non-existent by mere edict.

A government cannot rescind universal laws by enacting contrary statutory laws or administrative decrees. When this is attempted, failure to comply with the law or decree is certain to follow. Citizens are placed in a most undignified position; they must choose between being a criminal in the eyes of the law or a sinner in the eyes of the Maker. A problem that perplexes many religious persons and scientists, who have knowledge of these natural laws, is that of identifying the point in this contradiction of authority where rebellion is justified against the would-be usurpation of Divine authority.

It is commonly believed that the “democratic process” will assure progress. But there is no way of designing excessive governmental activity so as to assure that it will aid progress rather than stop progress.

Progress arises in every instance out of an extreme minority of opinion, not the majority of opinion. The seedlings of progress are often so small and unnoticed that they are ignored by those who would otherwise destroy them in ignorance as “evil”

thought or acts. But if everything were to be subjected to majority rule, every step of progress would presumably be destroyed in its infancy.

When we consider the separate historic events that comprise what we now accept as the steps of progress, and if we note how unacceptable they were in their early day, it should be clear that little progress could have occurred under a rule of the majority over the ages. As illustration, the potato, a marvelously productive new crop from South America, was barred from introduction into the agriculture of England during the extended time when this type of rule by the members of each community was in operation; it barred individual freedom of decision and action, and prevented the progress that always arises because someone is willing to hazard the trying of something new.

Neither does the device of compromise prevent the acts of government from stopping progress. Truth is not a thing that can be compromised. A thing is right or it is wrong. Principle cannot be compromised; it can only be abandoned. The route to the discovery of truth is to allow a person to be wholly right or wholly wrong. Compromise is bound to be wrong. The search for truth is impeded by the fact that a person who thus abandons reason and who adopts the compromise means of always being wrong is so commonly termed a reasonable person, and crowned with virtue and perhaps given a position of power!

Ignorance and false beliefs, the barriers to truth and progress, are harbored by the majority of persons about all things except the core of "accepted truth." Their numbers make them the rulers in the democratic process. They should not be empowered with rule over the "creative minority" at the crucial time when these steps of progress are being taken and an acceptance of newly discovered truth is being slowly gained.

An essential feature of a liberal government is the protection of minorities, and of the rights of minorities against plunder by the majority. The ultimate of minorities is one person. And so the ultimate of liberalism, as it has been defined herein, is the protection of each person against the plunder of one or more other persons. This makes it possible for one person to be pro-

tected while he sows the seeds of progress, by withdrawing from the stampede of unreason that is around him. He must be protected, else there can be no progress. The protection must be general, covering all persons equally, because there can be no way to know in advance who is the person who will make the contribution to progress.

Progress always hangs by a slender thread, which can easily become severed. That is why progress has been so slow and uncommon over the history of the human race.

Progress is but a step away from retrogression. And whereas progress is a difficult upward climb, the slide down the slope of retrogression is so simple that even the most ignorant can negotiate it. A dictator who is totally incapable of any contribution to progress is likely to be skilled in its destruction.

Retrogression, once started, tends to accelerate. That is why in the past the slow advancement of various “civilizations” have quickly dissolved into “dark ages.” The slow and painful gains of centuries, whereby progress under liberty is built upon the accumulated experience of the ages and wisdom of the sages, can become lost in a short space of time. The same stroke that destroys liberty and the chance for progress creates a power which releases the tides of unreason, under a false prophet who forces wholesale adherence to untruth among those within his domain.

The many users of the benefits of progress, especially in a democracy, hold in their hands the tools for the destruction of the fruits of progress. When once they have destroyed the liberty on which progress feeds and grows, they will have bequeathed to their children and to their children’s children—to generation on generation that is to follow—an age of poverty and of social disintegration. That is our present threat.

Variation must be respected and protected, since it is the source of progress. To impose punishment on all that is at variance is to poison all progress. Nature’s law of variation deserves full sway over wide scope, and it is improper for government to intercede except where one person trespasses on the rights of another under liberty.

## *Chapter Eleven*

# Liberty and Peace

The time may have come when we can again search more freely for the root-cause of peace without being met automatically with charges of being a “pacifist.” If pacifist means embracing the objective of peace, it should be no disgrace to be a pacifist.

Unfortunately, there are those who find in war and deadly conflict a form of amusement suited to their tastes. These remarks are offered to those who are in search of a maximum of peace, by honorable means, in the hope that they may find stimulation in that search.

Conflict, whether in its larger form of “war” or in one of its lesser forms, will exist increasingly as liberty is curbed.

This assertion is offered as a hypothesis. If it be correct, it means that the route to peace is to increase liberty among individuals throughout the world; and there is no other means. If it be correct, any combination of force by whatever means and under whatever excuse will generate conflict in one or another of its forms, and will most likely end in the worst form of all—war.

War, banditry, mutiny, insurrection, riot, rebellion, and murder are all forms of conflict differing in size. The various forms of conflict may also differ in other respects, not here of concern. Some conflicters may wear uniforms whereas others wear more conventional clothes. Some conflicters may wear official badges or insignia, some may receive medals for proficiency in conflict, and others may be given handcuffs for having participated—if caught by the right persons. Some may be elevated in office and in esteem because of their participation, whereas others may be demoted and disgraced. It all depends on the nature and form of the conflict; on whether or not it has been legalized; on whether both participants are within one nation or not; and on other differences. But all forms of conflict describe the absence of



peace, and if the objective is to have a maximum of peace, there must be a minimum of conflict in any of its forms.

Conflict is a major occupation in the affairs of the world. One study reports that one form—war—has engaged the major countries of Europe for about half the time since the year 1500.<sup>12</sup>

Another study gives an estimate of 59 million persons who have died because of conflict in all its forms during the last century and a quarter.<sup>13</sup> About four-fifths of this total number died as a direct result of the larger wars, which are the major cause of death in conflict, even though wars are few in number. Murders and the other lesser forms of conflict, though highly numerous, have accounted for only about one-fourth of one per cent of all the deaths from all causes in the world during this period.

These figures suggest the importance to peace of preventing the processes whereby conflict amasses into the larger affairs. Much better, perhaps, would be to endure the greater frequency of small conflict rather than to suffer the consequences of less frequent but more devastating major conflicts, if conflict in some form is unavoidable and if even the smaller ones must be endured as safety valves.

Many persons can be induced to fight some distant “enemy” they do not know, over some issue they do not understand, while in the abundant company of kinsmen who likewise do not know what the grandiose affair is all about. People are much less inclined to engage in conflict with an “enemy” who is their next-door neighbor, where the issue is clear to both parties; this form of dispute is much more likely to be settled out of conflict, peacefully.

Government is the official manager of every major conflict. This is a strange situation when viewed purely from the aspect of conflict. It seems strange that a government compels the citizens to participate in large-scale conflict, but punishes them for engaging in certain minor forms of conflict.

The conduct of all the activities of government is of the nature of conflict if, as Richardson defines it, conflict means “malice aforethought.” This is because government is engaged in enact-

ing laws and punishing the violators; it engages in processes of force and compels support of all its operations by the citizens. It is engaged in repression, and imposes processes of force on those who come under its edicts. The voluntary acts of persons do not involve conflict, and do not require the enactment of government in order to be performed.

So war means conflict built on conflict and is, in a sense, conflict pyramiding itself. Perhaps that is why war is, by all odds, the most serious form of conflict.

It is no coincidence that large-scale wars are the product of dictatorships, or of the acts of aspiring dictators. In its earlier stages of growth, the dictator's grasp for more power results mainly in internal conflict. Later it bursts its seams and becomes external conflict. Government of the scope and design of a liberal government, as previously defined, would seem to be engaged in an unavoidable degree of conflict; and so, to that extent it serves as an agency for maximizing liberty and minimizing conflict. But when government expands beyond that size and scope, where a maximum of liberty exists in society, the total of conflict is thereby increased.

The hypothesis has been given that conflict will exist increasingly as liberty is curbed. Or, conflict is the result of the loss of liberty.

Stated another way, liberty and peace are to one another as cause and effect. Is this true?

If liberty were complete, and if a person restricted himself to what is properly his concern, how could there be conflict except perhaps as a pantomime for purposes of amusement? What would there be to fight about if liberty were universal?

Violation of liberty, and nothing else, is the basic cause of conflict. The violation of liberty may affect either the person or his property; it may be in the form of either a loss of liberty or the threat of a loss, real or imagined. Under any of these conditions, man's will to be free impels him to strike at that force which is infringing on his liberty or threatening to do so.

The initiative of joining conflict may be taken by one who, in

the act of "aggression," attempts to take liberty away from others; Genghis Khan and those who captured slaves in Africa were both of this type. Or the conflict may occur in the process of regaining lost liberty through "rebellion," against the yoke of already-lost liberties; the French and American Revolutions were of this type. Or the conflict may be an "offensive defense," designed to strike at the assumed future aggressor first, before he strikes; this is aggression despite any attempt at rationalization of it as being "wise strategy"; the presumed intent of the "enemy" can never be proved in advance of his act of aggression; many national conflicts fall in this class, and it is to be noted that most of the wars of history were "defensive" wars, as written into each country's own records of history. Conflict in all its sizes and forms, not just wars, originates in one or another of these settings of lost liberty.

The real crime against liberty does not, as we have seen, always occur at the time when the conflict started, because the conflict may be a rebellion against a loss of liberty at a much earlier time. The actual conflict in such instances is started by the oppressed in order to regain his previously-lost liberty. They are rebellions against the yoke of unbearable and illiberal power. Such was the setting of Patrick Henry's famous words in 1775:

Is life so dear or peace so sweet as to be purchased at the price of chains and slavery? Forbid it, Almighty God! I know not what course others may take; but as for me, give me liberty, or give me death!

One may question, however, whether the lost liberty of chains and slavery, or the encroachment of unwanted power in any of its forms, is fairly to be termed peace.

The original loss of liberty leading to rebellion has been, in most instances, accomplished by the oppressor through seemingly peaceful and lawful means; Edmund Burke said that it occurs "under some delusion." The victims in these instances, because of either ignorance or "tolerance," had allowed their rights under liberty to erode until finally, in a panic of realization, violent rebellion breaks out in the hope of regaining the lost

liberty. The basic cause—liberty lost in an earlier day—tends to become obscured by the furor of the conflict.

“Meeting power with power” and “balance of power” are concepts with wide appeal in international affairs. Threats of force are used as the excuse for enlarging a counter-force, and vice versa until the inevitable conflict is abandoned because of sheer exhaustion rather than from settlement of its underlying causes.

The same argument thus used in international affairs has also been used in “industrial warfare.” It is argued that the power of unions must be increased to meet the threatening power of business, or that the power of business must be increased to meet the threatening power of the unions, or that the power of government must be built up to meet the threat of one or both of these.

The basis for this method of meeting a threat to peace probably is the notion that size and might are synonymous. It is the belief that an increase in size means proportionately greater concentration of power, which becomes might in proportion to its increase in size. This belief then leads directly to greater and greater concentrations of authority for “defensive purposes.” Concentration of authority means loss of liberty without fail, because authority cannot reside in two places at the same time. Completing the circle, then, leads one to the questionable conclusion that peace is to be found in the abandonment of liberty. Any such conclusion is confronted with the conflicting evidence of Hitler and Mussolini, and of many others throughout history.

The belief that size and might are synonymous sounds plausible until one ponders certain questions. Why does large size so often meet defeat at the hands of that which is lesser in size? Why did dinosaurs become extinct under competition with lesser forms of life, rather than to grow ever larger and larger over the ages? And “trees do not grow to the sky.” Why can microbes kill forms of life impressively larger than they are, without entering into any authoritarian combine with that as its express purpose? Why have all the great aggregations of power of the famous conquerors of history fallen of their own weight to an opposition

that derives its strength from something other than mere size? Why was Gandhi's passive resistance and Christ's method of "attack" so effective? We cannot deny that a form of might resides in size, but size is not might per se. There appears to be some form of inherent weakness in size and aggregations of power, which tends to cause their downfall.

Perhaps the problem of peace should be approached from a new and unconventional direction.<sup>14</sup> On the record, at least, the solution would seem to lie elsewhere than in the methods that have been tried again and again without even a semblance of success. What is more, the customary means of trying to remove a difficulty by the use of force and power seems always to demoralize those who adopt it; observing this may have suggested to Bentham his definition of war, as "mischief on the largest scale." It may explain why human reason seems to go on furlough, for the duration of serious conflict and in many instances thereafter. It may explain why both sides of most wars seem to come out as losers.

Perhaps the only route to peace is to increase liberty by breaking up each and every source and form of power, to the greatest possible extent and by peaceful means prior to its inevitable eruption into conflict. There must be substituted for the conflict of power a code of justice whereby the enemy of liberty becomes, not certain persons or certain nations in their entirety, but only those acts of any person or of any nation which violate the liberal design of society. Once this concept has been grasped, the words of Thomas Paine, when he said that one who would make his own liberty secure must guard even his own enemy from oppression, comes to have a new beauty of meaning. The futility of wholesale conflict as a defense of liberty then becomes clear.

Personalizing the enemy of liberty makes it impossible to come to grips with the true enemy, which is an act of the person. One act of a person may be in violation of liberty, and that is the enemy; all the other acts of that person may be in harmony with liberty. To personalize the enemy of liberty in this way is as though a surgeon, who has been engaged to cope with a malignant growth, were to personalize his enemy and kill the patient

as his professional duty; if this procedure be wrong in surgery, can it be right in civil and international affairs?

In like manner, we are prone to personalize and nationalize the enemy of liberty, so that in the ensuing war the object becomes that of trying to kill the patient—those who are lovers of liberty within that nation as well as those who are violators of liberty, all of whom have been conscripted into the enemy's armed forces indiscriminately.

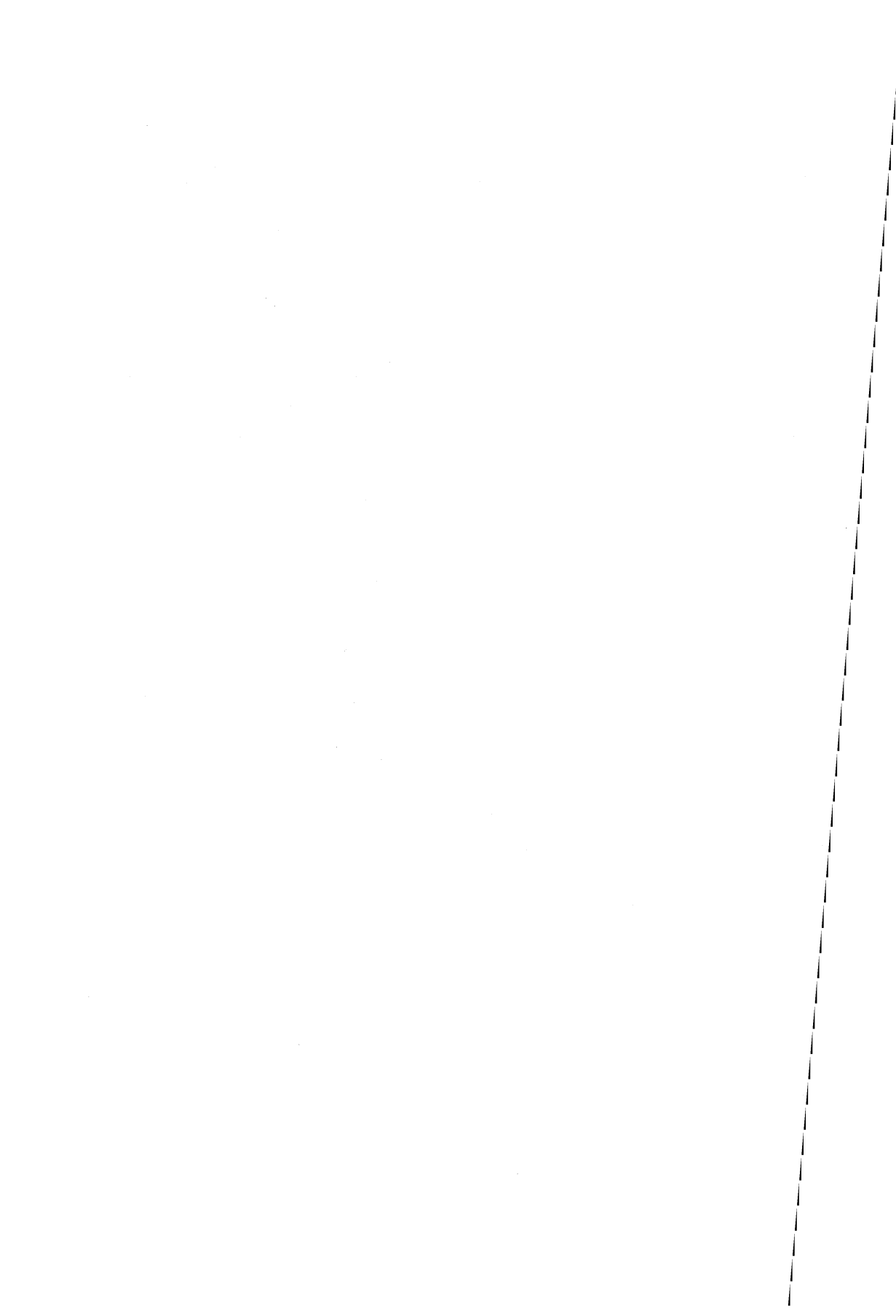
This line of thought offers no panacea to a quick certainty of world peace. But to whatever extent this analysis is correct, there is no panacea or shortcut to peace. If the object be peace, how can it be attained by the use of force in attacking, indiscriminately, that which is liberty along with that which is not?

When we consider the deep-seated desire of persons for liberty, and when we note the relationship between liberty and peace, could wars occur except as the power to drive a whole nation into war comes to be vested in the hands of one or a few persons—perhaps even someone in a foreign “friendly nation”? That person may have motives entirely different from the persons he is presumed to be serving. He may be overmindful of the personal glories of war.

History reports in glowing terms of the glories of war and of victory. Emblazoned on the pages of history are the names of those who happened to have been the political leaders during the pageantry and historic din of sacrificial conflict. But in many instances those who thus acquire historic recognition are merely engaged in reaping the bitter consequences of their own past mistakes, which caused the destruction of the underpinnings of liberty so that conflict resulted.

Largely unsung and unrecorded are the truly great whose wise and timely acts stopped the makings of the aggression at their source, and who in this way prevented major wars. Their greatness, we may trust, is safely recorded in more important places and in a manner more substantial than mere popularity and common renown, more permanently than statue and shrine, in forms where human errors of judgment cannot tarnish or pollute the greatness. The most deserving glories of

peace are to be found in the calm of battles not fought, and in the personages of those who prevented them from being fought.





Part 2  
ON MEASURING LIBERTY

*Abstract liberty, like other mere abstractions, is not to be found.*  
Edmund Burke



## *Chapter Twelve*

# A Measure of Liberty

Liberty is more than a word. It is a thing of substance that can be either present or absent, gained or lost. A person may be free or he may be a slave; presumably it is possible for that person to tell which is which, and that gives rise to the possibility of measurement.

We are concerned with the present status of liberty. If its status is to be discussed with accuracy, some specific measurements closely related thereto would be helpful. Otherwise the subject must endure futile debate in vague and meaningless terms. A means of measuring an important area where liberty is at stake will shortly be explained and applied to the United States.

This measure is not offered as a perfect measure of liberty, nor as a final answer to that question.<sup>15</sup> But even a rough measure may help to pave the way for a better one.

Strictly speaking, liberty itself defies measurement because it is basically a subjective matter with each person. Measurement is limited to the reflections of liberty, or the indirect evidences of its presence or absence. It is in that sense that the measurement of liberty will be discussed.

Failure to be able to come to direct grips with a thing should not completely discredit an attempt to measure it, however. Much of the work of science with which we are familiar and which we use as a guide to our beliefs and acts employs methods of indirection for gaining evidence about the thing being studied; indications of the thing are accepted in lieu of the thing itself, and are deemed to be evidence worthy of use. Illustrations include original work in astronomy, in the germ theory of disease, and in many parts of chemistry such as the development of the atomic table.

Liberty is divisible. It may be present or absent in different aspects of our daily lives, leaving a person partly free and partly slave. Each person may at any time be anywhere between 0 per

cent and 100 per cent at liberty, or between 100 per cent and 0 per cent a slave.

If one were to speak of the status of liberty in an entire country like the United States, it would be necessary to represent it by an average for the liberties of all the persons in that country. This would make it possible to speak of liberty in a nation as being at some point between 0 per cent and 100 per cent, the same as for one person; it would offer a device by which to judge whether liberty in a nation has been increasing or decreasing over a period of time. Such a treatment on a national basis obscures, but it does not deny, that liberty is an individual matter; that liberty for any one of these persons may be either above or below the national average.

A simple fact, but one significant to interpreting the status of liberty on a national basis, is that one person has a maximum of 100 per cent liberty. If each of two persons enjoyed full liberty, with neither of them desiring to enslave the other, their average would be 100 per cent liberty  $\left(\frac{100 + 100}{2}\right)$ . If one of them acquired the desire to enslave the other, and did so, his liberty would still be only 100 per cent; that of his enslaved fellow would fall to 0 per cent, however, and their average liberty would fall to 50 per cent  $\left(\frac{100 + 0}{2}\right)$ .

A dictator over a hundred million persons has no more liberty (100 per cent) than if he desired not to be a dictator and was a free man among a hundred million free men. But the national average of liberty under the dictatorship would be near 0 per cent  $\left(\frac{100 + 0 + 0 + 0 \dots}{100,000,000}\right)$ , whereas without the dictatorship it could be near 100 per cent.

The desire to enslave his fellows, on the part of one dictatorially inclined, means that his liberty cannot be as much as 100 per cent except as he is able to accomplish that feat. In being prevented from enslaving his fellows, he is deprived of a full measure of his liberty, as we have defined it; we might assume, as illustration in one instance, that its prevention meant a loss of half of that person's liberty, or of his willful de-

sires. If he were the only one in the nation blighted with this illiberal desire, to allow him to grasp full power would reduce the average level of liberty for that nation to near zero  $\left(\frac{100 + 0 + 0 + 0 \dots}{100,000,000}\right)$ ; whereas curbing his grasp for power would allow liberty to be near 100 per cent in that nation  $\left(\frac{50 + 100 + 100 + 100 \dots}{100,000,000}\right)$ .

These simple numerical representations serve to indicate how the national average of liberty is affected directly in proportion as there is enslavement by any means whatsoever, within a nation.

The foundation of economic liberty has been defined as the right of a person to the product of his own labor. If this definition be accepted, it becomes a means by which to measure one's economic liberty—or its complement, the degree of economic slavery he is being forced to endure.

The slave is compelled to work for his master without any rights whatsoever to income that he may spend as he chooses. Nor does he have any rights to private property. Whatever economic living may be granted to the slave by his master is given to him in the same manner as one makes a gift to another, because there is no definite obligation involved; the slave has no right to demand any "pay" of food or other things; he has no means by which to assure himself of something to eat tomorrow, either from the work he does or from what he has saved. The master, of course, normally does not allow his slave to starve; he gives him food and necessities so that he may live to toil another day.

It may seem strange that the slave, totally lacking in liberty, frequently feels no strong resentment toward the master who has enslaved him. In fact, the slave may even feel grateful toward his master who "so kindly gives me food and necessities with which to live, and without which I would surely die." It is said that many a newly-freed slave after the War Between the States feared liberty because, due to the narrow vision of his experience as a slave, he acquired this strange feeling of kindness toward his

oppressor. A similar feeling is reported to have been held by the oppressed in Hitler's Germany, and in Stalin's Russia; and we have noted the same feeling among those who have acquired the habit of leaning on a benevolent government in our own country. All these victims of a lost liberty are unmindful of the fruits of liberty, due to the blindness which compulsory or voluntary slavery has caused. "Forgive them, for they know not. . .", but let them become free so that they may know!

If a slaveholder grants to his slave a daily wage of \$10—the market equivalent of what the slave produces—and then, after paying it, takes it all back again, one could hardly claim that the slave had thereby gained his economic liberty. The slave might properly say to his master: "You may as well keep my pay in the first place. I have no economic liberty unless I can keep it and can have free choice in its spending."

Suppose that the master, instead of taking back all of the \$10, should take back only three-fourths, or one-half, or one-fourth of it. Would it then be correct to say that the slave lacked economic liberty to the extent of three-fourths, or one-half, or one-fourth, as the case might be? According to our definition of economic liberty, this suggests a rough measure of the degree of economic liberty he is then enjoying, even though he is still legally bound to his master who may change the degree of this economic liberty at will.

Partial liberty under slavery is well illustrated by a practice that was established in Prussia centuries ago. The masters granted their serfs two days out of the week to work for themselves. They had that degree of economic liberty.

Now suppose that the slave, instead of working directly under the guidance of his master, should be allowed to pursue elsewhere any occupation and place of employment he may choose, and to sell all his services or all the product of his toil for a money wage or a market price. With legal ownership of his slave, and with full knowledge of the slave's activities and the amount of his income, the master is able to claim all or part of the slave's earnings. If he should take three-fourths or one-half or one-

fourth of it, would it then be correct to say that the underling was still three-fourths or one-half or one-fourth in economic slavery? This would seem to be essentially a correct report of the situation. The master might choose to operate this way, instead of having the slave work directly for him, if he thought that the slave would thereby produce more for the master to take away from the slave.

As another variation, suppose that several slave masters combine into a slaveholding corporation for the management of their slaves, and suppose that the corporation, rather than each of the masters separately, is delegated to direct the operation and extract the pay from the slaves. Would this lessen the degree of slavery from what it had been before? No.

As still another variation, suppose that these slaves acquire their status of slavery as a result of a popular vote among their group while they were still free men, and that the majority voted that they should all become slaves. Would this lessen the degree of slavery from their previously reported plight? No.

Suppose that the master pleads innocence of slaveholding on the grounds that he is spending the slave's earnings for what he considers to be the slave's own welfare. Would that change the degree of liberty of the slave? Is liberty to be defined in such a way as to allow me to take from you the product of your labor, so long as I claim that I shall use it for your welfare, or for the "general welfare"? Should the robbing of banks be allowable under liberty, provided the bank robbers promise to put the proceeds of the robbery to some use they claim to be worthy, or even to some use that a majority of the people have judged to be worthy?

The test of economic liberty under all these varied conditions, and others that might be listed, is to be found in the definition of economic liberty as previously explained—the right to the product of one's own labor. One who is deprived of these rights is a slave. To whatever extent he is deprived of these rights, he is to that extent a slave. And he is no less a slave because of the means of depriving him of the product of his labor.

Are employees in modern society in the same position as slaves?

It is often asserted that employees are the equivalent of slaves, because the employer can pay them whatever he may desire and the employee can do nothing about it. But that is not so. There is a distinct difference between the two situations.

The slave, if he should object to his plight for any reason whatsoever, cannot move to a new situation of greater promise, nor can he leave to start a business for himself, nor can he quit work to live in retirement on his savings; he must continue to work where he is, in spite of his wishes, and continue to be subject to the dictates of the master. The employee, on the other hand, is free to make these changes; he may bargain with his employer, or he may leave for employment elsewhere, or he may start in business for himself; or he may choose to retire and not work at all, or work only part time, living on the savings he has accumulated.

But back of these differences is the one most vital to economic liberty. The employee has income of his own to spend or to save as he desires. The slave, on the other hand, does not.

An employee is not, because of that fact, a slave; nor is he the equivalent of a slave. Any employee who claims that he is the equivalent of a slave probably would not, if put to the test, willingly become a slave; the act is the test of sincerity of the belief.

The employee is, to be sure, under whatever dictates his employer chooses to impose while he is there as an employee. Presumably he has accepted this condition of employment willingly, rather than not to have that job with its pay; this is distinctly different from the plight of the slave, who was captured and held against his will and who is not free to return or to move to another job.

The employer-employee relationship amounts to this: The employer, who has the tools and other capital required for efficient production, and who presumably has the know-how of management, proposes to a prospective employee that they form a sort of partnership; the employee accepts it or not,



voluntarily, dependent on whether or not he judges it to be a better prospect for him than any alternative. The employee may, in fact, take the initiative and make the original proposition to the employer because he strongly desires to cooperate in such an arrangement with one who has the tools and capital, or the know-how of management.

Whatever the route to a final deal, the employer-employee relationship is similar to two persons trading a cow and a horse, where both parties to the deal are beneficiaries. The employer, as his side of the offer, agrees to give the employee what amounts to a certain quantity of the product and a guaranteed market therefor, in exchange for the employee's services. It may turn out that the employee gets either more or less than he contributes, resulting in either loss or a profit for the employer.

The employer-employee arrangement is in sharp contrast to that of the master-slave relationship. The slave is not offered a proposition in the original deal; he is captured.

Apparently large numbers of persons in any country prefer to be told what to do, in large areas of their lives. Large numbers cannot or do not desire, in the economic arena, to be entirely on their own; so they choose to work for others at a wage those others are willing to pay. Yet they have the essence of liberty even in this situation, for reasons that have been given.

