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American Affairs

The Economic Record

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JANUARY, 1945

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VOL. VII, No. 1

Review and Comment

By the Editor

Marching toward a Labor Crisis

ONLY a few years ago two such opposite representations of the labor problem as "The Extreme Case Against Unionism" and "Unionism as a Moral Imperative," appearing in this issue, would have been utterly strange to American thought and feeling, one as much as the other. The philosophical case against unionism is from the essay of a social scientist; the emotional case for unionism is from a Labor Sunday sermon preached by a Roman Catholic bishop in Chicago. These are much more than two points of view separated by polar distance. They are conclusions, and seem irreconcilable. If they are irreconcilable really, then the difficulties of finding a way to go on are enormous and the fact is one that must be faced. Stranger still was a piece of current news that passed almost without comment. In a shipyard where the CIO had a "maintenance of membership" clause in its contract, thirty-four workers repudiated the union and circulated handbills denouncing what they called its communist leadership. The union expelled them in a formal manner and demanded that they be discharged. The company appealed to arbitrators, who upheld the union, and then to the War Labor Board, which also upheld the union. The company suggested that as a compromise the men be required only to continue paying dues to the union. The War Labor Board said that would not be enough. It said it was necessary for the union to have disciplinary power over its members, and that in any case, "whether they knew it or not," the men had quit their jobs by the act of resigning from the union. And so they were discharged. Thus it can happen that a man will be cut off from his means of livelihood because of his political opinions. It is only the incurable optimist who can pretend not to see that the American labor movement is headed for crisis. The three things that have happened to it were sudden and unpredictable. Firstly, it was swept by the terrible European doctrine of class warfare. Secondly, it has captured what it believes to be, and what may be in fact, the balance of political power. Thirdly, it has

arrived at the political determination of economic disputes, and seems to have no other idea of what to do with its power. On this plane political man disappears. He becomes fused with economic man and they are one. So altered, the labor movement bears almost no likeness to what it was in the time of Samuel Gompers. There are still labor leaders who hold with the Gompers tradition and see clearly what the political determination of economic disputes will lead to, and yet hardly dare to say so out loud for fear of losing both their influence and their leadership. They have to hold their own against the radicals, the hotheads, and the communists, and find themselves thereby stultified. These old leaders are themselves in trouble. Many who know this keep saying: "Here then is solid ground in the middle. Let management meet labor there and let them together find the way out." Unhappily, when this has been tried, each side has brought along the other's bad history, and nothing has come of it. The ground is still there but the time is late.

Outline for a Managed Economy

IN THIS issue will be found the speech delivered by Marriner S. Eccles at the 264th meeting of the National Industrial Conference Board on November 16th, last. Mr. Eccles is Chairman of the Board of Governors of the Federal Reserve System and the Federal Reserve System is the institution that now controls American banking in the public interest. The speech bears evidence of having been prepared with unusual care. If it is not the blueprint it is at least an authentic outline of what you may expect, and its words for that reason deserve to be thoughtfully weighed, beginning with these:

"The government should underwrite and guarantee a national minimum of income, education, health and old age security for all citizens. By so doing, the government can place a floor of purchasing power under the economy. This in turn will place a floor under the market for the goods and services of business, industry and agriculture."

It would be difficult in fewer words to state the formula for a planned economy controlled by the state. The image they create is one of comfort and security, provided by the government. The floor

image. A floor for income, a floor for business, a floor for industry and one for the farmer. A government plank under everything. But a government that undertakes to guarantee a minimum of income for all citizens must be prepared either to fail in a feeble manner or to go the whole way—when and if necessary. To go the whole way means to control wages, prices, profits, production, distribution, consumption, and at last what a citizen may do with his own money. The speech continues:

"Such a guarantee is not the impractical dream of the social reformer. Modern governments, including our own, have long since assumed a primary responsibility for the economic guidance and progress of their peoples."

Modern government and *their* peoples. In the modern case, who or which belongs to whom? Is it the American government and *its* people or the American people and *their* government? What a slight change of grammar it takes to invert the idea of government!

To Those Who Will Spend

The social philosophy represented by the Eccles speech is contained in these words:

"There is no lack of need for everything that we can produce. There are still a great many people in the country whose standard of living is shamefully inadequate. The basic problem is to see that the necessary purchasing power flows into the hands of those who will use it to increase their standard of living."

What happens here is that with astonishing gymnastic ease the basic problem stands on its head. Before the advent of "modern governments," it was supposed that those whose standard of living was shamefully inadequate were generally underproductive. In that case, how to increase their power of production was the problem. The Arkansas hill-billy may want an automobile, a big electric icebox and a kitchen to put it in. Why doesn't he have them? Because he does not by his own labor produce the equivalent. Now if the modern government will cause purchasing power—that is to say, money—to flow into his hands, he may buy them. But whose money will it be that he buys them with? Whose labor will it be that he consumes?