Employees, along with those who are self-employed, have an important stake in liberty. Contemplating alternatives should make this perfectly clear.

Now we come to a crucial point. The question is this: If the master be the State (government, at all its levels), does the test of expropriated income still serve as a useful measure of liberty? Does the test that has been applied to a privately-owned slave still apply here?

A slave is no less a slave because of the manner by which he is deprived of the product of his own labor, and of the right to hold private property. Slavery cannot be transformed into non-slavery by having a group of owners combine to do the same thing. No matter what system is used to extract the fruits of his

labors from the person, he is a free man or not (economically) to whatever extent he can or cannot have whatever he produces, to consume or to sell, to trade as he wishes for whatever he wishes, or to save as private property for later needs and uses.

This rule is still valid even when it is government that does the taking. If the government should take all that is produced, as does a master from his slave, all the citizens would then be the economic slaves of that government.

Most of the modern world has discarded the institution of private slavery, the slavery of person to person. This institution has been judged to violate the rights of persons to be free. But there is rapidly arising a form of slavery even more dangerous and deadly. The new form is more dangerous because it is more subtle, more difficult to detect and to guard against, and therefore far more widespread than personal slavery probably ever was. This is because it does not take the customary form of slavery of one person to another, as when one holds title to his slave or cattle or horses and is their unquestioned and exclusive master and owner. Therein lies the danger of this new form of slavery, a danger comparable to that of disease germs prior to the discovery of the microscope and the development of the germ theory of disease. Our present problem is to discover the equivalent of the microscope for use in diagnosing the causes of the economic diseases of our society whereby liberty is lost, and to develop the means of identification of the germs which cause those diseases.

The superstition prevails that if the government takes from unwilling people the product of their labor to pay for governmental costs of which they disapprove, it becomes a commendable act unlike that of the master taking from his slave. Especially is the taking supposed to be proper if it occurs in a "democratic" nation. It is as though we should rule, by custom or by law, that robbery becomes a commendable act if a large enough number of people approve of it and engage in it.

The mere fact of taxes having been paid is no test of basic willingness; it is no evidence that a form of slavery does not exist, as a result of the displacement of voluntary action in the free

market of choice. The fact that a slave works in his master's field, similarly, is no evidence that slavery is not involved. The giving of one's wallet to the hold-up robber without a struggle or conspicuous conflict is no evidence that the robbery did not take place. In all these instances there is an overhanging threat which causes the seemingly peaceful submission; the unfortunate victim is allowed no alternative consistent with liberty. In the case of taxes, the act of non-payment results in a legal claim against one's property and future income, presumably far greater in amount than the tax bill under protest.

"The power to tax is the power to destroy."

The Chinese scholar, Chang Hsin-hai, in his article on "The Moral Basis of World Peace," asserts that this disease of our society stems from a double standard of morals. He says that the root of our troubles, both national and international, lies in the acceptance of moral standards in government totally different from those accepted and demonstrated as necessary for a good society so far as individual conduct is concerned. If a politician, either national or international, engages in practices and policies which in individual conduct would be considered as most contemptible, he is commonly honored for his "progressiveness and farsightedness, and for the great service he is rendering to the citizens of his country." He is elected again and again to public office, even though the same practices by the operator of a private grocery store or a farm would lead to his being all but run out of town.

At the root of the double standard of moral conduct, to which Chang Hsin-hai refers, is the accepted belief that many forms of predatory practice, when conducted under the name of government, are honorable acts. On that premise has been built a progressive encroachment on the liberty of individuals, which passes as "progressive" in politics. Governments in recent times have taken more and more of the product of persons' labor "for the common good." But by the mere fact of its taking, the government is thereby engaging more and more in the enslavement of the citizens. If this process had involved the complete enslavement of certain persons, it would be more noticeable and

we would then be able to see it in its true light.

As one aspect of the problem of lost liberty and double standards of conduct, the government is getting more and more into business in a manner condemned in private practice. This fact must be observed in any discussion of the status of liberty in our time, even at the risk of not being fully understood in a cursory treatment of an involved question.

Nearly every business operated by government has these features:

1. They are monopolies.
2. Their initial capital is obtained through the force and power of taxation.
3. They need not operate efficiently, nor be able to cover their costs in order to stay in business, because they can always fall back on their taxing power to make up the difference between their performance and the people's direct appraisal of its worth.

All three violate liberty in one way or another.

How would you like to compete in private business with someone who could force you to put up his initial capital and who could send you a bill for all his losses?

As an individual citizen, it is no defense against the loss of liberty to say that you are a citizen and have a share of ownership in these governmental projects. You will find, for instance, that you are a shareholder in the Spruce Production Corporation, one of the federal government's hundreds of corporations which now have a total of over \$30 billion of capital assets. Try some day to sell your "ownership" share in that project.

As another illustration, United States citizens—including teetotalers—are forced to support a budgeted deficit to pay for the federal production of rum in the Virgin Islands. One who does not care for this investment is forced to invest in it anyhow. He is not even allowed to shift his investment to some other governmental project that is more appealing to him; and if he were allowed to shift, it would make no difference anyhow because the set-up precludes enjoying any of the privileges of ownership in its real sense.

What, in any practical sense, do you have to say about who is to be the manager of “your” corporation? What sense is there to calling it ownership if you cannot sell it, and if in addition you can be assessed for its financial failures indefinitely into the future?

The corollary of the right of ownership is the right of disownership. So if I cannot sell a thing, it is evident that I do not really own it. Can a Russian citizen, who becomes dissatisfied with his part of the Russian system of socialistic “ownership in common,” sell his share of Russia some day and convert the proceeds into some other form of real wealth?

This matter of government in business must come under thorough review by anyone who would consider the status of liberty in our time. Strange as it may sound, it comprises an increasingly important aspect of the modern version of slavery. Any measure of lost liberty must include it, because it is one of the forms of delusion under which, as Burke said, people give up their liberties.

## *Chapter Thirteen*

# The Extent of Lost Liberty

A rough measurement of the encroachment on liberty is to be found, then, in the proportion of the product of a person's labor that is taken from him by force or by threat of force, by government. A study of these figures, over the century and a half of our history as a nation, gives cause for deep concern (see chart on page 293).<sup>16</sup>

In 1947 the figure for governmental take was 29 cents from each dollar of income, or one and one-half times the entire food bill of the nation (excluding the taxes buried in the price of food).<sup>17</sup> A common reaction may be, "Perhaps so, but I don't pay any such amount in taxes." Much of this tax is in the form of hidden taxes, and one cannot see what is hidden. About two-thirds of this 29 cents, or about \$1,000 in a year for the average family, is in the form of various hidden taxes; this amount of tax has become buried in the prices of everything you buy and of every service you employ—bread, shoes, haircuts, electric bill, the new car, movies, railroad tickets—everything. One author has estimated that there are 502 taxes on a pair of shoes. When all of these hidden taxes are brought to light, one finds that he now works 3½ months for the government, leaving only 8½ months to work for himself.

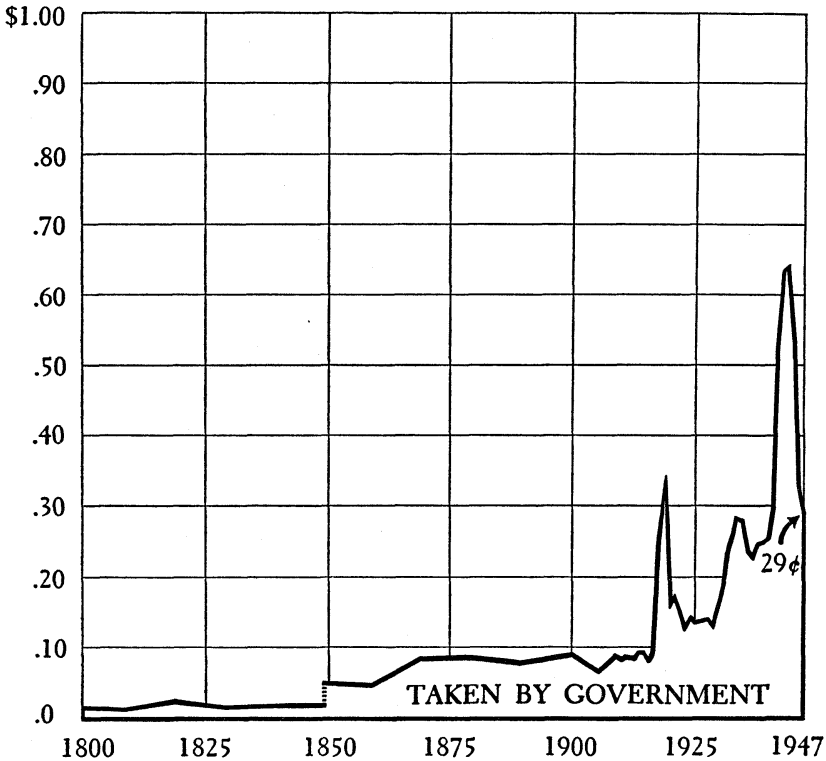
Government in the United States is now taking from persons' incomes an amount equivalent to the complete enslavement of about 42 million persons—working persons and members of their families. Compare that figure, and the concern about it, with the figure of 4 million privately-owned slaves in the United States at the outbreak of the War Between the States!

All this is being done under the name of liberty, in a nation where liberty supposedly reigns as a beacon for the rest of an enslaved world. It is all being done under the name of a "progressive" society.

The present figure of 29 cents, even under present conditions

## LOSS OF FREE CHOICE IN THE SPENDING OF INCOMES

Figures prior to 1849 include Federal Government only



of high employment and money incomes, is frightening enough. But a decline in employment to a point like that of 1938-40, in its effect on the national income, would automatically increase the burden to 35 cents or more out of each dollar of persons' incomes; and this estimate fails to include any additional governmental costs "to relieve the depression."

The threat and danger embodied in a figure of 35 cents, or more, can be gleaned from a few comparisons. The latest figure at hand for the United Kingdom is about 35 cents out of each dollar.<sup>18</sup> The situation in the United Kingdom under this burden is well known, as suggested by the common use of the word "austerity," and also by the fact that the United States is being

asked to contribute great sums of money in the hope of bolstering the British economy.

A study of the tax burden of 48 nations in the late twenties offers some sobering evidence.<sup>19</sup> Among these 48 nations were four large ones (over 25 million population) where the government was then taking more than 20 per cent of the citizen's income. Call to mind what has happened in those four countries from the standpoint of liberty of the citizens:

*Taxes as per cent of national  
income, 1929-1930*

USSR.....	29
Germany .....	22
France .....	21
United Kingdom.....	21

A near-comparable figure for the United States at that time was 14 per cent, as the cost of government in proportion to the national income.

“The power to tax is the power to destroy.” The power to tax incomes is the power to destroy incomes. The power to tax property is the power to destroy property, whether by a capital levy or in any other form. And since income and property are the economic extensions of the person, the power to tax becomes the power to destroy persons to whatever extent economic considerations are important to life and happiness.

In an autocracy, the power to tax is the power of the autocrat to destroy persons in this sense. In a democracy, the power to tax becomes the power of certain persons to destroy other persons, and it becomes the right to use all forms of legalized power and influence to do so—lobbies, pressure groups, and all the others.

Dr. Colin Clark, the Australian economist, has concluded from his study of governmental costs that whenever the figure for any country rises to more than 20 or 25 per cent, progressive inflation and the debauchery of the currency is the likely result.<sup>20</sup>



And Lord Keynes reported:

Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens.<sup>21</sup>

The “Capitalist System,” which Lenin wished to destroy, is based on the right to the product of one’s own labor and on the right to save some of it as private property. It is based on the foundation of liberty, as herein defined.

The private property that comes into being when a person spends less than his income, or consumes for purposes of his current living less than he produces, becomes the capital of the “Capitalist System.” This right to private security in the form of one’s savings put to some productive use, is the essence of economic liberty. Destroying the “Capitalist System” means destroying this liberty and these rights; it means the prohibition of the self-responsibility and private security, in the form of personal savings; it means a most powerful invitation to personal irresponsibility and intemperance in economic consumption.

History confirms the effectiveness of these means of destroying the foundations of human liberty. And it further records the failures of socialistic nations of the past, in sharp contrast with the human happiness and progress that abounds wherever a high degree of human liberty prevails.

Events before the French Revolution illustrate the consequences of economic intemperance. Following a long series of governmental deficits, the debt by 1788 had reached such proportions that, with an added deficit of 20 per cent of governmental expenditures in that year, half of the budget went for costs of the debt.<sup>22</sup> The cost of the debt would have exceeded even that proportion, except for the “shameless waste” and extravagance that padded the remaining portion of expenditures. Taxes, though having been raised to the limit of yield, were far from enough to pay the costs of this wastage and the pensioning of privilege and favoritism. Indirect taxes, including inflating the

currency to pay expenses, was used more and more. The credit standing of the government finally was completely destroyed, so that income from the issuance of loans was no longer possible. The government extended its monopolies and confiscated wealth in various ways. Personal violence began and spread as a consequence of enforcing the decrees and as an accompaniment of the growing economic vice, until the bloody revolution was in full swing.

Among the authorities on the subject of liberty in relation to the rise and fall of civilizations is Sir Flinders Petrie, the great British archeologist. He traced the six great civilizations of the world during the last 8,000 years. He found that the rise of these civilizations occurred while liberty was at its height, that when economic parasitism set in these civilizations degenerated rapidly into a long period of "dark ages."

That, in a nutshell, indicates the present status of liberty in the United States.

Many persons who call themselves realists, but who are called fatalists by others, know these events of history and believe that liberty in a nation tends to erode more and more until finally it has been almost entirely lost. Whereas it seems that such has tended to be the pattern of national experience, no one pattern is inevitable as the course of a national society. If it were inevitable, why would there be all the variation of patterns between nations now and at any other time in the past? This argument of inevitability becomes an effective weapon of those who are pleased with recent trends in this and in other countries, and who would like to have all opposition to their hopes fade before the "inevitable."

The lovers of liberty must remember that, in a seriously ill society as with a seriously ill person, the choice may be between some form of early medical treatment—perhaps pills that may be unpalatable at the moment—and the services of an undertaker. If these preventive steps are not taken in time, and if the little problems of liberty are allowed to go unsolved, they accumulate into catastrophe; in the end there comes bloody revolution of the worst sort, when the growing octopus of tyranny has finally become unbearable.

The great social problem of our age is that of designing the preventive medicine that will stop the eroding liberty in the body politic. Further, once the disease has advanced to the point of a most serious danger, a bitter curative medicine is required to regain already-lost liberty.



## Part 3

# THE PRESENT PROBLEM

*If the true spark of religious and civil liberty be kindled, it will burn. Human agency cannot extinguish it. Like the earth's central fire, it may be smothered for a time; the ocean may overwhelm it; mountains may press it down; but its inherent and unconquerable force will heave both the ocean and the land, and at some time or other, in some place or other, the volcano will break out and flame up to heaven.*

Daniel Webster



## *Chapter Fourteen*

# Special Privilege

With government in the United States taking 29 cents of each dollar of a person's income at the present time—an amount identical with that for the USSR in 1929-1930—what is to be done?

In considering any new proposals for governmental expenditures, and in reviewing those that now exist, this should be the guiding rule: Grants of special privilege to any person or group of persons should be denied, because these grants can be made only by infringement on the rights of others—on liberty. “Benefits” for this and “benefits” for that should be denied. The granting of any of the so-called benefits by government violates the foundation of liberty—that a person should have the right to the product of his own labor, and the right to dispose of it or to keep any part of it as he desires.

No attempt will be made here to list the numerous forms of special privilege now in operation. Each person can do that for himself, and if there should be a difference of opinion over an item, the difference could not be resolved by a mere listing of the item in question.

The nature of special privilege, however, should be clear in its main outlines. Special privilege is any item of income or of position in the market for goods and services where the amount paid and received fails to reflect the judgment of “the judges of the market place” as to its worth. It is where the judgment of the voters in the economic market place is overruled by their political servants; it is where persons are forced to pay for a thing beyond their opinion of its worth, through the device of an authority backed by the taxing power or legal penalty.

Among the things that fall in this class of special privilege are monopoly, prohibition of competition through force, fixing of prices by governmental decree or protection of others who do the same thing, the forcing of payment for work not wanted

done, and the prohibition of the free movement of goods across political borders.

The government, having no independent source of income except what it takes from the incomes of the citizens, cannot give a "benefit" to any one person either as a direct transfer of money or in any other way without correspondingly denying another the right to the product of his labor. Some evening when there is nothing else to do, an interesting occupation would be to take a copy of the federal budget and study the projects reported therein as they fail to meet this test of special privilege. It would provide plenty of food for thought.

On a recent occasion when discussing a proposal involving a major program of special privilege, a well known person said that the only thing he could see against it was the cost. Its entire cost would unavoidably have to be paid in full by the taxpayer. It is common to speak as though this cost aspect can be dismissed lightly as a minor detail. One might as illogically say that his wife wants seven mink coats; that the idea seems to him to be a good one—except for the detail of its cost. Why is the matter of cost any less relevant when the item is under the scope of government?

"The power to tax is the power to destroy." Special privilege is of necessity the process of destruction in operation, always and everywhere.

The matter of strategy by persons, both individually and through their organizations, becomes highly important if there is a sincere desire to assist in the recovery of liberty.

An attitude which over the decades has contributed more and more to the loss of liberty is one that may be called "compensatory parasitism." That high-sounding phrase refers, in more simple terms, to the philosophy of: You parasitize me and I'll parasitize you. It is the philosophy that one evil justifies another.

The effects of this policy abound on every hand. The government becomes a grab-bag and one citizen justifies his becoming a parasite by observing that others are doing it. "So-and-so is getting a hand-out from the government; why shouldn't I?"



A cardinal principle of successful parasitism is that the number of parasites must be kept low. Otherwise the host is killed and the parasites must die.

The wolf pack operates as a form of parasitic economy. They live constantly in a meager existence, and some of them must die as their number increases relative to the sheep they plunder and kill.

Our economy is not like that of a pack of wolves, which plunders but does not produce. Ours is a productive rather than a parasitic economy. The basis of a free society is the absence of parasitism.

So the point of strategy is this: Why not encourage a complete about-face in policy among all thinking citizens and all leaders of thought? Why not oppose special privilege for each and every person and group, rather than try to acquire compensatory parasitism for one's self?

If the principle of "no special privilege" is to prevail, it will be necessary to support that principle in its every application as a principle. It should be adopted as a uniform rule, across the board.

## *Chapter Fifteen*

# Recovering Liberty

The fashion of the times seems to be to “resign to the inevitable.” Some say that the wise thing to do is to relax and try to grab as much as possible for one’s self, while the nation declines into the abyss of collectivism. Anyone devoted to the principles of liberty will refuse to accept that solution; he will refuse to accept it on both moral and practical grounds. The plight of peoples all over the world where compromise and “resignation to the inevitable” has been the adopted solution should be ample evidence of what is in store if we continue to pursue that course. The prospect is not a pretty picture. No liberal will want any part in this route to the destruction of liberty.

Let us take a practical look at “resigning ourselves to the inevitable,” in economic terms. If we should adopt a policy of social parasitism, and if it were possible to divide up the entire supposed wealth of this nation and consume it as a pack of wolves would devour a sheep, there would be only enough on a valuation basis in these “fabulously wealthy” United States to sustain our present level of living for 3½ years. The estimated wealth of the nation, in other words, is only 3½ times the estimated worth of the goods and services produced in a year. So, if all these items of wealth were actually “consumables,” like those we eat and use in current consumption, there is only enough to sustain our present level of living for 3½ years. Thereafter, the wealth which is now responsible for at least nine-tenths of our output of goods and services would all be gone; those who survived the resulting privation would then have to exist on what they could produce under the economic sterility that would then prevail, by using primitive methods that would probably yield less than one-tenth of the level of living we now enjoy. When viewed in this light, “resigning to the inevitable” is seen to be a disastrous form of surrender.

“But we shall divide up only a part of the wealth, not all of it.” The evil effect will still be there, though in a lesser degree.

Economic parasitism does not become a good thing when lessened in degree; it becomes only a less serious evil.

Our present society rests on a foundation totally different from that of a pack of wolves, and any undermining of its foundations will result in its collapse. Furthermore, the higher any society has risen, like ours, the greater the debacle whenever the loss of liberty undermines it.

This discussion has been mainly of the economic and material aspects of the problem; but it is not meant to imply that these economic aspects are the only aspects or even the most important ones. If Hume's views are right—and I have no evidence that they are wrong—it is important to be ever mindful that the foundations of liberty embrace the foundations of justice and morals, and of a moral civilization. The most highly prized aspects of liberty are these, and the economic welfare that develops under liberty is but a pleasant, extra dividend flowing therefrom.

If lost liberty is to be regained, the general course to be followed is simple. Liberties that have been taken away from individuals must be restored; there can be no other answer. Whether it be started with this or that liberty is a detail, however important. The way to start is to start somewhere.

The solution of the problem of liberty requires that a sizable number of thought-leaders grasp a wholly new attitude on matters of government. There must be a change from the belief that has increasingly prevailed during twenty years or more in this nation, and for a longer time in other countries like Germany and Britain which now stand as pathetic demonstrations of the effects of lost liberty. It is not enough to blame our congressmen and to expect them to do the job of regaining lost liberty alone. Weeds the size of sequoia trees have grown up in our vineyard of liberty, and one cannot eliminate a forest of sequoia trees by using a jackknife at the tips of the branches.

The present year's budget for the federal government weighs about half more than the Sears, Roebuck or Montgomery Ward catalogue; it contains 1534 pages; on each page, on the average, is information about \$26 million of expenditures. Suppose that a

congressman is charged with the task of reviewing that budget and cutting out all “non-essentials,” and suppose that he were to take one hour to study each million dollars of expenditure—truly a cursory study of an expenditure of that amount of money. A congressman, spending full time at it, would be able to finish the job in about 21 years, or about 1970! He would then be ready to start a similar review of the budgets of the remaining 30,000 units of government, other than the federal, in the United States. That indicates the impossible task which confronts the law makers; it is not surprising that they bog down under it.

What conclusion can one draw other than that the hope of citizens’ supervision of governmental expenditures of \$57 billion a year by the “democratic process” is a futile hope, no matter how it is attempted? It is foolish to expect to recover liberty in that manner. When once the power of free choice in the spending of their incomes has been abandoned by the citizens, and these economic rights surrendered to government, their liberty will have gone with it; it makes no difference how the governmental procedure is designed. Either you spend your own income as you deem best or someone spends it for you in some way that he deems best, and there is no alternative. The hope that 145 million persons can maintain control over such a stupendous expenditure, merely by the device of a few of them going to the polls once in a while, is pure fantasy. Until it is realized to be a fantasy, we are destined to pursue futility, buoyed only by a little fleeting hope every two or four years at election time.

What, then, is to be done? After liberty has been lost beyond a certain point, its recovery is difficult by peaceful means. The peaceful solution is to unwind the accumulated powers of government over the lives and incomes of the citizens.

Eternal vigilance is not now enough; it is too late for that to be adequate, for the same reason that eternal vigilance of the barn door is no help after the horse has been stolen. Nor is the changing of top personnel in the government, or “reform governments,” any answer to the basic problem. The gaining of

better administration of an evil in the form of unwarranted power is a victory without virtue. The most efficient and best possible administration of slavery will not transform it into liberty.

A blueprint for the procedure of unwinding an illiberal government, even if I knew exactly the order in which it should proceed, is impossible here. But the principle that should guide the process is: No special privilege, no trading of special privileges.

“But what can I do? Yours is a negative program of doing nothingness. I want to support a positive program!”

Suppose that the question at issue was that of a proposed murder, by shooting. Your objection to it is met with the rebuff: “All right, how do you propose that he be murdered?” Believing as you do that murder by any means is wrong, it would seem foolish to offer as a “positive” suggestion that the murder be by drowning. The objection is to murder by any means and by any “administration.” The positive program is that it not be done at all; that abstaining from the act is the wise course of action.

If such a stand is to be accused of being obstructionist tactics, and of putting obstacles in the path of progress, one must then conclude that the accuser differs on the very fundamentals of the matter. He must believe murder to be a good and justifiable act, which then reduces the question in his mind to that of a choice between various means of committing the murder and other administrative details of carrying it out.

Dealing with the issues of the day from the standpoint of liberty is similar. When the advocate of liberty speaks with disfavor about some program that would violate liberty, he is likely to be met with this sincere and well-intentioned rebuff: “Your objection seems to be well reasoned, and I’m inclined to accept it, but how do you propose that the program be set up?” The answer is that, consistent with liberty, you would have no “program” in the sense of which he thus speaks of “positive action.”

To one who believes in liberty, liberty is a positive program of the highest order. To one who believes otherwise, the only

“positive” program is that which is destructive of liberty.

If, however, one with a basic faith in liberty fails to know its processes-in-action so well that he can solve the daily issues consistent with liberalism, he will constantly be pulled offside in the game of its defense. He will keep falling into the trap of being led to select one or another method of violating liberty, and he will thereby assist others in its destruction. If that destruction be the result of ignorance rather than of an unintentional mistake, the result will be the same and liberty will be destroyed.

So the first thing to be done by all of us with a basic faith in liberty is to acquire an understanding of it so thorough that adoption in daily practice becomes clear and automatic, like the things we do in our daily occupational duties. This degree of understanding is not easy. It is not to be bought in the store with nickels and dimes. Its understanding must be acquired in the same manner as that of any other complex subject, through long and careful study and thought.

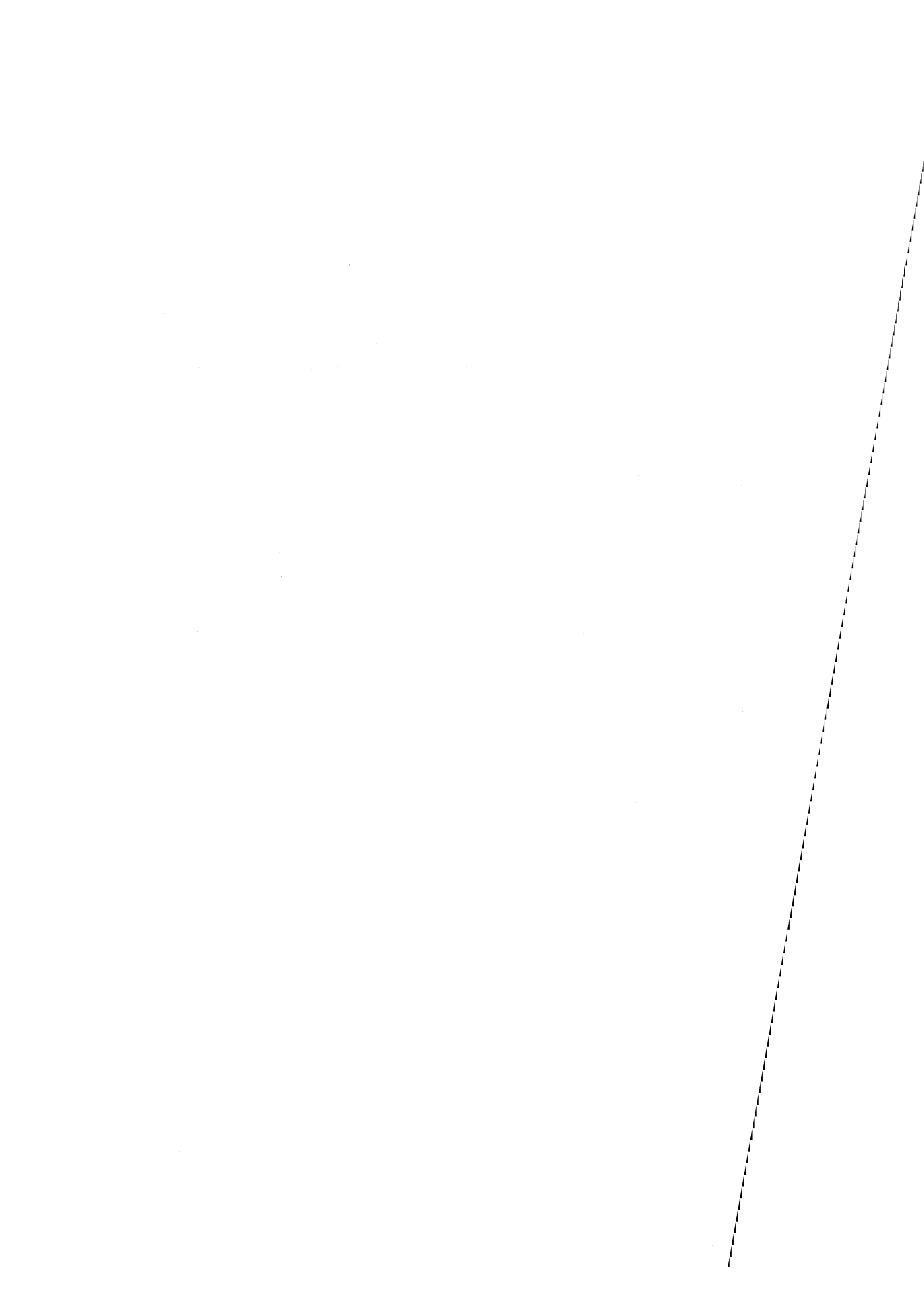
To one who has acquired a mastery of the subject of liberty to that extent, action consistent with liberty will become a positive program, supported by considered reasons. He will know why the so-called “positive” programs, currently so popular, are programs that destroy liberty. Then, without self-consciousness and with a feeling of pride rather than of shame, he will take a clear and firm position against each and every means of destroying or diluting liberty, oblivious to appealing but false claims in which they may be clothed.

One will have then become capable of helping his friends toward a better understanding of liberty, without resorting to the futile process of voicing mere conclusions or platitudes that are lacking in the force of real understanding. Only in that way will knowledge spread to those who seek help and guidance, to those who are in search of honest answers to perplexing problems.

This method is, to be sure, slow. But there are no shortcuts to liberty. Shortcuts taken in a haste for action usually violate the basic tenets of liberty in the process, and for that reason they lead one further from his intended goal.

Correct action automatically follows understanding—the only route to correct action. Nothing else will serve. If this process seems hopelessly slow, there should be the sustaining faith that liberty is in harmony with truth, and with the intended design of the human social order. Truth is immortal, despite the defeats that it seems to suffer along the way. Truth has a power that is no respecter of persons, nor of the numbers of persons who may at any time be in darkness about truth. Truth has a power that cannot be touched by physical force. It is impossible to shoot a truth.

The lover of liberty will find ways to be free.





## Appendixes

*The spirit of liberty is the spirit which is not too sure that it is right. The spirit of liberty is the spirit which seeks to understand the minds of other men and women. The spirit of liberty is the spirit which weighs their interests alongside its own without bias. The spirit of liberty remembers that not even a sparrow falls to earth unheeded. The spirit of liberty is the spirit of Him who, near 2,000 years ago, taught mankind that lesson it has never learned, but has never quite forgotten; that there may be a kingdom where the least shall be heard and considered side by side with the greatest.*

Judge Learned Hand



# Appendix I

## *Faiths about the Nature and Destiny of Man*

*Before people can be persuaded to abandon one faith they must be given something else to grab hold of as a means of salvation. Men cannot live without faith in something.*

John Rustgard

This discussion of liberty is predicated on certain faiths regarding mankind.

However much it may be regretted that an analysis must be started on the "uncertain footing" of faiths, this is unavoidable. What we "know" is ever bounded on all sides by what we do not know. In the dimension of space, for instance, what can be viewed is bounded by what is unviewed; that which lies beyond must be dealt with in terms of theory or faith, as to its content and form. It is the same with all aspects other than space.

Despite man's efforts to master ignorance and press back the boundaries of the unknown, there shall remain an unconquered and unknown portion until such a time as we may have gained an insight into everything between the primal mist and the end of eternity. Until then, faith will have to continue to bridge the unknown. The concepts which one holds have to be constructed within these faiths, and any analysis must rest on some working hypotheses.

Faiths are not debatable in terms of scientific reasoning. One faith, in that sense, stands equal to any other so far as "proof" is concerned. A faith may be based on "hunch," or on "instinct," or on the authority of someone admired and trusted in these respects. But whatever its origin, it is held with deep conviction until replaced by something accepted as more tenable. It is for these reasons that faiths serve well to illustrate the impropriety

and unwisdom of authoritarianism.

The following are the faiths, or hypotheses, on which this analysis of liberty is based. They relate to the nature and destiny of man.

1. There exists a Supernatural, which guides the affairs of the universe.

2. In the design of the universe, everything is subject to certain natural laws which rule without being subject to revocation by any human or any combination of humans; among them are “physical law” as well as “moral law”; these laws, and the events that occur under their ruling guidance, constitute what we call truth.

3. Humans intuitively act in harmony with these natural laws, both physically and morally; failure to do so is the result of ignorance rather than of inclination; thus it is concluded that man is basically “good,” and will do the right thing provided he is given the correct “facts” and is left free to follow his instincts without interference; if it were not so, it would be difficult to explain man’s survival and his capacity for progress.

4. Law, and other social guides to conduct, must be in harmony with natural law, if serious consequences are to be avoided; obedience to any other guides for conduct—guides that are in disharmony with natural law—must carry the penalty meted out by the court of Higher Justice which can be neither bought nor influenced by untruths.

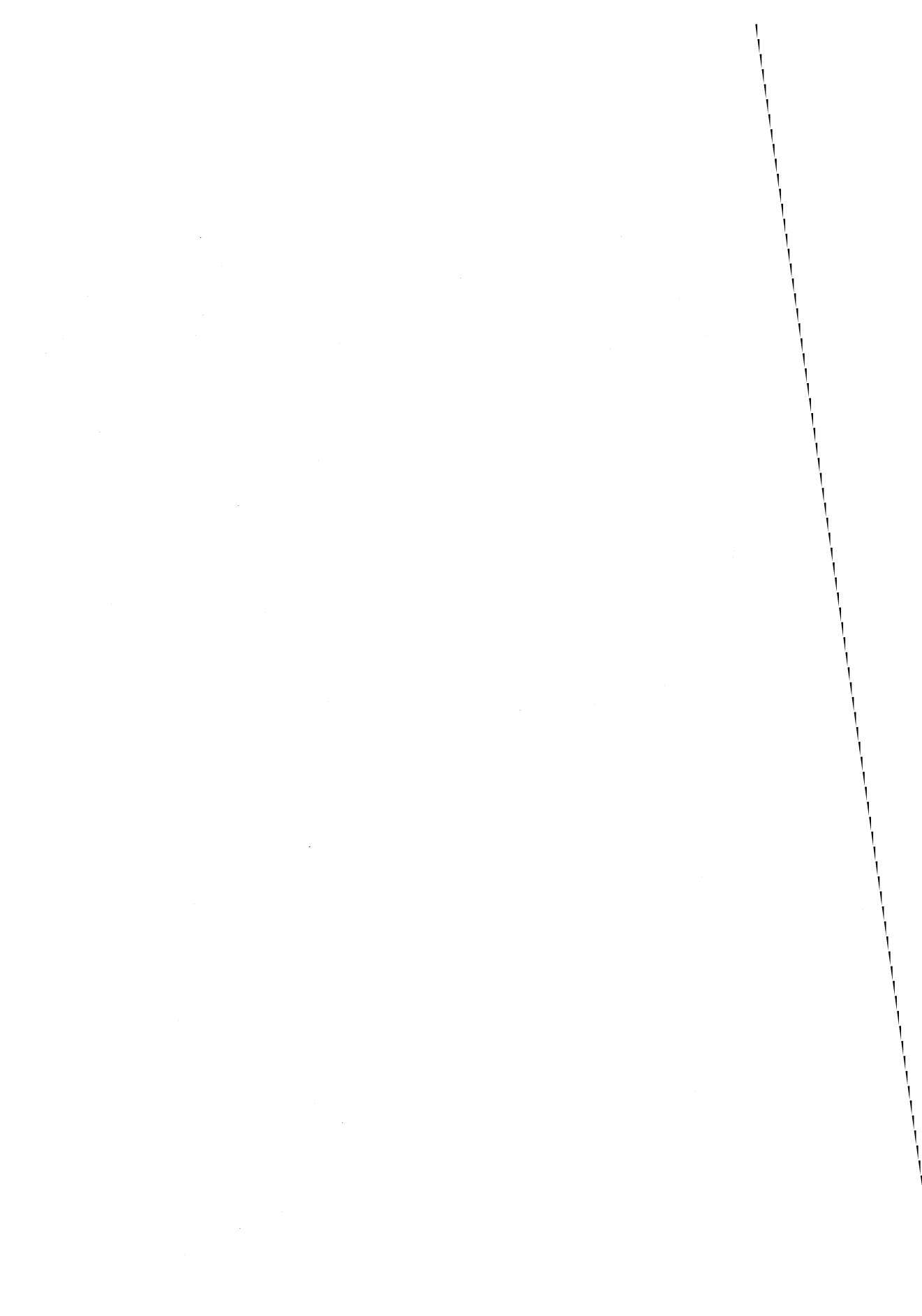
5. Each person is a self-responsible, independent unit who is obligated to answer only to the Supernatural Authority, in any final sense; he must answer to the natural laws of the universe; no person or persons may rightfully intercede between him and his God, with any rights of unchecked power over the other person; there is no place for any “Divine Right of Kings,” by that or by any other name, in this order of things; whoever attempts to claim that right is attempting to force the Supernatural and is therefore engaged in trespassing on the rights of another person or persons.

6. The individual has no bounden duty to serve some intangible “common good” or “society,” in violation of what seems to

him to be the best thing to do; one's obligation is to his conscience, and to the Supernatural Order as he interprets it, rather than to abdicate this responsibility and attempt to shift it to others in political office or to some abstraction in the form of some organization; no person, under guise of these conjured abstractions, has the right to obligate another person to something or to someone unknown specifically to him; and any person who attempts to do so is an imposter attempting somehow to gain power for himself in exchange for the promise that he can free another from unavoidable self-responsibilities.

7. A person's capacity to perceive the nature of these natural laws, which rule his being, is limited by his intelligence or powers of instinctive conduct; his beliefs, in this respect, are both his privilege and his responsibility; he is free to choose his sources of information as guides in his search for truth, and he is personally responsible for the wisdom of that choice and for the resulting conclusions; he will know that no person, not even himself, has any direct and certain line of communication with the sources of truth; all conclusions carry a corresponding uncertainty no matter who holds them; he knows that while he cannot avoid acting on the basis of some belief, these beliefs must ever be held subject to change as further evidence or new reasoning becomes available; but always he is obligated, by honesty, to believe and act in accordance with truth as he then sees it.

It is within this structure of faiths, as working hypotheses, that liberty is herein discussed.



## Appendix II

### *Patterns of Variation*

Variation seems to pervade the universe. Even where once it was believed not to exist, further study and refinement of measurement reveals its presence.

When one views the members of another race, with which he is unfamiliar, they all seem to be alike until on further acquaintance their differences come to be more and more evident to him; eventually he finds them to be as great as the differences among members of his own race. It is the same with other species of life, and with the unlive formations of nature.

Once it was believed that the physical unit, the atom, lacked variation but now physicists are said to believe that even atoms vary. Everywhere variation seems to exist, in everything.

The complexity of compounded variation surpasses our comprehension. A person's fingerprint will distinguish him from every other person; or a toe print; or the hairs on his head; and so on through a long list of features, each of which exhibits differences. When these features are considered in their seemingly endless number of combinations, the differences between any two persons is found to be so great that one wonders how any similarity between any two persons is to be noticed. It should be clear that a knowledge of variation causes the "average man" to dissolve into an abstraction, not found modeled anywhere in actual life.

Variation, in its rough and crude expression of random occurrences, seems to be disorderly and chaotic. When observed in this form, it seems to be the result of pure "chance," and to deny any purpose; it seems to reveal nothing but the "carelessness of nature." But we shall see that this interpretation is highly doubtful.

A little over a century ago the foundations were laid for a science of the phenomenon of variation by the French mathematician Laplace (1749-1827). He began the work of deal-

ing with variations so as to reveal the similarities of their patterns.

The newly developing science of variation was applied to astronomy by Carl Friedrich Gauss (1777-1855), the German mathematician and astronomer.

Adolphe Quetelet (1796-1855), the Belgian, deserves credit for the general principles of variation, reported in works published in 1835 and later. Though an astronomer, he extended his studies of variation to many other types of data such as temperature, the price of grain, and the heights and chest-measurements of men. Quetelet's findings led to what later became known as the "normal curve" of variation.

The normal curve exhibits a symmetrical mathematical series. When graphed, it becomes a smoothly bell-shaped curve. About two-thirds of the total area of this curve lies within vertical lines placed at a distance of one standard deviation on each side of the vertical center, or the average of the series of data.

Quetelet found that all the data he studied fitted this style of curve fairly well.

The super-salesman of this new concept of order within the seeming chaos of variation, and of the predictable nature of variation, was Francis Galton. In 1899, in his classic book on *Natural Inheritance*, he had this to say:

It is difficult to understand why statisticians commonly limit their inquiries to Averages, and do not revel in more comprehensive views. Their souls seem as dull to the charm of variety as that of the native of one of our flat English counties, whose retrospect of Switzerland was that, if its mountains could be thrown into its lakes, two nuisances would be got rid of at once. An Average is but a solitary fact, whereas if a single other fact be added to it, an entire Normal Scheme, which nearly corresponds to the observed one, starts potentially into existence.

And:

It [the "normal curve" of variation] reigns with serenity and in complete self-effacement amidst the wildest confusion. . . . Whenever a large sample of chaotic elements are taken in hand and marshalled in



the order of their magnitudes, an unsuspected and most beautiful form of regularity proves to have been latent all along.

Galton asserted that this knowledge of the nature of variation, had it been known in ancient Greece, would most certainly have been personified and deified. And so it might. Galton himself spoke of it as being of a cosmic order.

Galton, as one of the pioneers in the discovery and interpretation of variation, may be excused for what now appears to be over-simplification. It now appears that the “normal curve” type of pattern in variation is not the only one. More accurately, as we now believe, Galton might well have waxed eloquent about the laws of variation in possible designs where more than a single pattern is allowed to unfold itself. These variations, in more than the single pattern of which Galton spoke, all have within them an orderliness which is concealed by their usually shuffled arrangement. Variation in each instance seems to fit into one or another mathematical function of the variable.

One formation of variables, more pertinent than the “normal curve” to many of the matters with which the social scientists deal, is that found in income variations and wealth variations. It is the “harmonic series” of magnitudes, wherein, if we represent the largest as 1, the second largest will be found to be  $\frac{1}{2}$ , the third largest  $\frac{1}{3}$ , the fourth largest  $\frac{1}{4}$ . . . .

The presence of this curve is revealed in its pattern from the largest end of the array, where large size and low frequency is found, to the other end where small size and high frequency is found. A tolerance must be allowed for the latter end of the array, in essentially all instances of data that has been derived from observed events. This is because wherever the law of limitation applies—which is universal except in things like distance or time, where observations are of unlimited magnitude—the harmonic series runs out and the frequency falls off unavoidably; the result is, under these conditions, the appearance of a “skewed curve.”

The pattern of variability of the harmonic type appears over a wide range of phenomena. Vilfredo Pareto (1848-1923) found it

to prevail among income data. In addition to income and wealth, it appears in the demand for any product or service, in the size of cities and towns in any settled national unit, in the frequency in the use of various words by one person, to mention a few that have been studied. We may even suspect to find that the harmonic series describes the variation of human abilities, as will be revealed only when an over-all measurement of ability has been developed.

One further point should be mentioned about variation. The fact that variation seems to fit into certain definite patterns as to type (the "normal curve," the harmonic series, etc.) does not mean that the intensity of variation is the same wherever the pattern is the same. On the contrary, the intensity of variation differs widely. The size of one species of animal varies more intensely than another; the weight of one species of life varies more intensely than another; the color of one species of flower varies more intensely than another. . . . It is found, for instance, that the seedlings of the apple are highly variable in their commonly-observed characteristics, whereas the seeds of some other plants yield much more similar offspring.

# Appendix III

## *Variation and Change*

The patterns found to exist in variation suggest that their presence has a purpose.

Without changes in the weather and other things, physical and chemical changes could not occur in the world. Except for variation among the chromosomes, offspring would all be identical with their parents and the form of life would remain unchanged over the ages.

The principle of change may be stated this way: There is no way to win a race without differences; there would, in fact, be no purpose in having a race in the first place except for the presence of differences to be tested.

Variation gives rise to change, in two ways:

1. Selection and discard
2. Combination

The process of selection can be illustrated by the stone-age man's selection of a stone best suited, by size and other qualities, to the making of a weapon; or by the selection of stone for a building; or by the selection of a candidate for a job. An unselected item falls into discard, for that particular purpose. The wisdom of the selection affects the outcome. Without variation, change by selection and discard would be impossible.

The other method by which variation results in change is combination. Reproduction among living things, both sexual and asexual, is of this type. Combining non-living things by mixture or by compounding, as with chemicals, is another type. In any of these forms, variation in the "parentage" gives rise to change in the "offspring." Without variation these changes could not occur.

Changes might further be classified as to whether or not choice, or the exercise of preference, guided by either instinct or intelligence, is involved. Variation in the weather, for instance, lacking anything like human choice as its cause, has given rise to

events of transcendent importance like the glaciers and the seasons, erosion and typhoons. But the selection of a mate is quite a different matter, so far as the exercise of choice is concerned. Some of the biological processes seem to be in the pale between these two types, because we know so little about them.

Changes may be rapid or slow, dependent on many things. The more ruthless the process of discard under selection, the more rapid the change—either for better or worse.<sup>23</sup> And likewise, the more divergent the items that are mixed or crossed by combination, the more rapid will be the expected change.

The “higher” the form of life or of non-life composition, the more complex its variation and the more rapid the expected change that follows from crossing two of them. As the complexity increases, the “offspring” become less and less predictable. In chemistry, for instance, combinations of the ninety-odd different basic elements can result in innumerable compounds; possible mixtures of different possible compounds, in turn, magnify beyond our capacity for comprehension the number of possible results. It is similar for the complex living organisms, like persons, where differences combine in the biological process into innumerable and wide differences. That is why persons differ so widely in their capacity to do different things, to comprehend different things, or to contribute to progress.

Out of this change comes “progress.” And the greater the variation, the more rapid the progress can be. It makes no difference, so far as the opportunity for progress is concerned, whether the change is induced by the Unseen Hand of evolution, or by conscious choice as in the selection of a mate, or by learning from someone who is more informed, or by simply patterning one’s acts after those who know better how to do a thing.

The process of selection from among variation, by design and intelligent choice of persons, is an old and well-known source of progress. It is in this manner that better varieties of plants and animals have been selected to replace those less adapted, less resistant to disease and less efficient.

More recently variation has been induced by “cross breeding” and “induced mutation,” in order that more rarely outstanding

new strains may be discovered and propagated. Most mutations are short-lived, self-destructive failures; but the rare and outstanding success becomes the parent of great improvement. The prize winning steer at the Livestock Show usually is the result of breeding for increased variation, in which manner a winner is more likely to be produced. Thus it is possible to speed up the process of change, compared with the "natural processes" and the "normal processes" of selection, but there is a correspondingly great danger in it.



# Appendix IV

## *Progress*

We speak glibly of progress. This term can usually be used, in casual conversation, without challenge or without any need to analyze its meaning. Each person thinks of illustrations of what are, to him, instances of progress that give meaning to the term "progress."

This discussion of liberty is of such a nature, however, that it might be advisable to focus on its meaning. What is progress?

Most everyone accepts a discovery in medicine, like the germ theory of disease and the development of vaccines, as illustrating progress. Not so clearly acceptable as progress is some discovery in a controversial area. Some persons, for instance, hold the faith that if God had intended man to fly, He would have provided him with natural wings; they do not accept the development of the airplane as being progress. Some persons do not accept the automobile as being progress, for various reasons. And some even question whether a medical discovery is progress.

In Appendix I have been given certain concepts essential to this discussion of what is and what is not progress. The faiths defined therein are pertinent to these conclusions.

The first step is to concede that the right of judgment as to what is progress rests with each individual. No person is deemed qualified to pass judgment for all of us. No one person can, in fact, appraise the matter for any other person (Appendix I, #7).

It might seem from this that there would be no way to label anything as "progress," because of conflicting views and appraisals. What some accept as progress will be rejected by others, and differences of opinion preclude unanimity in every instance.

A further difficulty is due to the fact that these appraisals are subjective matters. It cannot be known with certainty what any one person thinks about whether or not something deserves the label of "progress." How, then, could an objective label of "progress" ever be attached to anything?

Despite all these difficulties, it seems possible to speak of progress with an important meaning relevant to this discussion of liberty and its effects on progress.

The first step is to recognize that a person's acts under liberty offer some objective evidence about his subjective motivations, in the same manner as a mirror or periscope may be used to reflect an object which is not accessible to direct view. Whereas this type of reflection is not of the nature of certain proof, it serves as a basis for useful evidence where nothing better is available.

The free market, in like manner, offers evidence as to what a consumer wants, even though this too is purely subjective. It serves as a guide to producers—the only available guide, and one that works quite well, it seems. The entire business world, in a liberal economy, rests on this form of evidence as its guide to production.

If these judgments are to be depended upon, however, there must be liberty so that persons may freely express their subjective appraisals. Lacking liberty, reflections will become diluted with an unknown form and amount of misrepresentation. So the first requisite in judging the nature of progress is that there be liberty, so that individuals can express their appraisals freely. It may be assumed that under liberty persons will increasingly accept and approve what, in the universal order of things, may fairly be called progress. The importance of liberty in the test of progress is so great as to suggest that liberty is essentially the same as progress.

Acceptance of truth and an increase in the practices that are harmonious with truth will not, of course, be unanimous or instantaneous once a discovery has been made, for reasons discussed in Appendix I. But it must be assumed that there will be an increasing acceptance of truth under liberty, and so the test of progress is to be found in this degree of acceptance. That is why, based on the faiths expressed in Appendix I, it seems possible to speak of progress with meaning and for an important purpose, as follows:

Progress is any change in belief or in concept, or in their



applications into “devices,” which stands up under the tests of time and experience so as to have increasing acceptance among free people. In a word, it is an expression of truth or of applied truth, as tested by the only means at our disposal.

It is not necessary that there be unanimity of opinion before a thing can be termed progress. If it were, there could never be any “progress” at all. It is to be tested, instead, through a sort of continuous vote wherein each person’s opinion is tested, and respected along with that of each other person. The “wisdom” of the egotist is given no more weight than that of any other person.

This concept of progress is one that allows dissenters. A single person may reject what others accept as progress, as his right under liberty. But he is not thereby empowered to cast a vote for another, either.

So when the discoverer peers into the unknown and finds something previously obscure—some new gadget, some new picture, some new symphony, some new idea or concept—the test of acceptance over time by a free people becomes the only available test of its worthiness and acceptability in terms of human destiny and harmony with natural law and purpose. Thus a decisive change under liberty is what is meant herein by the term “progress.”



# Appendix V

## *Limitations of the Measure of Liberty*

The measure of liberty given in Part Two of this book has deficiencies. It both overstates and understates the presumed correct figure, for various reasons and by unknown amounts.

Every error in the data on which this measure has been based carries over, of course, into the derived figure.

In all probability the net effect is to err on the low side, so that it understates the loss of liberty in the United States or in any other country where it might be applied. Some of the causes of error will be given so that other persons may make their own guesses as to what might be the figure after correction for these errors.

As has been discussed previously, this measure relates to economic liberty. This is not the only form of liberty and therefore this measure may either overstate or understate the loss of liberty as a whole, depending on the comparative degree of loss of liberty in other realms. But economic liberty pervades the entire problem and is an absolute requisite to liberty in general.

This measure of liberty is one that tests what happens to productive income, according to the concept in the national income from which it is derived. The presence or absence of liberty is, then, weighed according to each person's contribution to the production of goods and services as represented in the national income. Complete liberty in the spending of money that one may receive as a gift from the government, such as relief grants, is not allowed to affect the level of liberty according to this measure; the test of liberty is made at the point of its payment for something having been produced, and it is a question of whether or not the person who produced the income was allowed liberty in its use. Any other course would result in a test of liberty that would class one as fully free if he had liberty in the use of money received as a result of violated liberty. A dollar of

income, once enslaved, was treated as a slavery dollar from there on.

For liberty to be at a maximum there must be some government, or otherwise have the same functions performed by some other means. Whatever the amount of its necessary costs, that amount should not be considered as a violation of liberalism in society.

How much of the 29 cent part of the dollar, taken for governmental costs in the United States in 1947, would be allowable under liberalism? That question must remain unanswered until much more work has been done to analyze liberty in relation to the many activities of present-day government. Certain functions of government are invaluable to liberty, but these should not be highly expensive to operate; a Supreme Court, for instance, is not very costly and is a small part of the budget of a nation these days. A guess is that only a small part of the 29 cents, perhaps even less than 5 cents of it, would qualify under liberalism, if we ignore the costs of existing contracts which originated in illiberal acts.

Everything which government does in excess of this proper sphere involves a loss of liberty. All this excess drains from the citizen some of the product of his labor—"the sweat of the brow of the working man"—by force or by threat of force. It may be used to finance the costs of further loss of liberty, having a double effect in the destruction of liberty because of both the taking and its use. It may be used to operate governmental monopoly, so that citizens are not allowed to compete on an equal basis. But the fact remains that, with few or no exceptions, the excess taken by government represents a loss of liberty to the citizens of the country.

The excess that the government takes is no longer available for the citizen to spend as he wishes, as required under liberty. It may be said that the people want these services and would buy them anyhow if they were performed by private business instead of by government. But the slave who is given some turnips by his master cannot be called free economically because of the fact

that he might have wanted to buy some turnips with some of his wages as a free man, had he been free. The citizen, likewise, is not judged to be free because of the fact that he might have bought, in a free market, services similar to those offered by the governmental monopoly where users and non-users alike are forced to pay the costs in their tax bills.

Acquiescence of the citizens to that part of their taxes in excess of what is necessary to preserve liberty is no evidence that liberty has not been lost thereby. Loss of liberty is not to be measured by the extent of refusal to pay taxes any more than slavery is to be measured by the degree of rebellion of the slaves. Slaves are nonetheless slaves because they are not always attached to their masters by a chain!

The losses of liberty not included in the measure herein explained probably exceed the overstatements.

A prisoner who is allowed 20 cents a day for working in the prison laundry, and who is free to spend all his income as he likes for candy or cigarettes, can hardly be called economically free. He might be able to earn \$8 a day if he were free to compete in the economic world outside the prison walls.

A full measure of liberty, if it were available, would also take into account the income that is lost because of a lack of liberty. The income thus lost should be included with that part of a person's income that is taken away from him by force, in measuring the loss of economic liberty. In one part he is unfree because the income has been taken away from him in violation of liberty, whereas in the other part he is unfree, without liberty, because he never received the income in the first place; there is no difference between the two, so far as a measure of lost liberty is concerned.

The lost opportunities for additional income may result from the monopolies of government. A person is liable, for instance, to a fine of \$500 or six months in jail for competing with the government and carrying a message for hire if it comes under the government's definition of first class mail.

Lost opportunities for income may result from monopolies of

private business. Or they may result from the activities of certain trade organizations, or labor unions, or by some other agencies or persons. All of these, however, are possible only because the government fails to perform its proper function of preserving a climate wherein liberty can prevail and where full opportunity exists for the citizens under economic liberty, as previously defined.

Restrictions on free competition include all monopolies and all restrictions of free internal and international trade. All of these violate economic liberty by reducing income.

The administrative costs of handling a certain control operated by the government greatly understates the total loss of liberty which it entails, in most instances. The cost aspect is like that of a slaveholder who may spend no more than the equivalent of one-tenth of what the slave produces as the cost of hiring an overseer to hold the slaves under the yoke of complete slavery; it is not necessary to spend all that the slave produces as the cost of depriving him of his liberty.

The calculated cost of government includes nothing for the free radio time that is allowed to one or another branch of government, used to “explain” something and to advocate that which it advocates. The cost of this free time, even at the lowest commercial rates charged to a private citizen, would total to a fantastic amount each year. Not alone that, but the viewpoints of governmental officials are given audience without charge; counter viewpoints, which the citizens may hold, can be aired only by paying the high costs of radio time in most instances.

Stalin has been able to maintain the Russian people in near-complete economic slavery by the use of far less than all of their incomes. We have noted that only 29 cents out of each dollar of income produced was being taken by the Russian government in 1929-1930, yet this amount was sufficient to administer and maintain almost complete slavery of the Russian people.

Is it not possible for a government at a very small cost to enact all the legislation necessary to illegalize essentially all economic liberty? Over-all wage and price controls would do it—even “standby controls,” which are like a standby overseer of a group

of prisoners or slaves. The costs of administering and enforcing these edicts, when added to the costs of enacting the laws, far understate the loss of liberty that is involved. All that is necessary is to frighten the subjects into submission, by the cheapest and most “efficient” means available. A horse thoroughly broken to harness seldom feels the whip.





# NOTES

1. The analysis is founded on certain hypotheses in the form of faiths. These are discussed in Appendix 1, "Faiths about the Nature and Destiny of Man."

2. Henry D. Aiken, *Hume's Moral and Political Philosophy* (New York: Hafner Publishing Company, 1948), Book III.

3. The term slavery will be used in the ensuing sections as the antonym for liberty. It is a shocking word to most of us, but it must be admitted that the opposite of liberty is a shocking condition.

In visualizing slavery in terms of a perspiring slave, toiling in chains under the lash of a master's whip while bloodhounds in the background guard against his escape, it should be noted that the form of slavery of which this discussion will speak as the problem of our day is slavery even in the absence of the whip and the bloodhounds. It is more subtle and inconspicuous than the older form. This newer form of slavery may be present or absent in varying degrees, but it is still slavery in the essential meaning of that word—the opposite of liberty and freedom.