The Three Tools

In order to be able to guarantee a minimum flow of purchasing power into the hands of all *its* citizens the government naturally must possess certain powers or tools. The Eccles speech names three, which are, the power to borrow and spend, the power to tax and spend, and the power to extend social security, all three regarded as instruments of social policy. The government would borrow from those who do not immediately spend their wealth and

spend it in their stead. How you could single out those who save too much or spend too slowly is not made clear, nor what would happen to them if they refused to lend. Secondly, the government could penalize slothful and timid wealth by taxation and at the same time confer "substantial tax benefits" upon smaller business people who keep their wealth nimble. Thus, discriminatory taxation, designed to compel a more active social use of private wealth. Thirdly, quoting the speech:

"Much can be done to increase consumption through a much broader social security system."

Here the argument is that if people have a feeling of total security they will save less and spend more. The less they save and the more they spend the better it will be for prosperity. Will not the cost of more social security take some of their income away? No. That would be true only provided people were going to pay for their own social security. But they are not going to pay for it. At this point the speech is explicit:

"Postwar social security benefits should not be based upon further additions to the payroll tax but should be paid for out of the general budget,"—that is to say, by the Federal Government out of the public treasury—"because a tax on payrolls is a tax on consumption and therefore undesirable when more consumption is needed."

This may take a little reading. How can the greater cost of a much broader social security system be paid out of the public treasury without increasing general taxation? And is not an increase in general taxation a tax upon consumption, even though indirect? It must be supposed that behind these words there is an idea that makes sense; and the only idea that could make sense would be that the increased cost of social security is to be met by selective taxation, or by government borrowing, so devised as to produce an inflationary effect. Well, of course. A planned economy, directed and controlled by the state, is bound to be inflationary. It must employ inflation as an instrument of social policy; and when it comes at last to the end of inflation there is crisis, all the worse for having been postponed.

The Unavowed Premise

Mr. Eccles speech embraces the purchasing power theory entire and the usual troubles develop. The speech says:

"Upon the termination of the war the total value of currency, bank deposits, and government securities, which are the equivalent of cash, will be far more than adequate as a basis for the purchasing power needed to provide full employment."

It follows that there is already too much purchasing power in existence, and danger therefore of inflation.

On the other hand lies the danger that the people who possess this excess purchasing power will not spend their money fast enough, and if they do not spend it fast enough there will be deflation, "*unless the government steps in and provides a sufficient volume of total expenditures.*" A worse contingency is that payrolls may begin to shrink, which would be deflationary, and if that happens, wages must be increased to provide more employment, because the way to increase the demand for labor is to raise the price of it. This is asserted in the speech, not precisely in those words but in these:

"When after the war, hours return to normal and overtime pay is discontinued, total wage and salary income will decline sharply. If we are to avoid sharply declining prices and loss of markets which discourage production and business expansion, a gradual upward adjustment will be necessary in the wages and salaries of the great mass of comparatively lower-paid workers."

The difficulties with which the speech contends belong not to logic but to exposition. What makes them appear to be difficulties of logic is that the first premise of the purchasing power theory cannot be avowed. Why not? Because the people are yet not ready for it. They wish still to believe the government can distribute purchasing power in a free economy. The unavowed first premise is the idea of the distributive state, called also the welfare state. Only those who believe in the distributive state may rationally defend the purchasing power theory, because once the government begins to direct the flow of income there is no place to stop, upon grounds either moral or political, short of the obligation to ration the satisfactions of daily life among its people, according to a chart of social justice.

The Tragic Path

THE path of freedom is difficult and tragic, more beset then any other with heroic responsibility and martyrdom. The paths of necessity and compulsion are easier, less tragic and less heroic. That is why the historical process shows so many derogations from the path of freedom to that of compulsion. This is true of the religious as well as of the secular experience. The temptation is superbly expounded by Dostoevsky in his "Legend of the Grand Inquisitor." The Grand Inquisitor wishes to relieve men of the burden of freedom, so that they may all be happy. Mankind yielded to this temptation in the Inquisition and does so again in our own time in the religion of Communism, which is simply the doctrine of the Grand Inquisitor based on the fall from the path of freedom to that of compulsion, so that mankind may be delivered from the burden of its tragic destiny.—"The Meaning of History," by *Nicolas Berdyaev*.

Winds of Opinion

Never, prior to 1933, did the class-war phenomenon show itself in our political battles. The Democratic party's 1944 campaign was made—underneath the surface of the "arguments"—at bottom on class lines, and the returns suggest that it was class lines on which the battle was fought and actually won, for the first time in our country's history.—*Thomas F. Woodlock in The Wall Street Journal*.

The familiar regret that America was not a member of the League normally carries with it the implication that America, as a member, would have pursued a policy of commitment and collaboration. But it is just as easy—or very nearly—for a nation to be isolationist and uncooperative within as outside a league. It would be well to be very cautious in drawing any inferences about American policy from American willingness to sit on the new body.—*The Economist, London*.

It is our judgment that cotton can be produced mechanically in a great area of the South, an area that will produce ten or more million bales each year, and the production and harvesting can be secured on a cost basis of 6 to 7 cents a pound, including all costs of every nature connected with the large plantation operation. This, as I see it, is the answer to the cotton problem. It is the best answer to be had for cotton as a competitor with synthetic fibers, and it is also the best answer to competition from foreign growths.—*W. M. Garrard in Staple Cotton Review*.