So the word slavery, with all its frightening qualities, seems best to fit the condition being discussed.

4. Willis J. Ballinger, *By Vote of the People* (New York: Charles Scribner's Sons, 1946).

5. For a more technical discussion of this contrast, see: Ernest N. Cory, "Totalitarian Insects," address of the President, American Association of Economic Entomologists, *Journal of Economic Entomology*, Feb., 1948.

6. In Appendix II is given some further explanation of the historical development and mathematical aspects of variation.

7. Some of the more technical aspects of this question are given in Appendix III.

8. The matter of distinguishing between what is favorable and what is unfavorable is discussed in Appendix IV.

9. This pattern of variation is described in Appendix II.

10. John R. Baker, *Science and the Planned State* (New York: The Macmillan Company, 1945).

11. Richard Chase, "Toynbee: The Historian as Artist," *The American Scholar*, Summer, 1947, p. 275.

12. Q. Wright, *A Study of War* (Chicago: University of Chicago Press, 1942).

13. Lewis F. Richardson, "Variation of the Frequency of Fatal Quarrels with Magnitude," *Journal of the American Statistical Association*, Dec., 1948.

14. See: Chang Hsin-hai, "The Moral Basis of World Peace," *The Annals*, Vol. 258 (July, 1948), 79-89.

15. Some of its limitations are given in Appendix V.

16. For detailed comments on the history of these changes, see 31¢, by F. A. Harper (Irvington, New York: The Foundation for Economic Education, 1947); reprinted in volume two of *The Writings of F. A. Harper*.

17. The figure includes "loans" by the United States Government to foreign nations, because past experiences and present conditions in these foreign governments suggest that repayment is highly questionable.

18. Derived from figures in "National Income and Expenditure of the United Kingdom," His Majesty's Stationery Office, London, 1947, and other sources.

The London Economist for March 19, 1949 reported that the figure for the current budget has risen further to 40 per cent of the total of all incomes.

19. Edmond E. Lincoln, "Sobering Realities Regarding Tax Burdens," *The Commercial and Financial Chronicle* (April 1, 1948).

20. Dr. Colin Clark, "Public Finance and Changes in the Value of Money," *The Economic Journal* (December, 1945).

21. John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harcourt, Brace and Howe, 1920, p. 235).

22. Georges Lefebvre, *The Coming of the French Revolution* (Princeton University Press, 1947, p. 22).

23. Matter is not, of course, destructible; it only changes form. But it is the question of form about which we are speaking here—a certain species of form.

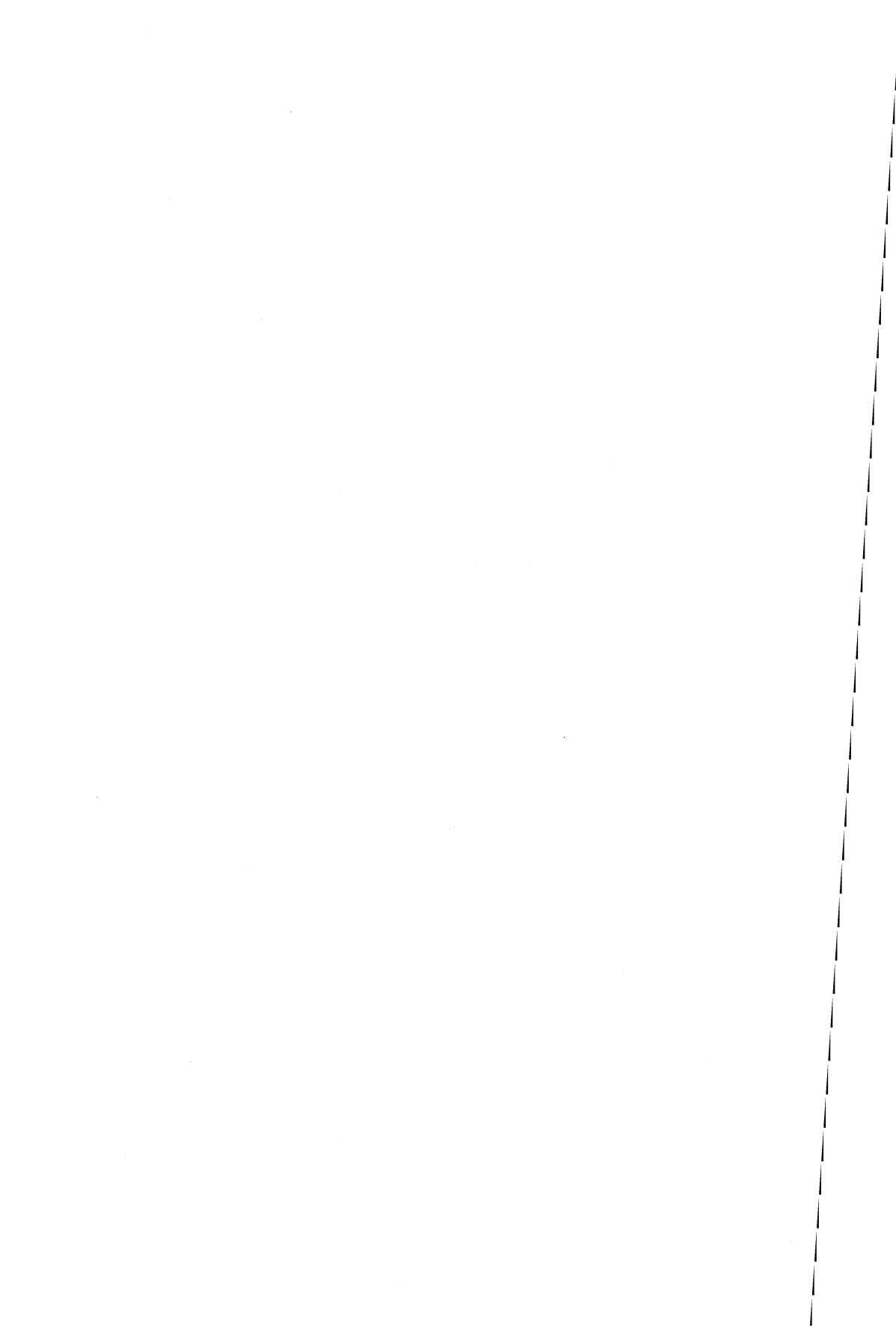
# IV

## Why Wages Rise



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# Introduction

Wages are of prime importance in any advanced economy such as ours. They affect us all far more than seems evidenced in our concern about them.

Everyone buys wages, in a sense, with every purchase he makes. And three-fourths of all incomes in the United States represent pay for work done in the employ of another. So nearly every one of us is on both sides of the wage exchange, in one way or another.

We all know in a general way that wages have been rising for a long time in this country, but there is evidence aplenty that the economic principles which apply to wage problems are not well understood. Probably they are no better understood now than in the early thirties when measures adopted to combat the depression proved to be such colossal failures. Fearing another depression like that which followed World War I, we now seem enmeshed in chronic and progressive inflation, which Lenin once said was a sure and simple way to destroy the capitalist system. Our "prosperity" now seems to be riding on the horns of a dilemma that will surely end in the destruction of capitalism unless we can resolve this problem which in large measure is a wage problem.

*Why Wages Rise* was written as a timeless treatment of certain economic problems that persistently plague us. The principles it presents were confirmed, later, by like studies in other countries—for England, a study by the French economist Professor Jacques Rueff; for Sweden, by Dr. Sven Rydenfelt of the University of Lund; for Italy, by Professor Bruno Leoni of the University of Pavia.

The book contains certain factual material for purposes of illustrating the economic principles involved. Updating these facts at any time serves to extend the evidence but does not change the conclusions.

The problems with which the book deals are persisting but undulating. We are now in an era of accelerating inflation which

makes certain of these problems all the more acute. One of these is this: Do wage increases cause inflation?

The key to the answer to this question lies in the meaning of inflation: *an increase in the quantity of functional money in the economy*. From this it becomes clear that wage increases are not, per se, the cause of inflation. Instead, inflation is caused by increases in the money supply brought about by the government “monetizing” its deficit spending or otherwise inducing credit expansion and more money. Higher wages are like the fly on the chariot wheel; he is going along for the ride but not propelling it. In like manner, the prices of peanuts and wigs go up during inflation, but they are not the cause; prohibiting their prices from rising will not stop inflation which is being caused elsewhere.

Higher wages, to be sure, are often the justification used by government officials for the inflation they are going to create anyhow for other reasons. They will assert that the government must inflate the money supply in order to prevent unemployment with the higher wage rates. But why did the wage rates have to be increased in the first place? This was surely not an act of God or an unavoidable natural phenomenon. To assert that wage increases caused the inflation is to get the cart before the horse.

When a producer pays an over-wage he will become confronted with the consumer in the court of final decision. If the price is too high, the consumer will refuse to buy. The retailer gets this message direct from the consumer and passes it back to the wholesaler in the form of a non-purchase at that point. The wholesaler, in turn, passes the message in like form back to the producer who must then either put his wages back down or otherwise convert the message into “no job”—unemployment.

The validity of this reasoning can be tested by realizing that the process of correcting an over-wage is going on all the time. It is a problem not only in times of inflation; it arises and must be solved whether the quantity of money is rising, stable, or falling. What guides the complex economy are *value* considerations at the consumer end, not decisions originating at the other end of



the process of production and exchange. Though it is true that wages rise during inflation like everything else, this is the result and not the cause of inflation.

F. A. Harper

April 29, 1972



# Why Wages Rise

## 1. Labor Unions

Wage rates are higher in the United States than in any other country. And they are about five times as high here as they were a century ago, in purchasing power.

The recent joining of the two major labor unions in the United States met with mixed emotions. On the one hand, such concentration of power anywhere in society frightens those who know its evil consequences. But on the other hand, the move is accepted as part of the long-time progress of unionization which is commonly believed to be the cause of our high and rising wages. "So," say many, "the fruits are worth the risk."

### *Superficial Observation*

The belief that unions cause wages to rise seems to be borne out by simple observation: In repeated instances it is observed that a labor union demands a rise in wages for its members. An argument ensues between the union and management; there may even be a strike. Sooner or later a wage rise is granted—if not for the full amount requested, at least for a major part of it. Other firms then have to meet this new rate or lose workers. So it appears, ipso facto, that wages in general are raised by union activity.

Such a close-up observation, however, may lead one to see things that are not so, as the proverbial fly on the chariot wheel believed that it propelled the vehicle. One must stand off a bit from the publicized union activities if he is to gain a true perspective on whether they cause average wage rates to rise. One needs, for this purpose, a telescopic view by which to compare the

long-time trends of wage rates with changes in union membership.

## *The Past Century*

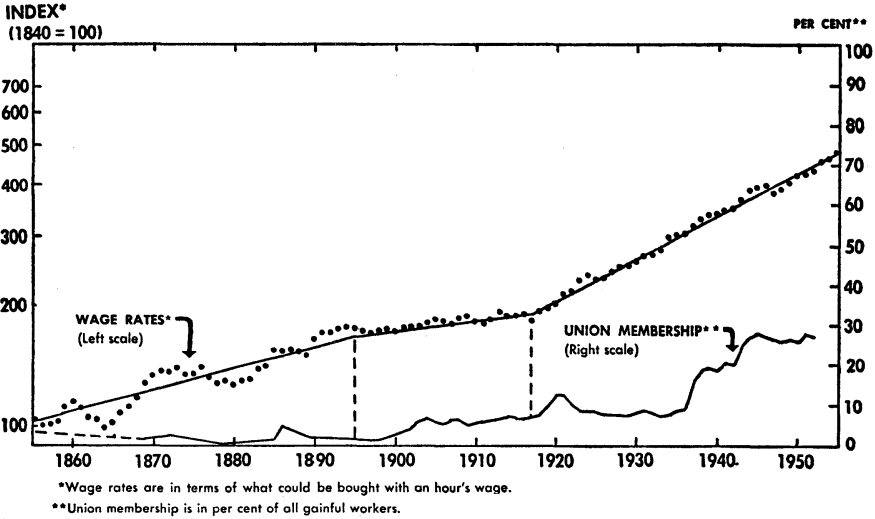
On the accompanying chart, hourly wage rates in the United States are shown by the upper line. Wages will now buy nearly five times what they would a hundred years ago. The chart is constructed so that a constant *rate* of change in real wages would appear as a sloping straight line. Progress in an advancing economy seems to work that way, so that wages tend to rise in the manner of compound interest.

Wage trends in the United States over the past century have fallen into three distinct periods: a yearly increase of 1.27 per cent for the period 1855-1895, a yearly increase of 0.55 per cent for 1896-1916, and a yearly increase of 2.47 per cent for 1917-1955. The reason for these changes in trend is a large question, which will be considered here only as it relates to union membership.

The lower line on the chart shows union membership in per cent of all "gainful workers" in the United States. Here too are three distinct levels: A negligible union membership prior to 1900, then a rise at the turn of the century to a level of about 6 to 9 per cent which prevailed from 1903 to 1936, and then a sharp rise to a little over one-fourth of all workers as members of unions for the past ten years.

So the trend in wage rates and in the proportion of workers who are union members have each had three distinctive periods during the past century. But if we compare the two lines carefully, no noticeable relationship between the two is to be found. Neither wage rates nor union membership could be predicted from the other, with any accuracy whatsoever. Try it. After covering the lower line, try to draw one to represent union membership based only on this evidence about wage trends, and vice versa. By comparing your estimate with the facts, I'm sure you will agree that changes in wage rates are quite unrelated to changes in union membership.

## WAGES AND UNION MEMBERSHIP—UNITED STATES



Source: The Tucker series, converted to hourly rates and adjusted to cost of living, *Employment and Wages in the United States* by W. S. Woytinsky and Associates (New York: The Twentieth Century Fund, 1953), pages 582-583 for years 1855 to 1890; from 1891 to 1955, linked series from same source, page 586, with hourly wage rates adjusted by consumer's price index, page 176; and *Economic Report of the President*, January 1955, page 162; and *Survey of Current Business*, United States Department of Commerce.

Membership of Unions from *Employment and Wages in the United States* by W. S. Woytinsky and Associates (New York: The Twentieth Century Fund, 1953), pages 233, 234, and 642; *Statistical Abstract*, 1955, page 219; *Historical Statistics of the United States, 1789-1945*, page 72.

Gainfully employed workers, from *Historical Statistics of the United States, 1789-1945*, pages 64 and 65 (interpolated from census years' data for 1855 figure); *Statistical Abstract*, 1955, page 187. See also *Economic Almanac, 1953-1954*, National Industrial Conference Board, pages 418-419.

1. *Assumption*: If unions were presumed to be the cause of rising wages, one would expect wages to have been at their lowest point—and to have remained at about the same low point—from 1855 to about 1900 when union membership was negligible.

*Fact:* Wages rose appreciably over the period. They doubled within a man's working lifetime.

2. *Assumption:* Whatever the cause of the rising wage rates in the earlier period when union membership was negligible, one would expect it to have continued. But he would, in addition, expect the rise to be accelerated with the rise in union membership about the turn of the century.

*Fact:* The rate of rise in wage rates from 1896 to 1916 was less than half that of the previous fifty years.

3. *Assumption:* One would expect the sharpest rise in wage rates to come when union membership was having its most rapid increase—from 1936 to 1945—and then to have leveled off when union membership stopped rising.

*Fact:* The rate of increase in wage rates which began at the close of World War I continued with amazing consistency for the entire period from 1917 to 1955.

From this evidence one must conclude, I believe, that wage rates show no clear response whatever to changes in union membership.

If one says that the two lines are related but there is a lag in time of some 15 to 20 years, the evidence would be that rising wage rates cause union membership to rise, not vice versa. In any event it is the opposite of the theory that unions cause wage rates to rise. Consequences do not happen before their causes.

And so this popular illusion that rising wages are due to the growth of labor unions must be discarded if there is to be any room for attention to other possible causes.

The question might be posed this way at this stage of our analysis: Let us assume that you are an employee in a factory producing "impets." Your job is to place a certain screw in a hole in a certain part of the product, without which it would all fall apart and be useless. One night a friend invites you to a meeting, and you go. It turns out to be a union organizing meeting, and in the spell of the oratory you are carried away enough to join. The next morning you go to work at the same job with a union membership card in your pocket; nothing else is changed. Will you now produce more, or the same, or less? Why?

The rest of the analysis is like a detective story trailing this question. What is the cause of increased production, whereby increased wages are possible? Is the new union membership card in your pocket, and all it implies, an element in the basis for increased real wages, or is it not?

As a preview to the answer as to what makes wages rise, I will merely say here that wages can be paid only out of what is produced. Something other than your joining a union is what increases your hourly economic output—now five times that of your great-grandfather's a century ago.

## 2. Productivity

An employee of General Motors is likely to wonder at times why his pay can't be raised. "Even if it were doubled or trebled," he may complain to his wife, "it would never be felt by GM."

True enough. During 1955 the average pay of an employee of GM was \$5,011. Yet GM's profits for the year were \$1,189,477,082 (or \$3,751,477,082 before any ascertainable taxes) on a total business of \$12,443,277,420. It can be seen at a glance that doubling the pay of this employee would be no more noticeable in the whole enterprise than would be the adding of another automobile to those now owned in the State of Michigan.

Doubling the pay of all GM employees, however, would be quite a different story. It would eat up *in one year* more than the total value of the firm's real estate, plants, and equipment.

I am not concerned here with GM's wage problem as such. I do not know whether their present wage scale is too low, too high, or just right. The only present purpose of these figures is to illustrate the difference between a narrow view and a broad view of the wage problem.

An automobile is the sum of many simple parts working together in simple ways. In like manner a complex economic problem is composed of simple elements which can best be seen by looking under the hood, so to speak.

In trying to see what makes wages rise, let's consider first a lone pioneer instead of a single employee of GM. He is producing things entirely for his own use. What he produces—potatoes, etc.—is his wage. He needs no Ph.D. in economics to know that he can consume only what he has produced, and no more. The only way he could double his wage would be to produce twice as much. He couldn't raise his wage by as much as one per cent except by producing more. This is like saying that  $1 = 1$ .

Now if a neighbor moves in, the two pioneers might trade with each other some of what each produces—let us say in equal amounts. The same rule would still hold true. Together they



could consume only what they have produced. Or we might say that  $1 + 1 = 2$ .

As the society increases, eventually reaching a laboring force of 63 million, the same would still be true.

Not all persons in a nation's economy, of course, produce the same things. Nor do they produce the same amounts. Furthermore, some work alone and others work in groups as in a corporation. It has been estimated, for instance, that there are nine million different business enterprises or farms in the United States, and some eight million different commodity items or services in which they deal.

### *Production Comes First*

Estimates have even been attempted of the total amount of production for all these producers, added together in terms of dollars of presumed worth. For 1955 the total estimated figure was \$322 billion. Goods and services were added together, roughly, on the basis of consumers' appraisals of their worth in relation to one another. I can't vouch for the accuracy of any such total figure. In fact, the task seems impossible for more than one reason. But even so, this much can be said about it: Whatever the right figure may have been, the only way to have doubled it as such (in stable dollars) would have been to have produced twice as much. There is no way by which arbitrary action or edict could have raised it by as much as one per cent, unless it had somehow increased production.

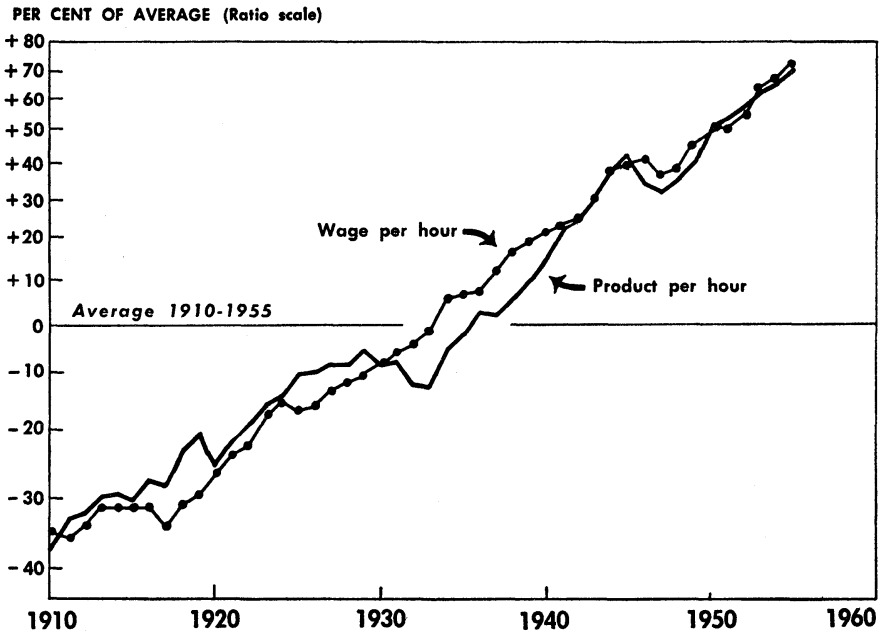
No more need be said about productivity and its importance in the question of what makes wages rise. The simple principle involved, for one person or for 63 million persons in an exchange economy, is that consumption cannot be more than production.

### *Wages Parallel Productivity*

Some want to know, however, whether the facts on wage rates square with this theory. Has the history of the United States borne this out?

Some estimates of the value of output per hour for the private sector of the national economy have been made available, giving us a basis for comparing productivity with wage rates since 1910 (see chart). The relationship is close, except in a few instances.

### CHANGES IN PRODUCTIVITY AND WAGE RATES— UNITED STATES



Source: This chart is designed so that a constant percentage increase would appear as a straight line. The values of product and wages are both expressed in dollars of constant buying power. The data for product are for the private sector and are from the series by John W. Kendrick in his paper, *National Productivity and Its Long-Term Projection* (National Bureau of Economic Research, May 1951), brought up to date by the National Industrial Conference Board. For the data on wage rates, see the chart in Chapter 1.

From 1930 to 1933 real wages ran considerably ahead of productivity—or more accurately, wages continued their upward trend despite falling productivity. But a readjustment soon

got under way, and the seemingly excess wage rate was completely corrected by 1941. On the other hand, wages seemed to fail to share fully the increases in productivity from 1916 to 1919, and again in the middle twenties.

If our theory is sound, one may wonder why any divergence at all between the two occurred. One reason might be errors in the data, of course. Another is that the two are not precisely different expressions of the same thing, as are “production” and “product wage” for a lone pioneer. Not all our national product goes for wage payments. Roughly two-thirds of it goes for wages and salaries, with the remainder divided about equally between (1) pay for current effort by those who are self-employed, and (2) payment for the use of savings that have been invested in tools and equipment.

But the matter of dividing available goods and services into pay for current work as distinguished from pay for savings from past work is another subject, to be discussed subsequently. Present concern is with the relationship between wages and productivity. The correspondence is close, as it must be, because wages must come from production and can rise on a sustained basis only from increased productivity.

### 3. Dividing the Pie

Higher wages come from increased output per hour of work. This is not a new or profound discovery. For how could consumption be greater than production?

Wages, however, are not the only part of the economic pie. Why, then, couldn't wages be raised by giving the employee a larger share?

For purposes of this discussion, the pie of personal incomes may be thought of as divided into two parts. One is the pay for work done currently and the other is pay for the use of savings—income from work done in the past and not used for consumption at that time.

Pay for work done currently includes wages and salaries, or the equivalent in some other form of economic reward. On the other hand, income from the use of savings includes interest on money loaned, dividends on shares of ownership, rent on real estate, and the like.

A person who has never saved a cent and who owns no tools of his own may be getting all his income from work done currently, using tools that have been provided by the savings of others. Another person—perhaps an aged person—may be idle so far as current economic effort is concerned, getting all his income as pay for the use of his past savings. More commonly, a person receives part of his income from each of these sources, getting some from current effort and some from savings.

Some persons work for themselves, using in full or in part tools provided from their own savings. And some persons work for others.

There are all sorts of combinations of income from these two sources. But in some form or degree, essentially everyone in the United States has savings or property and is therefore a capitalist. Most persons also have some income from work done currently.

## *Present Divisions of the Pie*

Information about the present division of the economic pie can be found in figures supplied by the Department of Commerce.<sup>1</sup>

The average personal income in the United States was about \$4,600 in 1955. Of this amount, something like 85 per cent, or \$3,910, appears to have been pay for work done currently. The remaining 15 per cent, or about \$690, was pay to savers who were providing the tools of production in one form or another.

Were the entire pie to go to wage earners and others as pay for current work—as advocated by Karl Marx, to be explained shortly—wages could go up from 85 to 100, or about one-sixth. And even this much rise could occur only if there were no reduction in the size of the total pie—that is, in total production.

But let's assume that no decline were to occur in total production. How important, then, would be the rise in wages compared with the rise caused by increased productivity which was discussed in the two previous chapters? Since 1917, wage rates have risen with increased productivity at about 2.5 per cent a year. Thus in six years' time this rise in wages would equal the 15 per cent increase possible from getting all the remainder of the pie. Or to put it another way, productivity increases during the past working generation have raised wages perhaps six times as much as could possibly come from diverting to wages every cent of current returns for savings.

Wages can, furthermore, continue to rise indefinitely so long as productivity continues to increase. But a gain in wages from a larger share of the pie is a gain which can be repeated only once. Any increase from that source can go only from the 85 to 100 per cent, and no further. A dead end to improvement is then reached, because a pie of more than 100 per cent is not possible.

## *Adverse Effects on Savings*

Capital created from savings makes possible a large part of our production. It apparently raises the average income in the United States to a level of \$4,600 instead of perhaps \$200 to

\$250—as it would be if there were essentially no tools. This teamwork between those who save and those who use the tools is the reason for our high and rising wage rates. Without a continuous and increasing supply of tools, the gear wheels of economic progress would be slowed or even stopped.

Without a return for savings, where would future tools come from to enhance the fruits of current effort? Who would then be willing to save and invest in tools, if obliged to take all the risk without any prospect of return? Few persons would save till tomorrow what they could consume today, unless they were rewarded for doing so.

During the last quarter-century inroads have been made into the reward for savings, with serious consequences. The rate at which personal savings are being invested in productive tools, as compared with earlier decades, has declined. Among what we call “savings” are government bonds, which in reality are investments in a deficit of the government—not a productive tool any more than would be your tax receipt. And some of what is called “savings” has been forced upon individuals, in a sense, as a direct or indirect consequence of present tax policies.

Over the last quarter-century the costs of government have nearly trebled in proportion to personal incomes, going up from 12 to 34 per cent. It is impossible, of course, to know for certain how heavily this has been a burden on pay for savings as compared to pay for current work. But there have been large increases in the graduated taxes on both individual incomes and corporate incomes—the “double tax”—and the government has held down interest rates in order to help the sale of its (deficit) bonds. This has unquestionably reduced the share of the pie going as pay for real savings.

## *History of an Idea*

An increased share of the pie going to wages, at the expense of the share for savings, is not just an accident. It is the wayward son of a notorious ideological ancestor. Its pedigree needs critical study by those of us who have faith in a system of personal

responsibility and freedom of opportunity in economic affairs. Plausible on the surface, this idea has seduced many who today denounce it by name but embrace its substance.

During most of his ten million or more years of history, man has presumably been his own employer, producing most of his own food, raiment, and shelter—though, of course, we do not know the unknown. But if it is true that in most instances he worked for himself, or perhaps joined other huntsmen and producers in informal cooperation, such a type of livelihood would hardly have permitted him to embrace the notion that one's welfare can be improved by claiming a larger share of his own pie. No sane person is going to demand more wage from himself for his muscular work, at the expense of his management self or his tool-owning self.

## *Slavery Was Tried*

Somewhere along man's historic trail some men began to enslave others to work for them. Slaves doubtless wanted a larger share of what was produced, but there wasn't much they could do about it because the master held full ownership of the slave. And anyhow, in those early slave-holding days each person was able to produce little more than enough to keep himself from starving, and so a master couldn't take much of what a slave produced or he would have a slave no more.

In more recent times the voluntary employer-employee arrangement among free men has largely displaced slavery throughout the world. Some work for others at a wage. They may want to do so as a way of gaining the use of tools with which to work, or because for some other reason the wage offered is more enticing than the rewards in prospect while working for themselves.

By this arrangement, persons sell in the market what they have jointly produced. And when this is done, the problem of dividing the pie arises in a new form. Instead of a slave who can do nothing about it except bemoan his plight as he wearily hoes his

row, the employee can—if he so desires—go elsewhere to seek an easier livelihood or higher pay.

## *Labor and Surplus Value Theories*

From this new economic climate there arose, in the course of time, the *labor theory of value* which has become highly appealing to some among the employee class. It is often used in one way or another in bargaining for wages, which are now a form of price and therefore the object of higgling and haggling in the market, as is the price of wheat or potatoes.

On its surface the labor theory of value seems plausible enough. Suppose you are a self-employed person and consume what you produce. If you have to work twice as long to produce one thing you want as to produce another, it would seem that you must prize the former twice as much as the latter. If this were not so, wouldn't you have produced something else instead? Something requiring three times the labor must be prized three times as much, etc. In like manner, the labor theory of value assumes that labor is the essential ingredient by which to measure all value.

The labor theory of value had just nicely gained some respectable acceptance among economists of that early day when along came a man—Karl Marx—with a cause which fitted this theory tragically well. Others before Marx had, of course, held essentially the same views about value. But Marx set in motion forces which have brought the world to the brink of disaster in economic, social, and political affairs.

Having accepted the labor theory of value from the classical economists, Marx a century ago attempted to explain how profit to private owners worms its wily way into exchange by way of the capitalist system. All return on capital, according to Marx, comes out of the value that labor has created and is just another form of theft that capitalism has tried to make respectable. This concept of profits is a logical descendant of the labor theory of value.



## *No Return on Capital*

Marx viewed a return on capital in the same manner as a doctor views a parasite feasting on his patient. For if all value comes from labor and is in proportion thereto, any share of the pie going to anyone other than the laborer, in proportion to his labor, must be the result of a parasitical attachment by capitalists.

The devilment in the capitalist setup, according to Marx, is made possible by the private ownership of the land, materials, and tools with which labor does its work. The capitalist owner who holds title to these material means of production can, in this way, claim ownership of the product. He can then withhold any part of it he wishes from the laborer—the one who Marx claimed was the rightful owner of all of it because he is the one who created all its value in the first place.

So pay for the use of capital is like loot from theft, as Marx saw it. He said that the absolute amount of profit is equal to the absolute amount of *surplus value*. Persons who hold these Marxian beliefs charge that the laboring man is “exploited” by the capitalist owner; that he is a “wage-slave” of the capitalist.

The term surplus value was defined by Marx, then, as the part of production which, under private ownership, is confiscated by the capitalist from its rightful owner, the laborer. That is the part which all Marxians believe can and should be reclaimed by labor. The amount of surplus value, by this concept, measures the amount that wages could rise aside from any increase in hourly output. Were labor to regain this lost part of the economic pie, it would simply mean taking it back from the capitalist thief.

## *Tools Make the Difference*

Some ten million years ago man’s tools probably were simple ones, like a stone fastened to the end of a stick. We may assume incomes then were essentially all reward for current work, rather than being a reward for savings from past effort stored in the form of tools to aid in production. The labor theory of value may seem to have applied fairly well then because essentially all

production was the result of direct and current labor. True or false, the surplus value theory could hardly have been of concern then, and putting it into practice could have done little damage to their meager living.

But today, being as dependent as we are on tools, the surplus value theory is a sort of economic bomb which, if infused into action, could do unbelievable damage. Were the “justice” of that theory to be put into practice, we would probably be writing articles about why wages fall rather than why wages rise.

The problem of dividing the pie should be left to the free market of individual choices among employees and employers; consumers and producers; investors and borrowers; traders of all sorts, everywhere in exchange. If left to these free individuals, rather than becoming the handles of power in politics or among organizations representing any of these special interests, the decisions will be in the best interests of all.

Wherever the pie is divided by the free market, one thing seems sure: Marx’s surplus value theory will be vetoed. For persons will continue, as they have over the past few centuries in our relatively free United States, to recognize a bargain when they see one. That bargain is tools. Of our total output, perhaps as much as 95 per cent is because of the use of tools. And this is at a cost of only about 15 per cent of total output, as pay to those who have saved to create these tools. That, and not Marx’s concept, is the miracle that creates a surplus of value.

## 4. Tools to Harness Energy

All life on earth is developed, sustained, and powered by energy from the sun. And that is the beginning of the story of how man has harnessed energy to improve his level of living.

Man cannot use the sun's energy directly, except as it warms him and thus conserves the fuel already in his body for other uses. Were it possible to do this, the earth probably would be populated in unbelievable numbers; for the amount of energy coming from the sun is fantastically great.

### *Conversion of Solar Energy*

Humans require a converter to change the sun's energy into usable forms. All human food comes directly or indirectly from plants which make direct use of the sun's energy in their growth. Plants are not, however, very efficient in doing this because about 10,000 units of the sun's energy are required to produce and store ten units of energy in the grown plant.<sup>2</sup>

Plants are in a sense, then, tools of mankind—the basic tools in man's life, without which there could be no human life as we know it. And as better plants can be found, they serve as better tools to raise man's welfare—raise his wages, in a sense.

Some plants or parts of plants are eaten directly by humans. Others are eaten by herbivorous animal life, such as cattle; then we eat the cattle.

Herbivorous animals are not very efficient in storing energy, either. Of the ten energy units in the form of plants, said above to be produced from 10,000 units of the sun's energy, only one unit of energy is grown and stored in the animal; and not all of this is considered edible by humans. But we also consume animal products, such as milk and eggs, which add to the animal's efficiency somewhat.

So animals as well as plants serve us as tools, yielding a better life that is more to the human liking. And as more efficient animals can be found, that too raises wages, in a sense.

Some animals are carnivorous and live on other animals, of course. But they are few and mankind generally has domesticated none of them for use as food. They are too inefficient to compete with herbivorous animals, and so can hardly be classed among man's tools—except as a few are kept for pets to amuse us or for pulling an occasional dog-cart of very low energy efficiency.

## *Animal Power*

In addition to being domesticated for purposes of food in a direct sense, animals also take the sun's energy that has been stored in plants and convert it into work, like tilling the soil, hauling loads, and the like. This process, in its time, was a great invention; for with the work of a horse, for instance, it became possible for a person to increase greatly his welfare—his wage.

According to Prentice, perhaps the greatest increase in work efficiency from draft horses came with the invention of a collar to replace the throat strap.<sup>3</sup> This increased greatly the load the horse could pull. And there were other notable inventions of early days, such as the wheel to replace the dragged load and the "fifth wheel" by which to change the direction of four-wheeled vehicles.

Though highly important at the time of their discovery as compared with prior efficiency of human production, all these developments are rather unimportant in explaining the level of our present welfare. As we shall see, the present level comes mainly from other developments.

So back over time man has discovered how to use the energy from the sun, first in plant form as food and then, through plants, in the form of animals for food and for toil.

Another early form of releasing plant-stored energy was the burning of wood and other plant materials for cooking food and heating abodes. And later it was found that these plant materials of bygone days lay stored in the form of coal, oil, and gas. Because of the highly concentrated energy in these deposits, new uses eventually were developed whereby the heat was used for more direct sources of power.

## *Motive Power*

Most important among these new uses of deposited plant-energy were methods of converting, first, heat energy and then other forms of energy into motion with which to propel vehicles and to drive moving parts. The heat from this stored energy also came to be used to reform and blend chemical materials into forms useful as tools. Thus it became possible to invent things like the steam engine and internal combustion engine. And in a somewhat different and new way, energy supplies were harnessed by using the water wheel to generate electricity, and more recently by the development of atomic energy.

These marvelous developments have now become commonplace in our lives. These, rather than the earlier forms of energy use, account for the major part of the increase in our productivity, from which higher and higher wages have been paid. These are responsible for almost all of the great difference in economic welfare between a huntsman or a man with a hoe—or even a man working with a horse or a buffalo—as compared with the income of the average wage earner in the United States today.

## *More Energy To Be Tapped*

Yet all this has been accomplished with tools far from perfect in energy efficiency. Their efficiency is far superior, however, to that of the sun's energy going through plants to feed a horse, and then being turned into horse-fuel for plowing land on which to grow more plants for man to eat directly. By these newer means, the quantity of harnessed energy that may become used to do man's work is all but limitless. It is limited only by his foresight and restraint from immediate consumption, so as to be able to store his productivity in the form of more and still more tools. Then these can be put to work using more and still more of the limitless supply of the sun's energy.

This has been a simple description of the energy sources for man's food and for his other wants over eons of time. It traces the

development of the miracle of productivity in the United States and in other economically advanced countries. They are the result of ingenuity, savings, and the workpower of harnessed energy.

## *The Simple Idea of Tools*

In essence, the formula is as simple as this: If a man can create a tool that makes it possible for him to produce in a day of work, say, twice as much of something as he could without the tool, he can have twice as much to enjoy. Or more accurately, he can have twice as much to enjoy *on a sustaining basis*, provided the machine makes it possible for him to produce double the output in enough less than a day's time so that he can also rebuild and replace whatever part of the machine was used up or worn out by the day's use.

If in addition to replacing the part of the machine he has worn out with the day's work he can also develop another tool that will further increase his output per hour, he can have even more to enjoy tomorrow. And so on, ad infinitum. If he is to accomplish this progressive improvement, he must restrain his current joys of consumption enough to make possible the development and accumulation of tools.

Output does not automatically increase, of course, merely because there have been some savings and their investment in new tools. If it were to take a day of work to make a tool which, by its use, would add only as much production as could have been produced in a day without the tool, then there would be no net gain in output. Tools are not productive per se but only as they add a *net* over-all increase.

Some misjudgments occur, of course, in efforts to develop tools in a free economy of private initiative. But errors there are at a minimum because the cost of the mistake can't be passed along to innocent bystanders as can be done in a controlled society.

So in a free society the growth in the development of energy-use measures, in a rough way, the harnessing of productive

power. Horsepower-hours of energy output is one common measure.

In thinking of the effect of harnessed energy as an aid to men in their work, note that one horsepower is roughly equivalent to the energy of ten able-bodied men working strenuously—i.e., each man working an equivalent of lifting 55 pounds one foot a second, continuously. Or to illustrate its power another way, only one 75-watt light bulb in use represents as much energy as that of one man turning the crank on the generator.

The growth in energy output for the last century is shown in the accompanying table. A hundred years ago there was about half a horsepower of energy output for each hour of work, in addition to the energy of the worker himself. This—mostly by work animals—was equivalent to the help of five men. By 1950 the figure for horsepower-hours of additional help had risen to 3½, or equivalent to the help of 33 men.

*ENERGY OUTPUT, UNITED STATES*  
*Horsepower-hours per man-hours of work*

<i>Year</i>	<i>Human labor</i>	<i>Work animals</i>	<i>Mineral fuels and water power</i>	<i>Total</i>
1850	0.10	0.51	0.04	0.65
1860	0.10	0.56	0.04	0.70
1870	0.10	0.48	0.07	0.65
1880	0.10	0.48	0.12	0.70
1890	0.10	0.50	0.23	0.83
1900	0.10	0.49	0.36	0.95
1910	0.10	0.42	0.68	1.20
1920	0.10	0.36	1.29	1.75
1930	0.10	0.25	1.81	2.16
1940	0.10	0.18	2.48	2.76
1950	0.10	0.10	3.20	3.40

Source: Calculations based on data in *America's Needs and Resources* by J. Frederic Dewhurst and Associates, New York: The Twentieth Century Fund, pp. 23 and 787. Also, Bureau of the Census, United States.

The use of nonliving sources of energy started to become important during the late nineteenth century, largely displacing work animals which now account for less energy than human

labor itself. Nonlife sources now comprise the prime form of energy.

This help is not all clear gain in output, of course, because the efficiency is not 100 per cent. Some of the energy must go to produce and replace the tools themselves. But after taking account of all that, it is a vital reason why wages are now five times what they were a century ago.<sup>4</sup>

How much better it is to have these silent, nonsuffering servants in the form of energy-using machines working for us than to have 33 human slaves! They far surpass slaves in efficiency of output, and with minimum upkeep costs. They don't rebel or run away. They are as willing to work as not to work.

This remarkable harnessing of energy, along with the idea of wage payments among specialists under relative freedom of exchange, accounts in great measure for the rise in wages in the United States over the decades.



## 5. Doing What You Can Do Best

The creation and use of tools has been possible only because of a method of cooperation which has developed.

Apparently man is created in endless variety. We are told that no two persons are identical biologically. Nor are any two persons identical in their ability to do things, in their aptitudes of mind and body with which deeds are done and things are produced for economic betterment.

One person may be totally unable to do a thing that another can do; or if he can do it at all, it is with less ease and excellence. The cripple, for instance, is excluded from the fraternity of four-minute milers; probably Ginger Rogers is, too. Yet these persons are not without other rare abilities the four-minute miler lacks. Each sits in the bleachers observing with admiration the accomplishments of the other.

Many who have been carelessly labeled "handicapped" have been great scholars, composers, inventors. In those respects it is the rest of us who are handicapped. Everyone is handicapped, differing only in form or degree—differing endlessly, whether we think of it in the sense of abilities or in the sense of inabilities. Yet to be outstandingly gifted in more than one or a few respects is rare.

With this endless variation of abilities and inabilities, our enjoyments for living—beyond the many pleasures of the free things that exist in our natural environment—would be few indeed if we were all forced to live in isolation. In such an existence, the person unable to sing could have only the songs of the birds and the crickets, and the like, on the airwaves for his enjoyment. If he were unable to catch the wily fish, his dinners would all be fishless. His raiment would be only what he alone could fashion from materials he was able to gather or capture. And only the few devices he could invent would be his to use.

Personal isolation would be an existence of meager means at

best. It would reflect our inabilities in a dominant fashion, revealing vividly both the fact and some of the consequences of human variation.

An unfortunate consequence of endless human variation is to create the opportunity for endless misunderstanding. But the other side—the bright side—of the same coin is one of opportunity. It creates the chance for endless cooperation, to the mutual advantage of participants. This opportunity can exist only as differences are understood and tolerated—allowed to blossom into the cooperation with which we are here concerned.

We may reap fruits of human variation and enjoy things not of our own direct creation only if we discover how to allow this cooperation to work. It springs from trees whose roots are hidden from our view and appreciation.

### *What One Can Do Best*

What happens under this form of cooperation may be seen by a simple illustration. Suppose two persons are living an isolated existence. Let us say that they have aptitudes that are totally unlike. What one can produce or do well the other cannot do at all, and vice versa. Each can produce many times as much of his own product as he has any use for. And yet his taste for the other's product is equal to that for his own.

It is clear that if each produces double his own wants, exchanging his surplus with the other, they can both double their consumption level of products they enjoy. They could, in effect, double their wages through the simple process of exchanging half for half of what they produce.

Now suppose that instead of being a society of two persons, it is a society of three persons of this same design, each of whom can produce many times his own use of his product. By the simple process of triangular exchange of what they produce, each of them could treble his consumption of products he enjoys. This is the same as increasing wages.

Similarly, for a society of four persons, five persons, and so on.

## *A Seeming Miracle*

This process of exchanging the fruits of one's efforts performs what may seem like a miracle. Each is allowed to use more fully his peculiar abilities in production. The appearance of a miracle is due to the fact that the whole seems greater than the sum of its parts—more economic enjoyment from working together in this way than from existing in isolation. By voluntarily cooperating in this manner everyone can benefit who will join in the process.<sup>5</sup>

The seeming miracle does not really arise from any increase in ability to produce, however. This ability remains the same for each person as it was at birth, in endless variety. True, we do not know the full limits of our abilities and may fail to develop them to the fullest extent; on the other hand, we may overestimate our abilities and may, as a consequence, limit in various ways the welfare of ourselves and others. But in spite of this, our abilities are those inherent at birth and the seeming miracle occurs for another reason.

What really happens is that by rearranging—through exchange—the products which the peculiar talents of each has made available, there is opened up an outlet for untold amounts of specialized production. Take these written words, for instance. My own demand for them is such that they probably would never have been produced except that others might want them. So something practically useless to me became available for exchange with someone who wants it. It may be some person unknown to me on whose farm is produced the egg I had for breakfast—perhaps a farmer who produces six thousand eggs a day and who himself eats only two of them.

That is how the seeming miracle works. It is really rooted in exchange rather than in production. It is a process that allows rearrangement of what is produced from the producer, who wants it little or not at all, to someone who wants it much more as a consumer. So there arises a cooperating circle of such exchanges.

The total of production is still no more than the sum of its parts, in the sense that total production is only what separate persons have produced. Nothing is produced except what

somebody produces, by individual, separate, personal effort. But by the miracle of exchange a person may become able to trade the fruit of an hour of his own labor for what would take him ten or a hundred or a million hours to produce himself—if he could produce it at all. He trades with others who gain a similar advantage from the exchange.

So the seeming miracle of exchange, yielding untold increases in the usefulness of things, is easily and almost effortlessly accomplished by the simple and easy process of trading.

It all comes about without people having to work longer hours. They probably work even fewer hours when any economy becomes more and more developed in this way, under the process of specialization and exchange. They work fewer hours than if it were an economy of privation, not so developed. Leisure becomes a luxury they can now better afford, so they accept more leisure in the market for their time. The process, rather than to demand more mental or physical effort in the form of work, only increases the extent of concentration of one's effort on what he can do best. He spends less time on what he cannot do well, obtaining it instead by means of trade.

In this way he produces far more. The increase is not directly that of his own appraisal of its worth to himself, but reflects how others appraise it for themselves by access in the market. So we trade our special abilities—trade our peculiarities, so to speak, and make of them an economic virtue instead of a vice.

### *Limits on the Process*

The only limits to the extent wages can be increased by this process are these:

1. There is, of course, a limit to what a person—even the most talented—can produce. The more capable he is in a rare ability, the higher this ceiling becomes.
2. There is a limit on his ability to find other interested traders with products they have produced beyond their own wants.
3. There are geographic and other barriers to exchange throughout the whole of society.

These three factors set the ceiling on the possible rise. Only as these barriers have been removed has it been possible for wages to rise to the point where they now are.

Barriers are in many instances the result of government intervention in production affairs, in the market, and in devices for exchange. But it is not the purpose here to discuss them in detail.

If wages are to be increased further, these problems must receive attention. The capacity to increase one's specialized production beyond one's own needs includes all the aids to specialized production discussed in previous chapters—savings, the creation of tools, the harnessing of power, and the like. These become aids to the use of a person's rare ability, putting increased leverage on the unusual ability of a person like an inventor or a machine technician. By specialized work in a highly complex exchange society, one person can spend a lifetime perfecting his unusual aptitude for doing some almost indistinguishable little bit of the production process, for some complex machine sold all over the world.

One would be remiss, however, if he did not recognize certain hazards in this seeming miracle of division of labor in a complex, specialized economy of exchange.

First, though there are material benefits from such specialization, there can be serious consequences outside the material realm. A man who prepares himself for an extreme specialty and concentrates upon it for a livelihood, tends to that extent to become a physical, mental, and spiritual victim of the narrow confines of his specialty. He need not be so enslaved to his specialty, to be sure, and may be able to escape its restrictive tendencies. But the danger in this respect is certainly greater than for his ancestor whose living depended on a wider practice of various arts.

Thomas Davidson once told of a man who had ladled tar with such accomplishment for over thirty years that in his mind he might not be able to make a living if the demand for tar ladling should disappear. To that man, his perfection of a specialty had made him the victim of an insecure reliance upon a narrow specialty.

By contrast, a noted surgeon of my acquaintance had mastered nine trades before entering medical training. This gave him a great feeling of security that the tar ladler lacked. In like manner, a pioneer—despite his modest material living—evidences a spirit of self-reliance which is some compensation for his lack of economic welfare.

### *Specialization Can Be Overdone*

So it is well to do many things, outside one's vocation if not within it, for nonmaterial reasons as well as from the standpoint of revealing talents that have been latent. Even at the cost of some possible economic gain, some of one's time and effort may well be devoted to repairing the intellectual and moral loss that sometimes is the price of specialization. In becoming a wealthy giant in pursuing one's most rare talents, one must not dwarf and cripple oneself in all other respects. Not all means of satisfaction are composed of economic wealth, and there is no market in which you can buy nonmaterial welfare with material means. And so a man who would be wholesomely free must think of these dangers, as well as of the economic fruits of specialization.

Second, in addition to the narrowing tendency of increased specialization on one's culture and interests, there is also the danger of losing the material welfare we have attained by undermining the processes which have made it possible to rise to present levels. Our economic welfare could fall by removing the means of its attainment. If persons should be prohibited from producing their specialties, or from trading them with others in the markets of the world, the fall could parallel the rise we have enjoyed.

## 6. The Lubricant for Exchange

In the market we find persons trading the fruits of their special abilities with one another. Each does whatever economic task he can do best. He creates a surplus beyond his own needs. He then trades this with others who are in a similar position of surplus, having things he wants. So by trading rather than by working harder, both sides of the exchange greatly increase the satisfaction of their wants. Human differences can in this way be made to yield a more bounteous living for every participant.

Yet there is another important aspect of trading to be considered, too. It involves an aid to trade, without which our high and rising wages would not be possible.

Two men living in an isolated society of their own will find the trading of their specialties easy to arrange and to carry out. All they need do is meet and arrive at the terms of the trade, then make the physical transfer of the goods. The magnet of mutual benefit draws them together for a deal.

From being a simple matter in this society of only two persons, the process of direct trading of goods for goods becomes increasingly difficult, if not impossible, when the number increases to three, then four, and eventually to two billion persons.

Let me illustrate. I enjoy tea. Yet I know not a single person who produces any. And even if I did know someone, perhaps he would not want what I have for sale. Most likely he has no appetite whatever for words from my pen, for instance. So the two of us cannot trade our products directly. The difference between what we produce and what each wants causes a sort of friction that precludes a trade. So our offerings will not move in trade until an alternative outlet—perhaps involving a sort of lubricant to remove this friction—can be found.

Now suppose a third party who has sugar for sale wants to buy some of my written words. And suppose the tea producer wants sugar. Now we have a sort of lubricant that will let all three

products move in trade. The sugar man trades me his sugar for my words; then I trade the sugar with the tea producer for his tea. Everybody thus obtains what he wants, whereas previously we had been unable to do so.

## *Money Enters Trade*

If the third man had entered the market with money instead of with sugar, the trade would have been even easier to arrange. With money acceptable to all, the man with the money could have traded with either of us initially, whichever was the most convenient for any reason. He could have bought my words; then, with the money, I could have bought the tea. Or he could have first bought the tea; then he and I could have traded tea for words.

This, in essence, is the function of money. It serves as a lubricant in exchange—a medium of exchange. Persons who do not want it for itself alone will accept it as an intermediate step to getting what they want in the trading process. Serving in a sense like a lubricant in a motor, money facilitates the movement of other things in exchange without itself being consumed or even wanted for consumption. Money does not serve as the end product in the satisfaction of human wants—except perhaps for the miser who may hoard some and gloat over its possession as one would prize a picture or an antique. In which case, the miser holds some of it as a commodity rather than as money per se, and to that extent it is no longer money.

In the earlier illustration where the sugar man entered trade, the sugar itself served temporarily as money and thereafter reverted to a commodity. It came to rest with the tea man for purposes of being consumed. This illustrates how it is possible for a “money commodity” to serve either one or the other of these two functions, at different times and places.

Had I for any reason doubted that the sugar would be acceptable to someone who had tea for sale, the sugar could not have served to lubricate the trade. It was necessary for me to accept its acceptability by others whose products I wanted, else I would



have refused it in trade for purposes of money. So for anything to be accepted and to serve as money, the decision is not restricted to the desire for it by only one person. It is unlike strawberries which one person may prize whether any other person likes them or not. For anything to serve as money, it must enjoy a multiple acceptance; otherwise it cannot perform the task of money. And the wider its acceptance, the better it will serve as a lubricant for trade.

## *A Great Invention*

Money is perhaps the greatest economic invention of all time. It lubricates the vast economic mechanism of trade which could not operate without it. It allows a deal to be made between persons unknown to each other, because of distance or some other reason.

By using money, the two persons don't need to find each other directly. Instead, every producer puts his goods and services into a vast stream of trade, getting money in return. Then he puts the money back into the market to get what he really wants.

The producer does not know—nor does he care, really—to whom his product goes for consumption. Neither does he know nor care who produced the item he consumes or uses. It is all done behind the curtain of money exchanges in a trading economy. The only person who need be contacted is the one person at the point of trading contact. And even this can be quite impersonal. Witness, for instance, the unknown sources of all the things in a department store, or in a mail order catalog.

That is why money is such a great invention. That is why it serves so efficiently as a lubricant for exchanging the specialties of production all over the world, between widely separated persons in remote locations. The Yukon fur draped over the shoulders of a Park Avenue lady, or a mahogany table in the home of a wheat farmer in some remote part of Canada, can be explained only as an accomplishment made possible by money.

A great advantage of money, so far as wage earners are concerned, is that it is a device that reduces all alternative offerings

of employment to one common denominator of expression—the money wages of the various job offerings. Comparison is then much easier than if the pay offer were in one case a certain number of bushels of wheat, in another some shoes, and the like.

## *Different Moneys*

The more people accept one money the world over, the better that money will lubricate trade. Ideally there would be but one money enjoying universal acceptance. Then all trade could pass through one medium. And in this way, goods and services produced in abundance as specialties all over the world could, so far as money is concerned, enjoy the widest possible access to those who want them.

All sorts of things have served as money in exchange—such as cattle, shells, silver, gold, copper, aluminum, paper. In Europe during World War II, nylon hose and cigarettes became important as money.

But it is not relevant to this discussion to wonder why different things have served as money. It is sufficient to note that separate and competing monies will continue until and unless the “ideal money” is found; until and unless something gains enough common acceptance and understanding so that nobody can adulterate its use and destroy its usefulness as money; until and unless neither politician nor any other person can gain the power to tamper with money for his personal gain.

## *Adulterating the Lubricant*

For purposes of our present problem, we shall only observe that we operate with an imperfect money system. We do not now have an ideal money, nor are we even threatened with this blessing for the foreseeable future. And so it is important to note the effect on wages of an imperfect lubricant of exchange, which we now have.

When you accept money in trade, you are proceeding on faith in it as a sort of implied contract. The implied contract is this:

When you trade something for money as an intermediate step to getting what you eventually want in exchange, you are operating on the assumption that the money will serve your intent rather than thwart it.

Let us say, for instance, that you accept money as an intermediate step between your bushel of wheat and the two bushels of corn you want. You might have traded direct, but you preferred to use money as a go-between. So you sell the wheat for two dollars in money; then you buy the corn for one dollar a bushel, or two dollars for the two bushels. While the money was in your possession, it was your expectation that nothing would be done to money to alter its worth in terms of the wheat or the corn. So far as the money is concerned, you expect it to retain worth in exchange equivalent to one bushel of wheat or two bushels of corn. That is the nature of the contract implied in one's use of money *as money*. Your use of it is not for the purpose of speculating in the worth of money per se.

Yet the worth of a unit of our present money is subject to constant change. Under inflation it becomes worth less—prices rise—unless there are offsetting influences to be ignored here.

## *The Counterfeit Gains*

In the illustration, if there is inflation, the two dollars you received for your wheat would lose some of its worth while you held the money, and would then buy less than the full two bushels of corn that you had presumed to be its worth under the implied contract. You still have the two dollars, of course, but as a result of inflation the corn has risen above one dollar a bushel. Through no overt act of your own, you lose some of the worth of your property. So would everyone else who was then holding money or money claims.

Who would gain, if all these persons lose? The gains go to the diluters of the money—a counterfeiter, perhaps, or the government, either by a direct act of its own or by a grant of permit to someone. They gain by getting some money without producing anything in the usual sense; by getting something for nothing

while the sufferers lose some worth of their money and money claims. Then as a consequence of inflation, various other persons gain or lose through effects that alter the essence of all sorts of contractual deals.

## *Inflation and Wages*

Inflation affects wage earners directly in two principal ways:

First, since the wage earner gets essentially all his income as a money income, his money then loses worth. His pay will lose worth while he keeps it as money or in the form of some money equivalents. Even while he holds his pay check it loses worth, though this is an insignificant amount of loss for those who spend their pay quickly. Only in a panic stage of inflation, like that of Germany in 1923 or of China in the mid-forties, can it be much of a factor while one holds a pay check for a day or two. In China, for instance, when money was said to lose half its worth every two weeks, the loss would be a few per cent by one who held his pay check one day.

Second, it affects the worth of his pension funds, his life insurance, his bonds, and other such forms of savings that are money contracts. Their loss of worth can be extremely serious, both in degree and in timing. It can become serious in degree because of the cumulative effect of continuing inflation. If a dollar loses 10 per cent of its worth each year as compared with the previous year, there will remain only twelve cents of its worth at the end of twenty years.

But more important than either of these, in a sense, is the illusion of welfare that inflation creates. This can lead to serious consequences. Whenever a person is less well off than he thinks he is, he is likely to be headed for considerable trouble.

For instance, a wage of eight dollars an hour, after the twenty years of inflation at the rate of 10 per cent each year, is no better than a dollar an hour without the inflation. If one is fooled by this and raises his level of living from one to eight, or to four, or even to a 1.01, he will be living beyond his means.

Inflation also seriously affects such things as wage contracts

extending into the future. Insofar as inflation alters the implied contract assumed by those who hold money—namely, that it will continue of equal worth—its violation also becomes reflected in every monetary contract like a wage contract. As the worth of money is reduced by inflation, the burden of a contracted wage rate is also reduced. This violates, in a sense, the implication in the contract when it was negotiated. To protect against this, some wage contracts are being designed to include an increase to take care of assumed inflation. Inflation thus becomes a legally vested interest in contract form, throwing the weight of sentiment on the side of continuing the inflation. Can inflation ever be stopped that way?

## *The Clipped Dollars*

Over a period of years, money wages in the United States have risen for two reasons—(1) increased production, in which wages have shared, and (2) inflation. The first adds buying power. But the second is an illusory gain because inflation merely adds more dollars of less buying power. And the extent of the inflation illusion has been great.

Suppose, for instance, that a man now due to retire at age 65 began work when he was 20. And suppose, to simplify our problem, he had never advanced in skills beyond swimming with the tide of the over-all increase in productivity, so that his wage went with the average for all private employment during the period. His money wage per hour now would be more than seven times what it was in 1910. Had there been no inflation, however, his wage would presumably have risen to a little less than three times what it was in 1910, not seven times.

Or if we compare his present wage with that of a quarter century ago, it is now two and one-half times as high as it was then. Considerably more than half of this rise has been an illusory wage increase of inflation, reducing the worth of the dollar.

So for nearly half a century now, inflation has put more dollars into the pay check than have come from increased productivity.

Inflation is not real dollars in the sense of buying power, like the ones arising from increased productivity. They seem nice to have, and they look exactly like the other dollars. But these added dollars really buy nothing, as against having avoided inflation with its addition of worthless dollars that go into the pay check.

Inflation, then, does not raise real wages. It only creates the illusion of rising wages.

Though somewhat beyond the scope of this analysis, it should be observed that the government controls money. It is therefore government which inflates the money, or allows it to be inflated under controls such as the monetary standard, the reserve requirements, and interest rates. And so, in this sense, government must be held responsible for creating the illusory wage rate which accompanies inflation.

## *A Major Disaster*

My final point is to suggest the disaster that would come upon us if, through inflation and deflation, the efficiency of the lubricant for exchange should be retarded, or the money system destroyed. What if violent changes should turn money from a lubricant into an object of speculation? For when persons hoard money in anticipation that it will gain worth, or avoid it because of anticipation that it will lose worth, this miraculous lubricant cannot do its work. Then catastrophe would be upon our highly geared economy. Then the usual progress which causes real wages to rise could no longer operate, until and unless a new lubricant were found and installed.

We are interested here in why wages rise, in a real sense rather than in an illusory sense. It behooves all of us who want continued progress, therefore, to become greatly concerned about this threat of inflation. This means searching out the underlying cause of why governments either want to inflate money or feel impelled to do so, then correcting the cause.

## 7. Contracting for Progress

Money, the lubricant for exchange, makes widespread trade possible. Without it our present high level of wages could hardly have come to be. Yet, serious inflation and deflation can cause money to lose its capacity to lubricate exchange.

Inflation mixes worthless dollars with the sound dollars of a productive economy. The dollars inflation puts into pay envelopes add nothing but higher price tags on things.<sup>6</sup>

As inflation becomes blended with the real buying power of production, dollars of diluted worth are the result. You can buy less at the counter with one of them. Not only is the worth of the dollar diluted, but understanding about the source of progress also is distorted by the illusion of inflation.

### *Rich Uncles and Welfare*

Inflation fools us into a false sense of welfare. Perhaps the illusion comes about in some such manner as the following:

Suppose a wage earner has an industrious and thrifty uncle who remembers him in his will. At the uncle's demise the wage earner gains buying power, dollar for dollar in proportion to the amount of the inheritance. Everyone knows that.

If this happens to two people, both of them will gain in like manner. Or three. Or four.

And so it seems at first blush that if only this could happen on a national scale, everyone would benefit in like manner. But who will serve as the universal uncle? Our common uncle, Uncle State, of course.

Most uncles die only once, and an inheritance once received can never be repeated. But the State, on the other hand, has innumerable lives to give to its needy nephews and nieces. It seems able to grant them a sort of inheritance over and over again. The State, however, is confronted with the problem of a source for the funds it gives, since the State is without economic means itself. So the State must first collect from its nephews and

nieces the substance of the repeated “inheritances” to be given back to them.

## *Inflation Is a Tax*

Inflation is one way the State obtains these funds. And thus the buying power of money is diluted with these inflation dollars, which become the source of the inheritances from Uncle State.

The nephews and nieces, of course, are no better off as a result.<sup>7</sup> Somewhere there has been a slip of reasoning betwixt one person’s rich uncle and an uncle without means for all of us. The clue to the answer lies in the fact that such benefits can come only out of production; that without production there can be no benefits.

The singular rich uncle was productive and thrifty. He saved up buying power by foregoing consumption over the years. And it was title to that real, productive wealth which became yours at the time of his demise.

If Uncle State, on the other hand, tries to give all of us enough to live on for the rest of our lives so that we could retire, who would produce the things for us to live by? Therein lies the catch in such a scheme for general welfare. For if nothing is produced, we would have nothing to live on from these promises to be financed by inflation.

Were we all to receive in like manner half enough, presumably, to live on and were all to half retire, we could have only half a living—the half we produced. The inflation inheritance of half a living would, likewise, give us nothing.

And for lesser degrees of inflation, the same would be true. We can have only what is produced, no more and no less. For production is the only thing that gives either wages or inheritance their substance. Money dilution for any purpose merely causes the price tags to go higher and higher.

That is the real danger of the inflation illusion. And we can’t live on the substance of an illusion—full time or half time or a minute a day, now or in old age. In trying to live beyond the



means produced and available, tragedy will surely ensue in one form or another.

One exceedingly foreboding form that this inflation illusion seems to be taking has to do with wage agreements. In important respects these contracts amount to an attempt to contract for progress. The certain consequences of any such attempt at the impossible should give us deep concern.

Let me illustrate.

## *A Wage Contract for My Boy*

In the year 2012, the Lord willing, my boy will be old enough to retire at age 65. He will then be in the final year of what I hope will have been a worthy occupational life, just prior to being forced to retire.

Here is a proposal. Let us say that I want to help him by bargaining for his wage for that year—the year 2012. As his representative at this collective bargaining table, I shall herewith state my proposal and give my reasons for my demands. Then if anyone will accept the offer, we shall see if we can work out the other minor details of the agreement.

My proposal is that you pay him a wage of \$29.99 per hour for the year 2012.

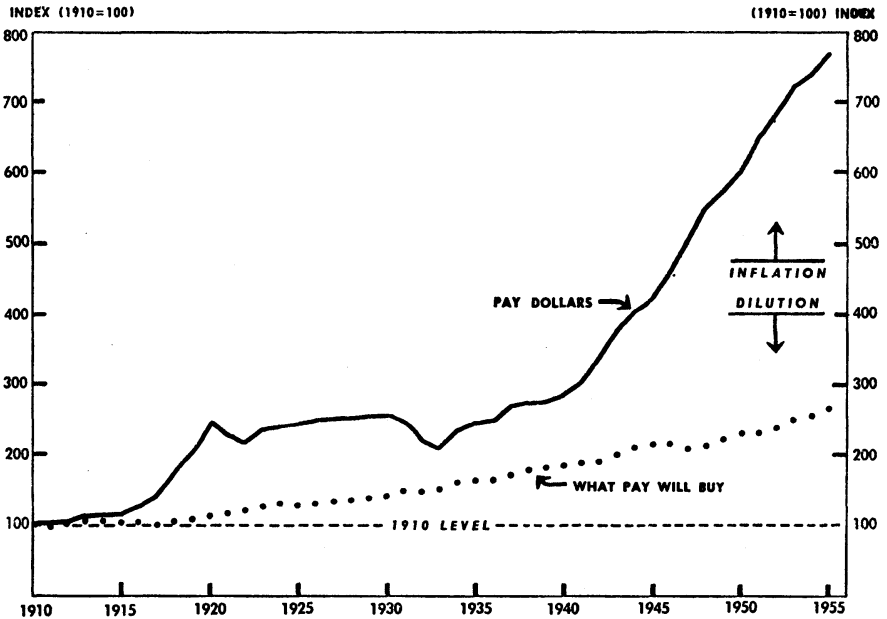
This figure is arrived at by the same method now coming into vogue in negotiations over wage contracts. Contracts are being offered for a period of five years, or perhaps more. What I am proposing is merely to extend the idea of these five-year contracts, on the theory that if a principle is good for five years, it is even better for 56 years. Eleven times better for 56 years than for five years? Well, better, anyhow.

My proposal is based on the actual record of wages over the past working generation. I have merely taken trends since a man now ready to retire started work on reaching age 21, and extended them on to the year 2012 on a strictly mathematical basis.

Beginning with the present average wage rate for all laborers in the petroleum and coal industries (\$2.52 per hour), I first added the average yearly rate of increase in productivity since

1910 (2.2 per cent).<sup>8</sup> Since increases in productivity have appeared in wage rates more or less in full, this step would seem to have ample precedent.

*REAL AND UNREAL WAGE RATES*  
*Hourly wage rates, United States*



Source: Real wage column derived from *Employment and Wages in the United States* by W. S. Woytinski & Associates, Twentieth Century Fund, p. 586; *Economic Report to the President*, January 1956, p. 191. Nominal wage column derived from Woytinski, *op. cit.*, p. 585; *Economic Report to the President*, *op. cit.*, p. 208.

Next, the dollar has lost buying power over this period at a rate which, unless wages had risen enough to offset it, would have almost exactly canceled out all the increase from productivity. Except as this loss in buying power of the dollar was offset by wage increases, labor would be no better off now than a generation ago; except for such an adjustment in wages, wage dollars would have lost buying power about in proportion to the in-

crease in productivity. So I am adding an inflation factor to my demands, based on past experience for nearly half a century.

These two factors give me my figure of \$29.99 an hour for the year 2012, which I am proposing for a contract.

You may feel that you would be taking too great a risk in accepting such an offer, because productivity and inflation may not continue to go up for the next working generation as fast as they have in the one just past. True. But it is also true that they may go up even faster; that is the risk my son would be taking in signing such a contract. Do not these risks offset one another—yours vs. his—at this figure of \$29.99? To equalize risks in this way would seem fair enough.

You may argue that you are opposed to inflation. But to that I would reply that you can do nothing about inflation all by yourself; that you have been opposed to it in the past, too, but that it has existed in spite of you; that holding your hands up against the wind will not stop it, so you might just as well take inflation as a fact and proceed to adjust yourself to it accordingly.

## *The Way To Begin*

You may argue that if everyone takes this attitude of not opposing inflation by every means at his command, merely because he can't do anything about it alone, nobody will ever do anything about it; that only the combined efforts of enough persons who want to do something about it will ever terminate inflation; that one thing you can do, for sure, is to avoid becoming a contractor for future inflation by writing the assumption of its continuance into your wage and other contracts; that *you can't fight inflation if you become a vested interest in its behalf, as in such a wage contract.*

At this point in our bargaining I am ready to concede the force of these objections. And so I shall withdraw my offer of any such contract, urging all other wage bargainers to avoid such a scheme, too.

From the standpoint of the welfare of wage earners, such a general pattern of wage contracts is sheer folly. Some even

question seriously putting both an assumed increase in productivity as well as a “cost of living” clause into long-term wage contracts. But this scheme is far worse. It not only contracts for a progressive increase in productivity at a predetermined rate; but in addition, it guarantees a continuous rise in the cost of living, in effect.

*General wage agreements such as this would merely entrench inflation as a contractual way of life.* This is true whether the agreement extends to the year 2012, or to 1961, or to 1957. The longer the period contracted on any such basis, the more serious its threat to the stability and progress of our economy.

## *The Erosion of Savings*

Were I to argue the danger, and bargain for built-in inflation in the wage contract on some such basis, another problem arises to plague me.

My son, let us assume, wants to become self-responsible in his old age. He wants to provide for his elderly freedom and independence by saving enough during his working years to take care of his needs after retirement. How can he do this?

Let us first appraise his problem under the assumption that there were to be no inflation and no increase in productivity—that wage rates were to be stable, in other words. And let us also assume that my son wants to plan for a retirement income equal to half his working wage of \$2.52 an hour. He is to provide for an income after retirement amounting to \$2,620.80 a year, let us say.<sup>9</sup>

In order to provide for this sum on retirement, he would have to save and invest in a pension fund at the rate of \$353.81 a year for the entire period. This would be 6¾ per cent of his income.<sup>10</sup>

## *Buying Power Diminished*

If, on the other hand, inflation were to be built into the wage structure in the manner previously explained, my son would have to save at a much higher rate. For instance, a dollar saved

during his first year of work would, in the first year after retirement, amount to only 38 cents in buying power, as a result of the inflation. This means that he would have had to put in \$2.65 during his first working year in order to have, on retirement, the buying power that one dollar would have had without the inflation.

So why not add enough to the \$29.99 rate to cover the loss of buying power of the wage earner's savings? Since the loss was due to inflation, why not charge it to inflation? Why not add it to wages, as was done with the inflation factor explained earlier?

If this were done, it would merely mean that still higher prices would result, cutting even further into the value of savings for retirement. This, in turn, would call for adding even more to the wage for the same reason. And so forth. An endless process would have been set in motion, like a cat hopelessly chasing its bobtail at an ever-increasing speed.

This pursuit of something for nothing by means of inflation is a fruitless search that can yield nothing to the general welfare of wage earners. Time and effort and hopes spent on it are wasted from gainful pursuits.

## *Inflation in France*

This wasted effort and false hope, of contracting inflation into higher wages, should especially concern the wage earner. To see why, we need only review earlier historical experiences with their tragic ending of the inflation act.

In speaking of the consequences of inflation at the time of the French Revolution, Andrew Dickson White said:

Now began to be seen more plainly some of the many ways in which an inflation policy robs the working class . . . the classes living on fixed incomes and small salaries felt the pressure first, as soon as the purchasing power of their fixed incomes was reduced. Soon the great class living on wages felt it even more sadly . . . the demand for labor was diminished; laboring men were thrown out of employment . . . the price of labor . . . went down. . . . Workmen of all sorts were more and more thrown out of employment.<sup>11</sup>

So if the wage earner is to be able to enjoy further increases in *real* wages through a healthy and sound economic growth, inflation must be stopped. But inflation can never be stopped if it becomes entrenched in the wage structure as a contractual way of life. It can never be stopped if wage contracts are so designed that employers and employees come to have a divided and conflicting interest in meeting the common enemy of inflation.

Progress cannot be built on an inflation bubble. It cannot be built on a raise in wages offset by a decline in what a dollar of wage will buy. For then the welfare of wage earners will burst when the inflation bubble bursts, hurting them especially.

## 8. The Cost of Being Governed

Wages have been spoken of as though they were entirely composed of money in the pay envelope which you could spend as you wish. They have been discussed as though each dollar could be spent for a loaf of your favorite brand of bread, or for peanuts, or for a new car; or given to your church, or to your favorite charity; or turned over to your wife to spend as she deems wise; or whatever.

But this ignores an important fact. Not all your wages are available to you for free choice of spending in this way.

If you produce in your garden twice the fruits and vegetables this year that you did last year, you have twice the “gardening wage.” Or if yours is a commercial garden and you have sold twice the amount of produce, you have twice the income and can buy twice the amount of things of your choice.

Let us suppose that this year you produce 20 bushels of potatoes worth \$2.50 a bushel, after taking out costs other than pay for your own time. You have a \$50.00 total wage. Having worked 50 hours, you have an hourly wage of \$1.00.

Now if I had come along in the spring and offered my help at a wage of \$50.00 for the season, and if together we produced 40 bushels instead of 20, our wage would still be \$1.00 an hour—\$100 for 100 hours.

But suppose that instead of offering my services to grow an additional 20 bushels of potatoes, I had offered to guard your potato patch against the mountain lions for a seasonal fee of \$50.00. You would, of course, have turned my offer down for two reasons: (1) There are no mountain lions around anyhow, and what I am offering is no more a service to you than it would be for me to guard the mountain lions against your potatoes. (2) To pay me that high a wage would require all the proceeds from the potatoes you produce, leaving you nothing as pay for your own exercise.

## *Service Charges by Fiat*

But suppose I had bargained on a different basis, and said: "Since the protection of the potato patch is important to both of us, I will chip in along with you and pay an equal share of the cost of this general welfare. In other words, I will do all the work of protecting the patch and you will do all the other work of raising the potatoes. Then we will each pay half of each other's income in return for half the product—each of us getting, at the end of the year, ten bushels of potatoes plus half of the service of having had them protected."

This would still be unappealing to you, since the protection is worth nothing to you and you would not pay anything for it willingly. Why give up half your potatoes for nothing?

Let us assume, however, that by some device—though we are not here considering that device—it is decreed that this protection is "necessary"; that it must be provided for the "general welfare." That decree overrules your objection without answering it. And so I become hired by decree. Under this situation we find that wages are still nominally at a level of \$1.00 per hour for both of us. Yet the worth of the wage has been changed. Though nominally the same wage as before, when all the time of both of us was spent raising potatoes, it can't possibly be worth as much as before because we have produced less.

A wage can buy no more than is produced. And under this new arrangement the two of us have produced only half as much as before, or 20 bushels instead of 40 bushels of potatoes. So our wages will now buy only 20 bushels of potatoes—plus protection against the mountain lions, of course. Our wages have in this instance, then, lost buying power in proportion to that part over which there was loss of free choice in spending—half the total yearly wage of our little community. The loss was the amount of forced purchase of a service worth nothing to you.

Nor would this loss of buying power have been eliminated by diluting our money to the extent of the protection cost. This would only have raised prices sharply for the reduced amount of production. No matter what is done to the money, only a miracle can turn 20 bushels of potatoes into 40 bushels.



## *Uncertain Worth of Forced Sales*

An extreme illustration has been given, to be sure. But it suggests clearly the principle that is involved.

Not all services are as worthless as guarding your potato patch against the mountain lions. I might, instead, have offered to pick the bugs off your potatoes. If this de-bugging had produced 20 or more additional bushels of potatoes at a cost of \$50.00—and lacking a way to do the same thing more cheaply—my offer would have been acceptable to you. You would willingly have hired me, because my service would have been worth the cost to you.

My point is that if you are forced to buy certain “goods” or a “service” priced by edict, you are an enslaved buyer. Under these circumstances, what you are forced to pay has no necessary relationship to what it is worth to you. It may be worth nothing. It may, in fact, be of negative worth to you—something you would gladly pay to avoid rather than to have. Or it may, on the other hand, be worth something to you. It may be worth a little bit. Or it may be worth any amount up to the decreed price you are forced to pay. It may conceivably be worth more than the decreed price, rarely and for a few persons.

So in such an instance you can't escape a purchase at a price unrelated to its worth to you. You are not allowed to go without it, nor to produce it yourself, nor to buy it from a more efficient source. This means that the “income” required to pay for it is likewise of uncertain worth. It is worthless because you attach no worth at all to what you get in return. At best, it is income of less worth than any other dollar of your income, which can be spent for what you most want to buy.

## *The Nature of Government Services*

The costs of government are of this type for individual persons in the nation. These costs are all paid with compulsory taxes of one form or another. Since each service is of uncertain worth to any individual person, the income from which the taxes are paid is of uncertain worth to that person.

Government is concerned with governing. It means to govern, to control, to rule, to exercise authority.

Or put it this way: A political government is an agency we set up to govern ourselves. It operates outside and beyond those things we do for ourselves individually, as we voluntarily cooperate with one another in willing exchange and trade.

A political government does not do all the governing, of course. Banks and other businesses have private policemen, guards, and night watchmen. Organizations of all sorts have governing bodies which in some degree govern their members; sometimes these organizations attempt to govern outsiders, too. There is even a bit of governing within each family; witness the posterior pains of childhood.

## *A Monopoly Power*

The distinctive feature of the political governmental body is its monopoly status, its compulsory "sales" to every member of the society. This is not true of most other forms of governing within our society. We may escape them in one way or another. If we do not like the private policeman in one bank, for instance, we can take our business elsewhere. It may be less easy for a child to leave his family, but small boys still go over the hill at times.

Our concern with the matter of governing is its relation to our judgment of its worth. This affects real wages. And that is why the monopoly of political government is of a special type—of special concern.

The total cost of political government in the United States is now about a hundred billion dollars a year. Were you to appraise each part of this enormous expenditure in order to judge its worth to you, as you would your individual grocery purchases or the selection of a necktie, you would find yourself confronted with an almost inconceivable task. For were you to study the things which government does and judge their worth in this way, even at the hasty and superficial rate of one million dollars an hour, you would not be able to finish until well into the twenty-

first century. Besides, since persons do not agree on that any more than they do about the worth of items in a department store or mail order catalog, I don't know just what these things are worth. Nor do you, I dare say. All we can say is that it is a monopoly market costing the average family about \$2,000 a year to be governed. These are service charges we must pay—or go to jail.

It seems certain, then, that the value of our present political government is completely uncertain for any one person and, therefore, for all persons combined. We can't possibly know its worth, so long as a given service remains a monopoly that individuals are compelled to purchase. All we know, for any one item, is that it is still tolerated by a majority of the vocal citizens.

### *Effect on Wage Rates*

One would be remiss not to think of the worth of government when he is appraising the worth of his wages. The part of his wages going for political government today is of quite a different sort of worth from the remainder, which he can spend for objects of his choice and preference. It is quite different, dollar for dollar, from income he can use to buy whatever appeals to him as cheapest and best, among all available goods and services.

Were it not for the fact that the cost of being governed has risen higher and higher over the years, this would not be an important factor in any study of the cause of rising wages. But the cost has risen sharply.

The present cost of governing ourselves (cost of government) is about thirty-one times as much as it was a century ago, per person, and aside from the effects of inflation on dollar costs. Or if we express it in terms of wages, the cost of governing ourselves a century ago took about three minutes of time out of each hour of work; now it takes nineteen minutes out of each hour of work.

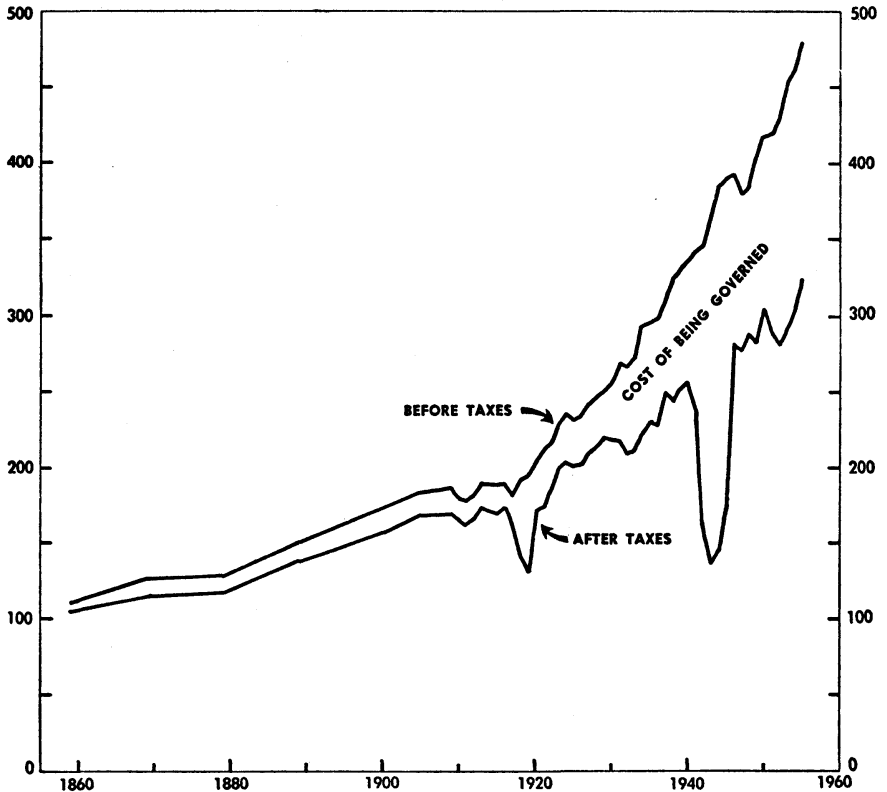
It is noteworthy that the cost of governing ourselves is now a little more than double the entire share of the national product going to those who have saved. It is more than double the total of dividends, interest, rents, and royalties, even in our nation

where these are high because of a fabulous accumulation of capital and savings in various forms.

The effect on wages of the rising costs of government is revealed by the accompanying chart. The inroad has become

### WAGE TRENDS IN THE UNITED STATES

*Buying power before and after taxes*



Source: For wages before taxes, see Chapter 1. The cost of being governed was derived from data on government costs and personal incomes, by the United States Department of Commerce.

alarming over the last half century. It has taken almost half—48 per cent, to be exact—of the increased productive capacity of an hour of work over this period. The increased cost of governing

ourselves has, in other words, absorbed half the increased welfare which improved production techniques have made possible during the twentieth century.

## *Government versus Self-Control*

Let's put it another way. Suppose it were possible, in some way, to govern ourselves with the same proportion of our working time as prevailed a half century ago. Were this possible, the amount of income remaining to the worker for free choice in his spending—his pay after taxes—presumably could have risen at least twice as much as it has. Our increased capacity to produce, if allowed to operate to the full, could have doubled our increase in economic benefits.

In closing, I would emphatically suggest that perhaps the best way to get higher wages now would be to hire out to ourselves individually, so to speak, for more of the job of governing ourselves. That would mean more self-reliance, more self-control, and all the rest. In this way great savings could be made in the drain on our incomes, leaving that much more to spend on things of our choice and preference. This, in effect, is the same thing as a rise in wages.

Those of us who labor for a living might well consider a completely new direction—a new objective—in our bargaining for wages. Since there is no more to be gotten from employers than the slow increase in productivity will allow, perhaps we should start directing our bargaining power at government. Why not govern ourselves more, and thereby be able to keep more of what we are nominally paid?

A dollar saved is a dollar earned.

## 9. Losing Pay through Fringe Benefits

When you can't use your income for things of your choice, its worth is lessened to you.

The greatest opportunity now for a quick increase in the worth of wages is to reduce the cost of governing ourselves so that more of the wage can be kept.

But there is another aspect of free choice in the spending of wages, by which it is possible to raise the worth of wages even further.

The communists-socialists have a plan for society that goes like this: "From each according to his ability, *to each according to his need.*"

This communal blueprint is appealing enough on the surface. Each of us wants to do the best he can according to his ability. And who among us doesn't yearn to have his needs fulfilled? So this slogan sounds like Heaven before the hereafter.

The barb in the bait lies concealed beneath the pleasant dreams of a utopia. For the brutal discipline of reality rules over hopes that can't be hatched.

The catch is twofold. First, as a member of a communist-socialist society you shall not be allowed the privilege of pursuing the release of your abilities at a task which seems best to you. A central authority will decide this for you and for everyone else. He will do this in order to keep a workable ratio between the persons on the stage and in the audience at the opera; in order to have passengers who will ride the trains instead of all being engineers; in order to have someone who will take care of the sewage, and the like. The Commissioner of Opportunities to Work will command you to work at the job of his choice, not yours. You may neither strike nor quit nor change to another job more suited—as you see it—to your abilities.

## *Needs—in Whose Opinion?*

The second catch in this slogan is that your official allotment “according to need” will have no necessary relationship to your hopes and expectations. For it is the central authority, not you, who decides on your needs. And so the Heaven of your dreams turns into a sorrowful reality. Even a child knows this important distinction, such as the difference between the soda he needs and the soda his father proclaims he doesn’t need.

Under communism, the central authority decides whether it is bread or cake you “need.” If he thinks you need boogie-woogie instead of Beethoven music, or vice versa, that is what you will get. The education he decides you need will be acutely attuned to an understanding of the reason why your welfare is supposed to depend on his staying in power. All these “needs” will be decided with a cold, inhuman arbitrariness. Since the Commissar of the Peoples’ Needs never met you—probably doesn’t even know you exist—his decisions can’t possibly come even close to your version of your needs.

And even though the Commissar chanced to know your wishes, his job is to ration acutely scarce things, labeling them “your needs.” Production is low under such a system. And whatever its amount, even with all his power he can’t provide for any needs beyond what is produced, less a heavy handling fee.

Under the communist regime there is another side, too, to this matter of providing for your needs. He will also prohibit you from having what he thinks you don’t need. This, in fact, becomes a main part of his task under the poverty of communism.

## *Compulsory or Forbidden*

A punster once remarked that life in a communist country means that everything not compulsory is forbidden. And in like manner, the communist-socialist slogan should probably be reworded as follows: “From each according to his ability, and keep from each what he does not need.”

Complete and thorough communism has been rare in the

world because it is a highly perishable system. Rebellion constantly arises out of the biological, mental, and spiritual nature of man. So the dictator's policies must be "realistic," i.e., they must be moderate enough to enable him to stay in power. A certain amount of freedom of choice must be allowed.

The less-than-complete patterns of communism which exist in various nations go by another name. They have become known as Welfare States.

We need not look afar to some foreign country or ancient society to find this communist policy in operation, in a lesser degree. We have it in our own nation; in widespread forms and instances. Probably each of us is a victim of some of this same type of authoritarian control that we criticize severely when we see it being practiced in Russia or Britain or elsewhere. So perhaps a little soul-searching is in order.

We need especially to review the growing pattern of wage payments which incorporates some of the same idea—"according to need." There is growing up in our midst what might be called corporate welfare states in miniature, or union welfare states. Their effect on the real worth of wages is what will mainly concern us here.

## *The Total Wage Concept*

In order to see the nature of these miniature welfare states in relation to wages, it is first necessary to recall that there is no way to consume this year something to be produced next year or the year after. This remains a simple truth even in an economy like our own where some persons are employed by others and paid with money wages.

Wages have no worth except as one can buy with them something he wants, including the investment of savings. So no matter what the rate of pay or the form of payment, there is no way to pay wages making it possible to have something this year that is not to be produced until next year or the year after.<sup>12</sup>

The simple economic law that wages follow can be seen most clearly in the life of an isolated pioneer. He has what he can



produce, and no more. His “wages” are limited by the amount of his production.

What is produced is likewise the “total wage” of an isolated communal society, or of a nation having a balance in external trade. Production rules the wage limit even in a society otherwise controlled by an iron-fisted communal dictator.

No matter who cuts the economic pie, it can't be cut into pieces which combine to a total that is more than itself. If cut so that one piece is larger, another piece or pieces must be correspondingly smaller. The only way one piece can be enlarged without penalizing the others is by increasing the size of the pie—increasing productivity and total output.

But we are not here discussing such matters. We are, instead, starting with the assumption that this problem of dividing the total of production in a given year has already been resolved satisfactorily for the individuals involved.

## *Your Share of the Pie*

Now let us look at your share of the pie, the part you have produced. It is yours by rights, because you have produced it. And your employer recognizes and accepts it as yours.

He will let you take what you produce in that exact form, if you so desire. But you don't. Perhaps you make castings for trucks; you can't eat them or wear them yourself. Or you may make caskets; you surely don't want them—at least not more than one, and not yet. Or perhaps you teach; what teacher wants to be paid a wage composed of listening to his own teaching?

So you want to be paid the *money equivalent* of what you produce, not what you produce in fact and in kind. You do not want to peddle the products you make, yourself. You want them to be sold by the specialized and efficient sales setup of your employer, which is much to your advantage. Then the sales price, in effect, becomes your wage.

Let us say that last year you produced products of the average amount for a United States family—about \$6,000 worth. Taxes took about \$2,000, leaving \$4,000 net after all types of taxes.<sup>13</sup>

This money can be spent by you for whatever you want most.

What you choose to buy is not at all the same as the choices of the man who works next to you in the same plant. This can be seen by comparing notes with him as to what, precisely, each of you did with your last pay checks—every cent, even down to the brand of bread you prefer or where you went on your vacation. If any doubt still remains, compare the choices of hats and dresses your wives bought with some of the money. The techniques of mass production and standardized assembly lines do not carry over into what employees want to buy with their wages.

### *I Spend It for You*

Suppose I take your \$4,000 and spend it for you. This means that I shall spend it for what I think you need, not for what you think you need. In other words, I'll probably spend it for the same things I would buy for myself if it were mine, because that is what I am most likely to consider to be your greatest need. I'll have to deduct a sort of commission for my trouble, of course.

What does your \$4,000 become worth to you if I handle it that way? Remember that I am going to subtract a commission for handling its spending for you; then with what is left, what would you pay for what I select for you? The resulting figure—what you would pay for it—is all that your \$4,000 wage would be worth to you under such a plan. That figure can be compared with your \$4,000, which you might have taken yourself to spend for your greatest needs as you saw them rather than to give it to me to spend for you.

Assume, for instance, that you say my purchases are worth only \$3,000 to you. This would mean that a wage of only \$3,000 to be spent by you is as acceptable as \$4,000 which I spend for you. There would have been a \$1,000 loss, or one-fourth of your \$4,000 wage. It means that the real worth of your wage became only \$3,000, instead of the nominal figure of \$4,000. Your share of the pie—the part due you because of your having produced that much—would have shrunk by one-fourth.

## *Fringe Benefits*

*Fringe benefits*, as they are called in prevailing jargon, are precisely of this sort. They have been a major objective of union leadership, and have been increasing more and more over the years. The term has even been adopted by employers, journalists, and essentially everyone else. Yet the term “benefit” implies the opposite of the fact, in most such instances.

What, really, are fringe benefits? They are of two types:

One type of “fringe benefit” is the spreading of your pay, which was earned while working, over periods when you do not work. Let us say that you actually work on the job a total of 1,800 hours in a year—an eight-hour day, five days a week, forty-five weeks a year. You might be paid your \$4,000 of yearly earnings after taxes in one check at the end of the year; or in forty-fifths at the end of each week you actually work; or some other similar way. Or, if you prefer, the total yearly amount could be paid in twelfths at the end of each month, or in twenty-sixths at the end of each fortnight, or in fifty-seconds at the end of each week—including the weeks and days when you did not work. However it is done, the total will still be \$4,000 after taxes.

Some of your earnings may even be paid to you in your old age, after you have retired.

## *A Costly Convenience*

The way you are paid, in this sense, is a benefit to you only as it may be a convenience to receive your \$4,000 at certain times rather than at others. It has nothing to do with how much you are paid. It is not a way to get more pay than you have earned—more pay than the worth of what you have produced—so it is not really a benefit, in this sense.

The other type of so-called fringe benefit includes all sorts of things which became substituted for money pay, which you may spend for things of your own choice. Instead of getting your entire \$4,000 as a money wage, you may get some of it in the form of specified goods or presumed services. All sorts of things

become substituted for money pay. They range all the way from better toilet facilities in the plant to golf courses for members of the families of employees—perhaps even help in building a church of some denomination in the community. It may be more company picnics, or a Christmas party, or insurance of one sort or another, or a pension for old age—all sorts of things.

Sometimes these “fringe benefits” are the result of employee pressure, either through the union or without any union. But often they are initiated by management; a “company plan” is put into effect.

However they come about, “fringe benefits” of this type have one aspect in common. In each instance its cost comes out of the money due you as pay—out of your \$4,000. It reduces the amount left to be paid to you as a cash wage, that you may spend on your greatest need as you see it. It is something that someone else thinks you need.

## *Fringe Detriments*

Most schemes of this sort are not really benefits at all. Employees would be better off, by their standards of need, if they could have the money instead. Then they could buy something worth more to them than any common package, more than any uniform communized “need” that could be devised. Perhaps you don’t want any of your \$4,000 spent on a golf course because you do not want to play golf. Perhaps you do not want part of your \$4,000 used to help build a church of a faith that is not yours. And similarly for other so-called fringe benefits, imposed alike on all employees. You may not want them at all in your current budget, or if you do want them you may not want them under this plan because you may be able to make a better deal elsewhere.

To illustrate, let us say that for every dollar taken out of your income for a “fringe benefit” by someone else’s idea of your need, you get something worth only 75 cents to you. Then it would have been worth one-third more to you to have gotten the dollar instead—for a dollar’s worth of purchases as you appraise

them. For anyone to speak of a loss of 25 cents out of the dollar as a benefit is a strange use of the word, indeed. Rather, it is a *negative fringe benefit*.

My dictionary says that the opposite of a benefit is a detriment. So instead of being a fringe benefit, these kinds of things are really *fringe detriments*. Even then, they are not on the fringe of your welfare; they are as much at the heart of your welfare as any other dollar of your pay.

It is common for these so-called fringe benefits of all types to amount to as much as 10 to 20 per cent of the pay in many corporations now. This amount should be a major item of concern among employees since it is both large and increasing.

### *Little Welfare States*

A friend of mine speaks of them as little, corporate welfare states. And, to be sure, they are just that—if we mean by a welfare state the centrally controlled spending of the people's income for what those in control decide is the need of the people.

A small welfare state is perhaps better than a large one, of course. And it is best to have it where one may move away from its grasp as easily as possible. But an evil small in size and where one can move away from it is still an evil, not a good. It is still of the essence of communism-socialism, wherever and to whatever extent it operates.

So in conclusion, I would say that one way to raise wages is to repeal all these fringe detriments and to set up no new ones; to return full choice, in the spending of the worth of what he has produced, to each individual employee; to give him his wage in the form of money, to be spent on what he most considers to be his need and wherever he can get the best deal.

If several persons want exactly what is offered in the package of fringe detriments, they may still obtain them in the market for goods and services. They may still get the full worth of their incomes in that way, without imposing their desires on all other employees as a "fringe benefit." It is all the others who do not get their dollar's worth. Their income dollar becomes clipped by

these fringe detriment schemes, in a manner like the clipping of the coins by the rulers in days of old—for their personal gain.

The worth of wages can in this way be raised at once, anywhere employers and employees decide to do so. It need not await the slow process of increasing productivity. In fact, this is necessary if we are to gain the full benefits possible under our increased capacity to produce.

### *A Freeze on Opportunity*

And as a final point, these schemes of so-called fringe benefits often are a serious threat to our continued progress. Ostensibly their purpose is to reduce turnover of labor and stabilize employment. But they tend to freeze a worker in his job. He does not leave for a more productive job because he would then lose his seniority status and the “accumulated benefits” which he cannot take with him. So he keeps his “security,” which the union or the company allows him to have only if he stays where he is. He does not follow opportunity where it leads. “Once a coal miner, always a coal miner,” is its effect. This sort of freezing tends back toward the old European caste system, and could bring an end to the traditional American growth of welfare and increasing wages.

So “fringe benefits,” rather than coming from pie in the sky, come out of wages—out of what could be paid as money wages. And furthermore, they comprise a serious threat to our progress.

## 10. Leisure and the Better Life

In the previous chapter two types of so-called fringe benefits were discussed—taking some of one's pay to buy things he may not want, and paying him when he does not work.

One type is not a benefit at all for most wage earners; it is a detriment instead. Part of one's pay is taken to buy something he does not want at the price. Under a centrally controlled plan, which follows the communist-socialist ideal of "to each according to his need," all employees of one corporation or perhaps all members of one union are forced, by a deduction from their wages, to purchase a certain item whether they want it or not. Their "need" is determined by someone else, not by the wage earner himself. And when the purchase is not his own preference, the worth of his wage is reduced that way.

The other type of so-called fringe benefit does not affect, in this sense, how much one receives in total pay. It affects the time when he receives the pay due him. He may receive it either more or less frequently. He may receive a part of it during periods of idleness, rather than all of it when he is actually working. In the sense of his total wages, this is not a monetary benefit to him; it is at best a convenience.

One benefit we all seem to yearn for is idleness—all we can get of it. But do we, really?

Surely we do not want unlimited inactivity. Even in sleep one is uncomfortable if he cannot move and turn about now and then. If a thoroughly well person is hospitalized and forced to be inactive for a day or two, it is said that he would feel about as ill as one who has had an operation. He quickly absorbs his fill of idleness, and wants to make a break for freedom.

So it is not really inactivity we want, in our yearning for more leisure. It is, instead, our desire to be active at something other than our regular activity. We want to be free of what we are currently obligated to do, in order to do something else for a change.

The truck driver wants leisure to get off the road; perhaps he

wants to spend a few quiet days at home. But a telephone operator or a watch repairman yearns for leisure so he can get in a car and spin down the road.

The farmer wants leisure to go to the city. The city dweller wants it to go to the country.

The coal miner wants leisure for a plane trip. The plane pilot wants leisure to avoid one.

A hired ballplayer wants leisure away from the game so as to be able to get back home on his farm. The farmer wants leisure to play ball at the picnic.

What most persons do with their leisure costs them money. Yet they probably are paying for the privilege of doing something that someone else gets paid for doing regularly for his living. Two persons might even pay a vacation expense direct to one another for reversing their regular activities.

## *Welfare and Leisure*

As recently as a hundred years ago in this country, as elsewhere in the world over most of its history, a person had to work hard during most of his waking hours in order to provide himself with the food and protection required to keep alive. A hundred years ago in the United States, for instance, the “work year” was a little over 3,500 hours on the job, out of the total of 8,766 hours in a year. Practically all of great-grandfather’s leisure hours were needed for eating and sleeping.

With our present advanced productivity, one could probably maintain himself at the level of bare subsistence with the income from as few as 200 hours of work per year.<sup>14</sup> This would provide an extremely humble existence, to be sure, without many things we have come to think of—falsely—as absolute necessities.

We now work 2,000 hours, or a little less, per year rather than these minimal 200 hours. We do this in order to have many more economic things to enjoy, beyond the level of strict necessity.



## *Choice of Leisure versus Things*

This increased capacity to produce above the starvation level of existence allows people to choose over a wide area between more things and more leisure. This increased productivity gives us the choice of either working more hours and having a multitude of luxuries, or having almost complete leisure at the starvation level, or some mixture of luxury and leisure.

After you have worked 200 hours a year barely to protect yourself against starving, you can afford to wonder what you will do with the next hour—the 201st hour. Probably you will want to continue to work for better food and other economic things you want to enjoy. This is because you have more desire for these things than for the leisure, at this point.

In the 202nd hour probably you will work for still more things, because leisure still has less appeal to you than more things. This would leave 8,564 other hours in the year that could be devoted to leisure.

Moving on up the scale of working hours, a point is finally reached where more work and more things become less appealing than more leisure. So you begin to take a little more leisure. Eventually a point will be reached when almost all the next hour will go for leisure, because it finally comes to have more appeal than does greater material welfare.

## *Variations among Men*

Persons differ widely in their choices in this respect, of course. The “lazy” person likes leisure so much that only dire necessity or some sort of threat will cause him to bestir himself for much work, because of his high susceptibility to the lures of leisure. Some persons, on the other hand, have strong fortitude and rigidly discipline themselves to purposeful work. They will keep at their work far beyond the starvation level. A few rare persons may even work as many hours as their ancestors did, though their total economic reward would keep 20 or 50 or 100 persons alive.

These are the pleasant choices we have as a result of our present high productive capacity. They are choices between more total income and more leisure which each person may test on his scale of values.

Our incomes per year could have risen even further than they have up to now. But leisure has been chosen in preference to some of the luxurious living that would have been possible with more hours of work. To observe this is not to criticize the choice, since leisure is—in a sense—a form of wage and should be thought of in this manner.

### *How Much Leisure Chosen?*

There has been a considerable increase in productivity from each hour of work since 1855 (see chart). At that time the average work week was about 70 hours.

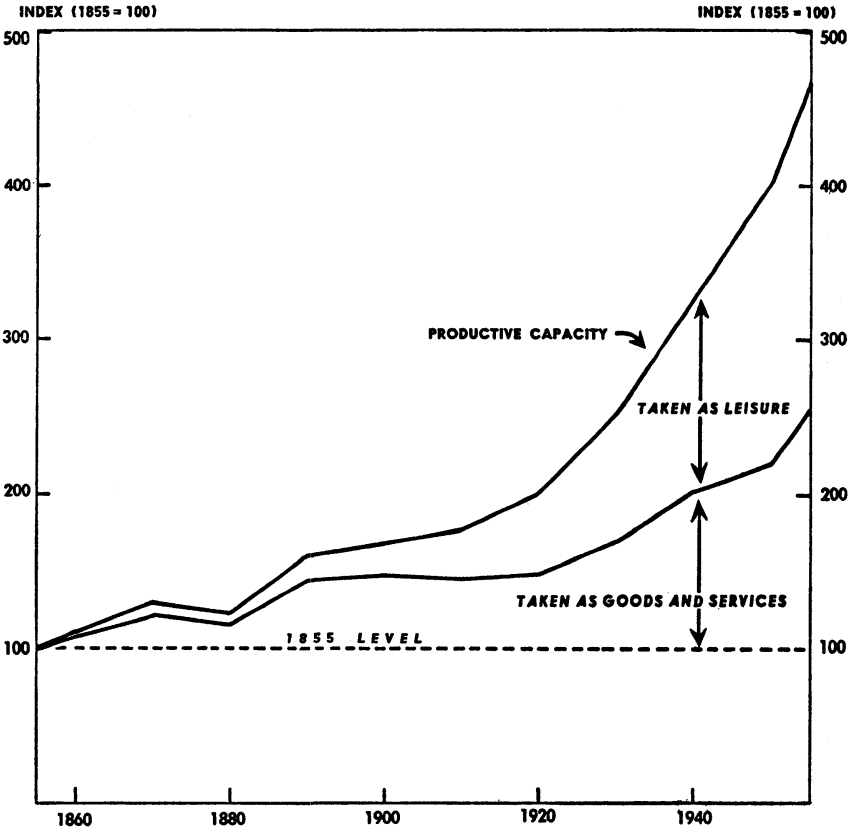
If we were still working 70 hours a week with present productivity, the total weekly income would have increased the same as the great increase in hourly productivity. But instead, the work week has declined to about 40 hours.

This means that as compared with a century ago, three-fifths of the benefits from increased productivity have been taken in the form of leisure and only two-fifths in more sumptuous living. This presumably reflects, in a rough way at least, something about people's preferences for leisure versus the luxury of more goods and services.

In the middle of the period around the turn of the century, when productivity was increasing slowly, most of the increase was taken in the form of leisure.

The change is what one might expect. The higher your material living, the more you will probably listen to the appealing call of leisure, taking more and more of your rising wage as the "wage of leisure." Or if you don't take more leisure, having become fixed in your habits of work, your children probably will adjust the family tree to the times.

*LEISURE AND BETTER LIVING*  
*The Fruits of Greater Productivity – United States*



Source: Derived from data on productivity, Chapter 1. *America's Needs and Resources* by J. Frederic Dewhurst, The Twentieth Century Fund, page 695.

### *Unions and Leisure*

Most labor union officials claim to have attained the shorter work week for workers in the United States. This is a questionable claim indeed.

Union membership now includes little more than one-fourth of all gainful workers.<sup>15</sup> This one-fourth has little if any direct control over the hours of the other three-fourths. And the 40-hour week is widely accepted outside the unions, as well as inside the unions.

The strength of unions and changes in their membership do not justify these claims of having obtained the short work week (see chart). The greatest movement toward taking more of the increased productive capacity in the form of leisure was in the third of a century prior to 1920. Unions were then unimportant, whether measured by membership or by their power over non-members.

Up to the late thirties—except for a couple of years right after World War I—union membership was never more than about 10 per cent of all gainful workers. And before the turn of the century their membership was negligible.

The shorter work week of recent decades, when unions have been most conspicuous, is merely a continuation of the previous trend. All the evidence indicates that a shorter and shorter work week would have happened in the absence of unions, simply because persons have always evidenced a choice of more leisure when they can afford it out of a higher productive capacity. So the shorter work week would have come anyhow, with or without unions.

One cannot know for sure, of course, what the length of the work week would now be in the absence of unions. But let us assume that in the absence of unions we would now be working more hours—that unions have, in other words, reduced the work week beyond the free choice of individual workers. If that were the case, the attainment would amount to a disservice to the wage earners. For we would then have to conclude that the workers, under union pressure, have been forced to accept leisure—fewer work hours—instead of their preference for somewhat more hours and increased buying power.

## *Unionized Unemployment*

Unemployment prevails where a person who wants to work

for the wage an employer is willing to pay is prohibited from doing so by some outside power. So fewer hours than wage earners would prefer of their own free choice amounts to the same things as forced unemployment.

Thus, the unions' claim of credit for attaining the short work week is either false or foolish. At best, it is hardly something in which to take pride, so far as its effect on the victims is concerned, because it amounts to having caused partial unemployment every week—*unionized unemployment*, we might call it.

## *On Vacations with Pay*

Among various patterns for leisure, vacations with pay are popular as a supposed benefit to the employee. They are sometimes the object of bargaining by employees, granted reluctantly by the employer. And sometimes they are offered initially by the employer as an act of beneficence.

For the purposes of our concern here, we shall leave aside the question of whether or not a person really needs a vacation—and how long a vacation—from the standpoint of maximum productivity and happiness. We shall assume sufficient leisure for that purpose has already been reached, and that the question now under consideration is an extended vacation beyond this point. Perhaps the employer thought it up as a “fringe benefit” to be given to his employees out of the goodness of his heart, so to speak. So he decides to grant an additional week's vacation at Christmas time, this year and in future years.

Imagine an employer's probable amazement upon receiving from a sharp-thinking employee a note like the following:

Dear Employer:

I have just noticed on the bulletin board that you are granting us an extra week of vacation at Christmas time, with pay. Thank you for your good intentions. But I sincerely request that you rescind your action. And I'll tell you why.

You and I know that you can't pay us for not working during that week, except by taking from our pay for the other weeks of the year. It has to come out of what we earned in the other weeks of this year. And in coming years it will have to come out of what you could pay us in the

other weeks of the year in lieu of this week of vacation.

So when you say it is to be a vacation with pay, you are being misleading. What you must really mean is that it is to be a vacation without pay, but that we will be given some pay in that week for work done earlier in the year and already due us—held back at that earlier time, so as to be available to pay us during this week of vacation.

Or look at it this way: If we were to work that week instead of vacationing, we could produce about 2 per cent more in the year than if we didn't work that week. And if we worked, you could pay us about 2 per cent more for the year than if we didn't work.

So, really, this is a *vacation without pay* rather than a vacation with pay, so far as the year's total pay is concerned.

I for one am sorry you are doing that to us. You no doubt have been overcome by this so-called "spirit of Christmas." But my family needs the extra \$75.00 of income more than I need the extra week of leisure. As it is, we have hardly enough to buy Christmas presents for the children anyhow, after paying our taxes and meeting all our other bills. We need the extra \$75.00 for Christmas, not a week of unemployment. Then we can help Santa a bit with his gifts for our children at Yuletide.

Please reconsider this fringe detriment—this partial unemployment—you have imposed upon us.

Sincerely yours,

*Employee*

This type of analysis of vacation benefits will apply equally well to many forms of partial unemployment "with pay." It is clear that there can't be idleness with pay unless there is at some other time an equal amount of work without pay. "Vacations with pay" are an accounting device only. They are really vacations without pay, no matter when and how the pay checks are arranged during the year.

## *Looking to the Future*

If the uptrend in our productive capacity continues as in the past, we shall be able to continue to choose between more leisure and more economic things. How far leisure may eventually go, we have no way of knowing. Automation and atomic power hold untold possibilities of this sort, unless a loss of liberty should terminate progress.

One can see in the future, however, a great and increasing problem of what is to be done during increasing leisure, as we can afford more and more of it. Looking toward a better life and a more peaceful society, we can surely see how leisure may tend to erode both virtue and wisdom. We can surely see the danger of a serious leisure-disease developing among mankind, a disease which work formerly restrained. For work apparently has some sort of therapeutic quality so far as virtue is concerned. And its substitute under leisure seems not yet to have been found.

For instance, in my files is evidence from capable authorities pointing out that the shorter work week is an important cause of crime; how leisure puts many of its victims into penitentiaries where they must be cared for and serviced at a cost to be borne by people who have done no wrong in this instance.

Evidence in my files also indicates how certain authorities assert that compulsory unemployment devices, such as child labor laws coupled with required presence in school buildings during teen-age years, are important causes of juvenile delinquency.

Mental problems of all sorts, too, may in some important degree be the product of increasing leisure.

The paradox of all this is that it may be the problems which leisure brings that will, in the future, offer unlimited opportunities for work in solving them.

So in conclusion, increased productivity has gone more and more into leisure in preference to a more sumptuous life. As a result, yearly wages are not nearly as high as they could be if we had not prized the leisure more, if we had not chosen it instead. But once having made the choice this way, leisure itself creates serious problems which are suggested without being resolved.

# 11. Pricing an Hour of Work

The general level of real wages is determined by what is produced. Inflating pay beyond this point raises prices but does not raise the worth of the wage in buying power. Unions, with all their political and other power, cannot veto the iron ceiling that production sets over real wages.

The lone pioneer's desire for some meat, some wheat, or a log cabin is the incentive which drives him to produce. Anticipating his future wants, he produces in advance, like a squirrel which gathers and stores nuts for winter. And in anticipation of years of future use, he makes himself some tools to aid in his labors and in the enjoyment of living.

Then having produced these things, the pioneer is his own sole market. In this situation there is no pricing problem because there is no money and no exchange. Nothing remains unsold as a result of the seller setting his price too high.

## *Production Creates Own Market*

But we are not lone pioneers. We live, instead, in a complex economy. A person usually produces a specialty, selling most of it to many persons and buying his varied needs from many other persons.

Even so, the over-all situation is the same as for the lone pioneer to the extent that no more can be bought than is produced. Despite the fact that some goods and services are exchanged for others, and despite the fact that money may be used to facilitate these exchanges, what is bought still equals what is sold. Just as in one exchange the buying equals the selling because the same item sold by one person is bought by another, so likewise for the total of all trade in a complex economy, all buying equals all selling.

And this leads to the unavoidable conclusion that *production creates its own buying power in a free economy*. Sales equal purchases and purchases equal sales, in total for all trade as for a single



trade. Only if the market is not free, only as freedom to trade is interfered with, is this not true.

## *The Function of a Free Price*

The function of a free price is to accomplish in a complex economy of exchanges what the lone pioneer accomplishes in his separate existence—the production of what is wanted of each thing, and no more, insofar as is possible. The function of price is to discourage production of unwanted items and to encourage production of what is wanted, to the extent that wants can be anticipated and production plans can be carried out.

The lone pioneer has his own troubles in this respect, of course. Perhaps the fishing is not as good as he had expected, or the weather not good for the corn. Perhaps in winter he changes his mind about what he wants, wishing he had provided more venison and less corn. Or perhaps his wife wishes the cabin had been fixed up a little, even if it had meant less hunting. Or perhaps too much food was stored and some of it spoiled. What does he do then? He just blames himself for his lack of foresight and adjusts as promptly as possible.

In a complex economy, similar events occur. But one person can blame another more easily for not having foreseen the weather, or for the change in his wife's wants, or something of the sort. But the objective of everyone in a complex society should be the same as if he were a lone pioneer—to adjust as promptly as possible and go on with production and living.

That is the task performed by prices that are free. The accompanying chart on the effects of price freedom shows how this takes place, and how an unfree price prevents adjustments in economic living.

The two simple ideas behind this chart are these:

1. Less of a thing will be wanted at a high price than at a low price, progressively.
2. More of a thing will be produced in anticipation of a high price than of a low price, progressively.

From these two rules it can be seen how the quantities available

EFFECTS OF PRICE FREEDOM			
If the price is fixed at	wanted	offered	traded
50c	1	5 SURPLUS	1
40c	2	4 SURPLUS	2
30c (= free market price)	3	3	3
20c	4	2 SHORTAGE	2
10c	5	1 SHORTAGE	1

and the quantities wanted operate like the two ends of a seesaw. A rising price pulls down the “wanted” end and pushes up the “offered” end. A falling price pulls down the “offered” end and pushes up the “wanted” end.

Only when the seesaw is on the level, at the point of the free market price, will there be equality between what is wanted and what is offered. And this is the only sort of equality that should ever be given any economic merit. When individuals are left alone, free to buy and to sell what they wish at the price determined solely by the owner-traders of each item, this equality will

operate just as water seeks its own level. No superplan is needed to force prices either up or down to this level. Price will find its own level through the innumerable decisions of individual buyers and sellers.

What any outside force does to prices is to push them either above or below this point of equality. The agent who applies the force is always an outsider to the deals of trade, someone who owns neither what is being sold nor what is being traded for it. He is an economic interloper, with or without official title of some sort.

Forcing the price above the equality point creates surpluses. The higher the price is pushed, the greater the surplus. And forcing the price below this point creates shortages—more and more shortages as the price is pushed down more and more.

Two forces operate to create a surplus as prices are forced above the free market point—consumers want less and producers bring out more. And conversely, these two forces both operate to create a shortage as prices are forced downward.

And finally, as to the function of a free price, it will be noted that trading will be greatest at the equality point, a free price. Either above or below that point trading is lessened, either because things are not wanted at a higher price or because they will not be produced and made available at a lower price.

So if we accept the fact that economic welfare is at its best when willing trading is at its greatest, we must also conclude that economic welfare is greater at the free market price than at any other point. If prices are forced away from the point of the free price in either direction, that destroys economic welfare.

## *Wages Are a Price*

The purpose of discussing the function of price in this detail is because a wage is a price, too. It is the price of doing work, just as the price of a bushel of wheat is the price for that embodiment of economic service. In both instances the owner—in one case the owner of the wheat and in the other case the owner of his own time and effort—is entering the market with something to sell.

And buyers who want either the wheat or the work enter the market to buy and thus satisfy their respective wants.

The laborer as a person is not a commodity in either instance, but the time of one and the product of the labors of the other are items of sale—both in a like sense.

A worker may work for himself producing some product he sells on the market. Or he may sell his productive services to another person, who in turn sells the product on the market. Or he may work at some task like that of a household servant.

Since wages are a price, they are subject to all the rules of prices and pricing, the same as anything else. All that has been said about the function of price applies to wages the same as to wheat. There is a point of equality at the free market price where the supply of labor and the demand for labor find a balance. And there is no other point of wage-price where this is true.

As wages are forced either above or below the free market point, there will be created either a surplus or a shortage of labor. And there will be less employment either above or below the free wage point—less labor traded—to the extent that higher wages discourage those who might want to employ help, whereas lower wages discourage people from wanting available jobs. In one direction from the free price, employers offer fewer and fewer jobs; in the other direction, fewer and fewer persons want jobs.

## *Bargaining for a Wage*

Bargaining over wages should have no other purpose, in terms of economic welfare, than to find the free market price for the labor involved. For that is the only price of labor where there is economic equality. It is the only price of labor where employment will be at a maximum.

How can one know whether the free market price has been found? So far as I can see, this can be judged for sure only after the fact, on the basis of the consequences. Let us first look at the pricing of some other product.

Suppose you are taking your sweet corn to a consumer market

to be sold. You guess where the price should be set for it, and start selling at that price. If at the end of the market day you have some corn left unsold, you will know it was priced too high. And if you could have sold more at the price you set, you know that it was priced too low. How else could you know for sure where the right price was? Note that this has nothing whatever to do, precisely, with what your wife—the bookkeeper—said it had cost you to produce the corn—a figure that might be above or below the free market price.

It is the same with selling your labor. If other employers want you at the price you are getting, or perhaps more, your price on your services is too low. If, on the other hand, nobody wants you at the price you ask, your price is too high. And here as with the price of sweet corn, this figure of a free-price wage for yourself has nothing to do with the cost of producing you; it doesn't even have anything to do with your cost of living, which you adjust to your income rather than vice versa.

## *Unemployment*

When wheat is priced above the free market level, the accumulation that is unsaleable at that price is called a *surplus*. When the comparable situation arises among the working force of a nation, we call it *unemployment*. This refers to the labor—perfectly good labor—which is going unsold at the wage-price.

I would define unemployment as *involuntary leisure of a person who is willing to work at the free market price*.

The only way there can ever really be a surplus of labor, unwanted at the price, is by some sort of force being used on wages to keep them above the free market price. It couldn't happen otherwise. For it seems fair to say that if I don't want to work at the best price the highest bidder for my services is willing to offer me, I am merely preferring idleness to work. And if I thus prefer idleness to work, I am not really an unemployed person. My situation is best described by saying that employment is just not an object of my yearning, sufficient for me to merit the use of the label "unemployed."

## *A Willing Worker*

To illustrate differing ideas about this problem of unemployment, let me cite one incident. The French scholar Bertrand de Jouvenel once told me of his coming to the United States for the first time in the early thirties. He had heard of the tremendous unemployment here, and was greatly concerned about his future, for when he landed in New York he had only eleven cents in his pocket. Yet he quickly found work, in a land where about one-third of the “gainfully employed” of this country were at that time “unemployed.” He took a job washing dishes in a restaurant at the wage being offered. He considered the United States in the early thirties to be a land of opportunity.

Jouvenel would probably say, with some justification, that if I were to decline to work at the free market level of wages—whether under the pressure of my government, as in the thirties, or under the pressure of the labor union—I should more accurately be described as suffering from power-enforced leisure rather than unemployment. For voluntary lack of work is not involuntary leisure—not unemployment as I have defined it.

Despite this, however, we shall be using the term unemployment hereafter in the conventional sense, to refer to persons among the normal labor force who are not, at the time, working.

## *The Demand for Labor*

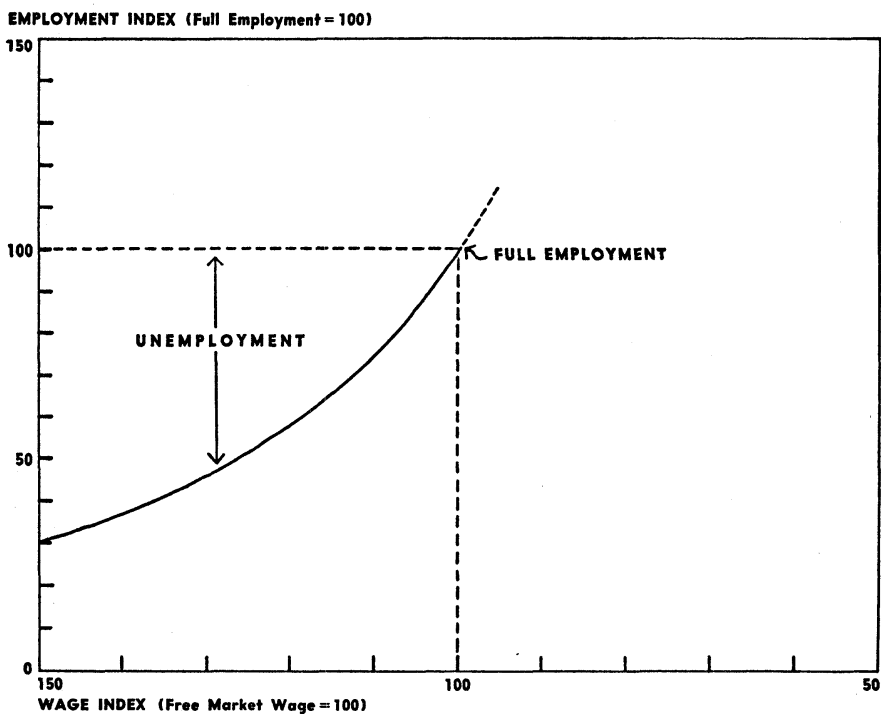
The demand for labor is not a fixed thing. There is not an unchanging number of persons wanted for work. The number demanded depends on the wage. I do not, for instance, happen to employ even one person around my residential property. The price of labor available there is too high for my need of work to be done. But at a lower price for doing work, I would hire one person; at a still lower price, perhaps two persons; then three; and so forth.

Some commodities have a type of demand which we call “unity,” where one per cent more of the commodity is wanted after the price is lowered by one per cent. And vice versa.

Apparently the demand for labor is not of this one-to-one ratio. Two noted students of this subject who have studied it carefully—Douglas in the United States and Pigou in Britain—both arrived at similar results.<sup>16</sup> A consensus of their conclusions puts the demand for labor at something like three or four to one. That is, a decline of one per cent in wages would uncover new jobs for 3 or 4 per cent more work. And vice versa.

This idea is of tremendous importance to economic welfare, especially under conditions which threaten a depression. I do not know for sure that this 3 or 4 per cent is the correct figure. But whatever the exact figure, it works in the same way. The difference is only in the rate of response, in new jobs available at differing wages.

*WAGE LEVEL AND UNEMPLOYMENT*  
*at Demand Elasticity of -3*



Let us take these Douglas-Pigou figures, leaning a bit on the conservative side of their conclusions. Let us say that the figure is 3 per cent. What would this mean when applied to real life?

The accompanying chart of the wage level and unemployment shows how unemployment and the wage level are related on this three-to-one basis.

At the free market wage of 100 (base scale) there is full employment—no unemployment. Everyone who really wants to work has a job.

Now assume that wages are to be forced above the free market level (moving leftward from 100, on the base scale). Employment declines—unemployment increases—at a rapid rate, according to the factor of three. Starting from whatever level one wants to consider, a one per cent rise in wages will reduce employment by 3 per cent.

Wages about 10 per cent above the free market price would mean unemployment of about one-fourth of the working force.

If wages were to go up about 26 per cent, it would unemploy about half the working force.

## *Too High a Price*

How can we tell whether the price of work at a given time is too high? All we have to do is to look at the unemployment figures, assuming the figures to be accurate. Or one might ask people who are not working whether they have turned down jobs at the price offered, or whether they are out of work because they couldn't find any jobs at any price.

Moving in the opposite direction of wages below the free market price (rightward from 100, on the base scale) results in the opposite tendency. More and more people are wanted for work. But since there is full employment at the free market wage, reductions in wages from that point can cause "negative unemployment" only under special conditions. New persons not normally in the working force may be pulled into jobs at a wage below the free market point if they can be induced to do so under the urgency of war, or something like that.



Overfull employment seldom happens except in wartime, for two reasons. One reason is that wages tend quickly to bounce upward to the free market point, there being no potent and effective force in the nation to hold them below that point for long. This is because wage earners are voters, and they do not form unions to keep wages below the free market point.

The other reason why "negative unemployment" does not last long is that the labor statisticians soon conclude that their count of the working force must have been wrong before. So they revise their figures in such a way that full employment is not exceeded, according to the newly revised statistics.

Such is the problem of pricing work in the market for labor. Such is the function of freedom in wages.

## 12. Riding the Waves of Business

In pricing one's work, wages are subject to all the influences and characteristics that affect any other price.

Price has an important function to perform. It equates the wanting of things with the supplying of things. The two are in balance only at the free market price. Any other price, either higher or lower, causes a surplus or a shortage; it reduces trade; it penalizes economic welfare. And in like manner, if the price of work is too high, it causes a surplus of labor—"unemployment."

### *A Powerful Force*

When one first thinks about the price for work as having a three-times power over employment, it may seem hard to believe.

Looking at only one job, it would seem to be filled or not filled completely. So what does it mean to say that a raise in the wage rate by one per cent causes a 3 per cent layoff of workers? But for the country as a whole it works out that way. New jobs of all sorts are found when wages go down. But when wages go up beyond the free market point, some jobs close down completely and others close down part of the time.

To see how this works, one must look at an entire economy like a nation and not to one little spot like only one job. He must look at the entire market of jobs available at the different prices.

That is what students of the subject like Douglas and Pigou have done for us in their studies. Both of these authorities found that each one per cent higher wage, from the point of a free market wage, will dis-employ 3 per cent or more of the workers.<sup>17</sup>

### *Wages and Total Income*

Even a child knows that the higher his wage the more will be his income—except that it isn't so. This would be true only if one

could keep his job at the higher wage. If it were true that I could keep my job anyway, then an infinite wage would seem to be the ideal. The trouble is, however, that jobs are lost three times as fast as wages are raised.

This being true, the highest income is to be found at full employment.

Let us now assume that I change my wage and take the changing employment at my own job. As I raise wages above the free market point, I do not lose my job completely; but I will have to take my share of the loss of work that comes from an excessive wage. As my wage goes up, my job will have to be shortened more and more, by the proportion Douglas and Pigou found to apply.

If we assume that I work 1,800 hours in a year at \$2.00 an hour, this is the way my income would work out:

<i>Wage rate</i>	<i>Approximate hours of work</i>	<i>Yearly income</i>
\$2.00 (The free market wage)	1,800	\$3,600
2.20	1,350	2,970
2.40	1,044	2,506
2.60	828	2,153
2.80	666	1,865
3.00	540	1,620

So my income for the year declines as wages rise above the free market point, for the simple reason that the work I lose more than offsets the gain in rate per hour. For instance, in the rise from \$2.00 to \$2.20 there is a loss of 450 hours of work at \$2.00 (\$900 loss); this exceeds the gain of 20 cents an hour on the 1,350 hours (\$270 gain). So the net loss is \$630 for the year.

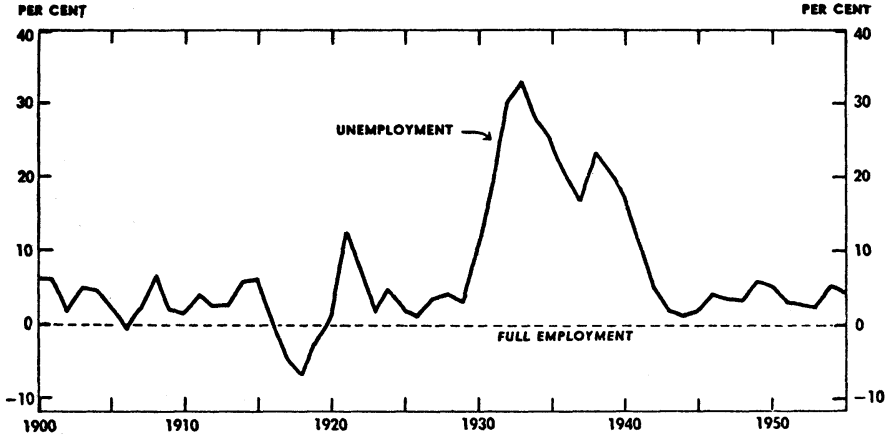
## *Experience with Unemployment*

How has this idea worked out in actual experience?

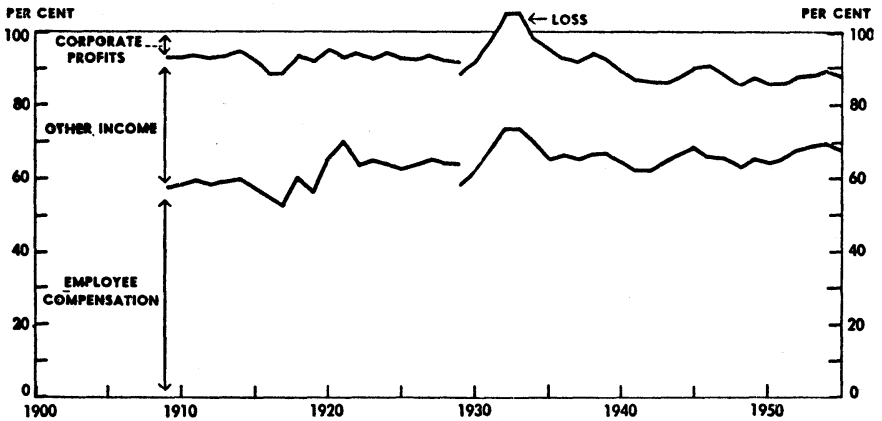
One cannot know the actual free market wage for a nation, of course. There are innumerable jobs and innumerable skills. There is really a free market wage for each person, and therefore millions of free market wage rates for different persons and different jobs.

Perhaps the best way to see how wage rates compare with the free market rate is to measure the surplus of labor unsold in the

*UNEMPLOYMENT*  
*As a Percentage of Employed Persons*



*SHARES OF NATIONAL INCOME*



Source: United States Department of Commerce; *The Economic Almanac* of the National Industrial Conference Board; *Economic Report of the President*, January 1956.

The earlier series was discontinued in 1929, and replaced with the new series of the *National Income Supplement, Survey of Current Business*.

labor market. In other words, despite all the faults in such a statistic and all the perplexing problems of arriving at a figure, the number of persons unemployed is probably the best reflection of excessive wage rates.

During the first three decades of this century, unemployment seldom was more than a few per cent of the numbers at work (see chart). It was usually no more than those persons moving from job to job, or temporarily out of work for some reason other than lack of an available job. The year 1920 was one clear exception, at the time of the postwar collapse in prices. Nor has there been more than the so-called normal unemployment during the years since World War II. In both these periods, then, wages were apparently in line with the free market almost constantly. If they got out of line, adjustment was so rapid that unemployment never became a sustained problem to any extent or for long.

From 1930 to 1941, on the other hand, unemployment rose to a tremendous height—to as much as one-third of the number employed, at the peak in 1933. This indicates that there was a serious overpricing of wage rates during the 1930's.

Wages need not be far out of line on a percentage basis to cause even that degree of unemployment, however. On the basis of the three-to-one leverage, for instance, a wage rate only about 10 per cent too high could have caused that much unemployment.

## *The Danger of Controlled Wages*

It is clear from this evidence that the conclusions of Douglas and Pigou as to the elasticity of wages found confirmation in the tragic experience of the 1930's. It also shows that those who play with wage rates at the bargaining tables are toying with dynamite, not only as it endangers the worker's job but also his yearly income.

It is clear, too, that those who play politically with wage controls are also playing with dynamite. The bitter experience of the thirties illustrates their chronic tendency to play their hand upside down, to the disadvantage of the presumed beneficiaries. Believing that nobody could want their income reduced, they

use their power to the full to prevent wage rates from dropping. And the “buying power” theory comes to their assistance at such times, by which it is argued that incomes must be kept up if consumers are to be enabled to buy back the things they have produced.

But keeping income up is not the same as keeping wages up, as we have seen. Incomes move down as wages move up from the free market point.

### *Why Depressions Disrupt*

What happens, then, under conditions like those of the early thirties? At the outset, for reasons we shall bypass here by merely saying that the trouble begins with “monetary causes,” the money supply starts to shrink. This causes prices to decline, because less money leads to less price. If absolutely every form of price were to drop by the same amount, no serious harm would be done. Everything would then retain the same relationship as before to everything else, and business would go on about as usual except for the task of changing price tags on things, and such as that.

But prices do not all decline by the same amount. Our concern here is with wages, which fail to drop along with other things. Since they comprise three-fourths of total personal incomes, the serious effect of excessive wages becomes extremely great on the economy as a whole.

Wages are to a considerable extent under future contract. Even without a contract, wage reductions are resisted strongly, even though with lower prices the lower wage would buy as much as before.

A wage that is supported at its former level when other prices are declining is the same as a wage increase when other prices are remaining the same. And so in a depression like that of the thirties, supporting wages at their old level puts them above the free market level, just as if they had been pushed upward arbitrarily when prices were stable. The result is unemployment—three-to-one unemployment.

Politicians and business executives also arrive on the stage at about this time to lend their “help.” They also try to hold wages up. This is precisely the wrong thing to do. It merely makes matters worse, like doing something to maintain the blood pressure of a person with high blood pressure.

All in all, “help” at such times is dangerous. Controlling wages amounts to threatening the life of the patient, who would quickly recover as he always has done in the past when left to resolve his own problems—if he is free to continue to work at the best price a free market will offer him.

## *Profits and Unemployment*

In his surplus value theory, Karl Marx maintained that profits infringed on the welfare of the worker and should be reduced to zero.<sup>18</sup> The conflict between this theory and the truth, as shown by experience, is revealed by the chart on unemployment and shares of the national income.

In two of these years the surplus value objective was attained, so far as corporate profits are concerned. And in those years the number of persons unemployed rose to a third of the number employed. This was a high price to pay for an extra wage rate of 10 per cent—or whatever the figure was—as an average for those fortunate enough to have work. The price was especially high for those without work.

The agreement between changes in profits and changes in employment is not exact, of course. But the similarity in a general way is clear. It definitely disproves the surplus value theory. Not only is the theory wrong, it is precisely upside down—at least when wage rates are pressing profits toward total disappearance, as in the 1930's.

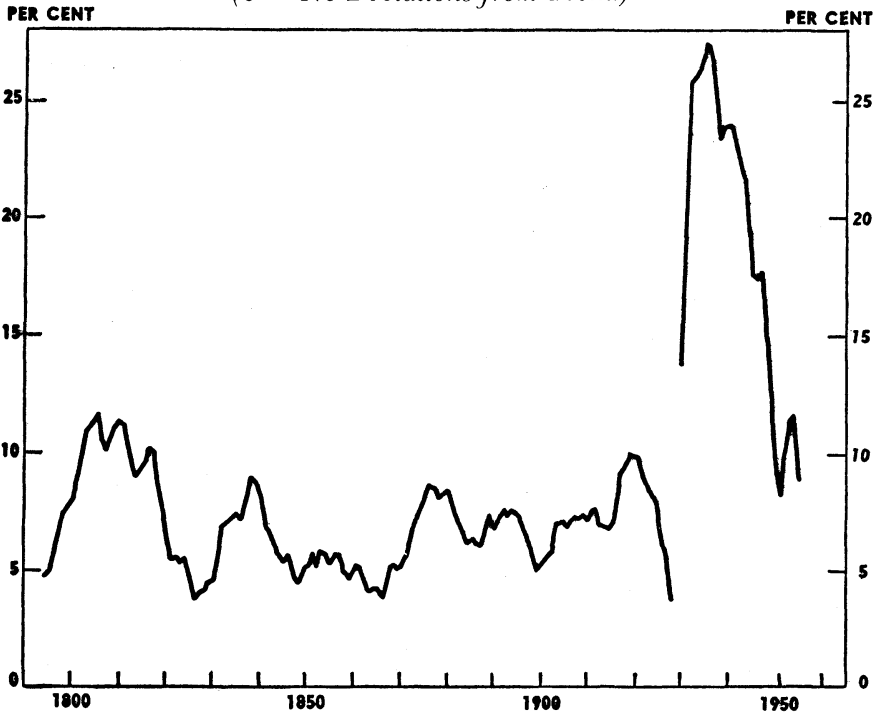
## *Sweeps of the Business Cycle*

The notion persists that business swings upward and downward with more or less regularity, and that this is inherent or inevitable under private enterprise. It is also believed that these

swings have been getting worse as we have proceeded into a complex economy since the industrial revolution.

This latter notion is a favorite argument of persons bent on socializing this nation, especially those of political inclination. They say that as our economy becomes more complex—more integrated, more urbanized, more specialized—more and more of it must pass from personal ownership and control and be brought under the wing of the government. The reasoning sounds impressive, because the increasing complexity of our economy is perplexing to anyone who tries to see it all at once. But is it a fact?

*INSTABILITY OF BUSINESS*  
*Moving Average of Variants from Trend*  
*(0 = No Deviations from Trend)*



Source: Derived from the monthly figures on business activity, The Cleveland Trust Company.



The chart showing instability of business indicates this to be untrue over the history of the nation. But first a word of explanation about the design of the chart.

The base line of zero indicates a point of no deviations of business from the upward trend of increasing output—more people and more productivity, over the years. Zero represents unwavering stability, with business running smoothly along the trend of its growth.

The percentages above zero, rising vertically up the scale, represent increasing instability of business. These are the percentages by which business fluctuated around the trend—either above or below the trend, with both considered to be unstable by this measure.

A completely stable business would, then, run along the zero line. At 2 per cent there would be indicated fluctuations in business with a divergence from the trend averaging 2 per cent. And at 4 per cent, twice the average divergence of the 2 per cent point. And on up the scale.

From 1795 to 1928 the average instability was 7 per cent. This means that for the entire period a best guess of the level of business in any month would be 7 per cent away from the trend, either above the trend or below it.

## *The Myth of Instability*

In general, over the period there was no distinct increase in the instability of business. There were recurrent depressions and boomlets, but these were quickly corrected—short-lived, in almost all instances. If anything, business over this century and one-third was becoming more stable rather than less stable; this was certainly true up to the middle nineteenth century. And except for the effects of World War I, there was no evidence of an increasing instability of business even up to the depression of the 1930's.

Then came the Great Depression. A break in the line was made in 1929 because of the violent change in stability before

and after that date, making it seem wise to treat the data as two separate series.

Instability of business since 1929, and continuing even up to the present, is something unprecedented in our history. This instability of the last quarter century certainly cannot be called, correctly, a continuation of any long-time upward trend in business fluctuations under our increasing industrialization of the past century. It is something distinct and suddenly new in our economy—a degree of instability above anything we have ever before known in this country.

It is necessary, then, to conclude that the argument about the increasing instability of business is a creation of the imagination or of socialistic invention. Being untrue, it is certainly not a reason for more and more controls over our business affairs. As has been pointed out, controls seem to have done precisely the wrong thing. They have unstabilized business and caused unemployment rather than stabilizing it. It would seem that the controllers know what not to do and put it into practice—rather than what to do at such times.

Business will undoubtedly continue to fluctuate in some degree in the future, controls or no controls. We can expect that. The problem is to adjust as quickly as possible to these changes in conditions, to whatever extent they are beyond our ability to foresee and to prevent.

## *Cycles Not All Bad*

Not all fluctuations in business are undesirable, to be prevented if possible. Take house building, for instance. I have built only one house in my life; and had I continued to live there, I should probably never want to build another. The building of it took about half a year. The result was about as intense fluctuation in my building activity as you could imagine—and intense activity for six months, preceded and followed by building activity at zero so far as I was concerned. I had only one cycle in my building, and then it was all over.

Were a business statistician to study my economic affairs, he

would find my house building to be tragically unstable. Suppose he then teamed up with some politician bent on stabilizing business for the general welfare. How would he be able to do it? He would have to determine in advance the probable length of time I would want a house—say fifty years—and then force me to build one-fiftieth of my house in each of those years. That is the only way stability in my house building could be accomplished.

## *The Human Factor*

But being human, I am concerned with my own general welfare, too. As one among supposedly free people exercising economic choices, I don't want to stabilize my house building. There comes a day when I finally decide that I want a house and can afford to build one. I get some help and go ahead with the job as quickly as I can; then it is done. I don't want to be forced to build the house before we want it, and I don't want to be forced to build another one later that I don't want—merely to stabilize some statistic.

And you, I dare say, feel the same about building your house. And so does everyone else.

If as a consequence fewer people want to build houses this year than last year, what is wrong with that? The statistic for the nation is unequal, to be sure, as between the two years. What is to be done about that? Should some people have been prevented last year from building houses that they wanted to build, that they had money saved with which to build, and when building employees and available materials were ready for the job to be done? Or should some persons this year be forced to build houses they do not want, just because the statistic is declining?

This sort of business fluctuation runs all through our daily lives. There is a violent fluctuation, for instance, in the harvest of strawberries at different times during the year. Should we grow enough strawberries in greenhouses so as to stabilize that part of our economy throughout the year?

Sales of toys and Christmas decorations are quite unstable, too. Should we make people buy them equally throughout the

year, so as to stabilize production?

Weddings and the sale of affiliated goods and services are highly unstable during the year, and over the years. And so are the sales of baby carriages. Should we stabilize all these month by month and year by year? How?

My own conclusion is that we should not worry about all such fluctuations in business at all. We should worry only about those fluctuations which are due to prohibitions on the rights of each person to work at a job of his choice—either for himself or for an employer who wants his labor—at a wage mutually satisfactory between them. We should worry only about prohibitions on the spending of his income for what he wants most, among things offered by others who have produced them from their own labors.

If we do this, business fluctuations will be reduced to whatever fluctuation people want—not being forced to build houses when they don't want them, or being forced to get married when they don't want to. Wages should then be as high and would rise as rapidly as is possible. Leisure, to the extent one can afford it and wants it, would then be chosen as each person so desires. These conditions would give the maximum of welfare possible for us to attain at any time. It would be as near a utopia as can be hoped for in economic affairs this side of Heaven.

# NOTES

1. *Survey of Current Business*, National Income Number, July 1955, and corresponding issues in earlier years. United States Department of Commerce.

2. Estimate by the late Professor Raymond Lindeman of the University of Minnesota.

3. E. Parmalee Prentice. *Hunger and History*. Caldwell, Idaho: The Caxton Printers, Ltd., 1951. p. 50.

4. See Chapter 1, p. 345.

5. For further discussion on this point, see *Government—An Ideal Concept* by Leonard E. Read. Irvington-on-Hudson, N. Y.: The Foundation for Economic Education, Inc., 1954. Especially pp. 17-31.

6. Inflation is an increase in the quantity of money, not a rise in prices which is only the consequence of inflation.

7. They are worse off, in fact, but the reasons are beyond the scope of this discussion.

8. In calculating the \$29.99 rate, I am assuming that in the year 2012 his work will correspond to that of present laborers in the petroleum and coal industries.

9. Based on 40-hour week and vacations with pay.

10. Figures provided by a leading insurance company. The plan is the usual pension plan, invested mainly in bonds, mortgages, and the like.

11. White, Andrew Dickson. *Fiat Money Inflation in France*. Irvington-on-Hudson, N. Y.: The Foundation for Economic Education, Inc., 1952, pp. 32, 65-66.

12. See Chapter 2, p. 350.

13. What you can spend is the net after paying taxes, which last year took about one-third of the pay from each hour of work, in both direct and indirect taxes.

14. See Chapter 4, p. 361. Also, see *The Conditions of Economic Progress* by Colin Clark. (London: The Macmillan Company, 1951.)

15. See Chapter 1, p. 345.

16. Douglas, Paul H. *The Theory of Wages*. New York: The Macmillan Company, 1934. p. 501.

Pigou, A. C. *Theory of Unemployment*. New York: The Macmillan Company, 1933. p. 97.

17. Technically, this is an elasticity of demand for labor of  $-3.0$ , or a little more.

18. See Chapter 3, p. 354.

## About the Author

F. A. Harper's career included teaching, writing, and lecturing throughout North America and Europe. He was born in Middleville, Michigan, in 1905, graduated from Michigan State University in 1926, and in 1932 received a Ph.D. in Agricultural Economics from Cornell University where he taught for nineteen years. From 1946 to 1958, he served as an economist on the senior staff of the Foundation for Economic Education in Irvington, New York.

For three years after moving to California in 1958, Dr. Harper was Senior Research Economist for the William Volker Fund. During the early 1960s, he was visiting professor of moral philosophy at Wabash College, and he began to devote more time to the Institute for Humane Studies, which was founded in 1961. He became Secretary-Treasurer of the Institute in 1962 and President in 1966, a position that he held until his death in 1973.

## About the Institute

The Institute for Humane Studies was founded in 1961 as an independent center to promote basic research and advanced study across a broad spectrum of the humane sciences. Through fellowships, seminars and symposiums, and a variety of publishing activities, the Institute serves a worldwide community of scholars who seek to expand the historical and theoretical knowledge, as well as the practical applications, of libertarian principles.

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