Private employment, profits, private ownership of productive assets and varying rewards for varying performances are all desirable characteristics of our way of life which should be continued.—*Harry L. Hopkins in The American Magazine*.

This will be the best mission that ever came to China.—*Donald M. Nelson, arriving at Chungking with his experts*.

I ask from what source is the money coming? The usual source is the taxpayer but, my Lords, the tax-paying geese are dying. At the moment they appear to be fairly well but that is because large numbers of them are living on their fat. There is only one end to that. If heavy taxation continues they will die and be of no further service to the community.—*The Earl of Glasgow in the House of Lords*.

The widespread impression that by some magic of its own the war placed the American people permanently on a much higher plane of national income is due to a failure to realize that the last few years have been abnormal. It has been abnormal for 11 million men to be taken out of the labor market and placed on a higher standard of food consumption than they generally enjoyed before they

went to war. It has been abnormal for men over 65 to stay in that labor market and for women to swell a family's income by leaving the kitchen for the war plant, just as it has been abnormal for millions of workers to put in 48, 54 and 60 hours a week and receive time-and-a-half wage rates.—*Chicago Journal of Commerce*.

Faced by a crossfire of argument by representatives of the executive department on the one hand, and special interest groups on the other, the individual legislator has nowhere to turn for unbiased assistance in obtaining an objective analysis of the proposed measures.—*From the report of a special House Committee on executive agencies of government*.

If there is no international agreement, which country will be our greatest competitor? The United States of America. This is because, as my noble friend Lord Southwood pointed out, of the enormous increase in their productive capacity and also of their technical ability.—*Lord Strabolgi*.

Since 1938 the number of people with incomes between £250 and £500 a year has risen from 1,745,000 to 5,500,000; the number of incomes between £500 and £1,000 a year has risen from 500,000 to 1,110,000; those with incomes from £1,000 to £2,000 have risen from 195,000 to 295,000; whilst the number of people with over £10,000 a year has remained unchanged at 8,000. Moreover, the rates of taxation on all incomes has considerably increased. I mention these figures because we no longer depend on geese that lay golden eggs.—*Lord Woolton, Minister of Reconstruction, speaking in the House of Lords on the cost of social reform*.

If we wait for declarations of government policy without guiding that policy along sound lines, or wait for government action before planning our own actions and making our plans known to the government, if we trust in public confidence in our past achievements—a confidence the public does not appear to have—then our freedom in industry will disappear and we will, in fact, be faced with a socialized state.—*John Storey, to the Institute of Industrial Management, Australia*.

Should it not be possible this time to marry your money and experience with ours, and, by so doing, limit our joint risk, save our joint capital, and insure that the money we both lend is spent constructively?—*Lord Halifax*.

We know, as Members of Congress, that we have accumulated here in Washington a total of governmental power beyond all known capacity to comprehend. As a matter of fact, in so far as the details of government policy are concerned, we hardly know what it is about. In all deference, I want to tell you Members of Congress we confront something more important in this bill than crop insurance.

Ours is the responsibility of insuring if we can the possibility of democratic government operating in America.—*Hatton W. Sumners, Chairman of the Judiciary Committee of the House of Representatives*.

The problems before the American people in the next few years will be the most momentous in our history and can be reduced to this simple question: Will the United States be able to maintain its present private and individualistic form of national economy in the face of a totalitarian Europe and an uncertain Asia?—*Constantine Brown in The Washington Star*.

Mr. Speaker, the time may come when the only public figure in America still carrying a torch for liberty will be the graven image in New York Harbor.—*Miss Sumner, of Illinois, in the House of Representatives*.

Currency manipulation will not solve the basic economic problems of a war-ridden world.—*Winthrop W. Aldrich*.

Mr. Jones has taken a bad action. He excuses it on the ground, however, that it is in accordance with the recent act passed by Congress directing the government to do everything possible to bring about parity prices. And this also illustrates once more that the steady attrition of the private enterprise system is not the work of appointed "bureaucrats" alone but of Congressional acts deliberately passed to appease pressure groups.—*The New York Times*.

Russia's progress has been due to substituting a "good" dictator for a "bad" one and to the fact that the "good" one has had the good sense to imitate the United States. For the essence of Russian "planning" has been to follow, or try to follow, American models—the assembly-line production of Henry Ford, for instance. If we should institute government "planning" it would lack what the Russian Government planning had—namely, a model of other countries which would be better than our own. Without such models the Russian planning would have amounted to little, just as our American Government "planning" and management, whenever tried, have only resulted in inefficiency.—*Professor Irving Fisher, in a letter to The New York Times*.

It is obvious that the efforts to reach agreements regarding international trade have made no advance whatever during the past year, a fact which must be deeply regretted. The way in which the great powers plan for postwar trade and shipping does not indicate that they are aware of the danger of a general development towards self-sufficiency . . . which would mean economic chaos.—*Gunnar Myrdal, Chairman of the Swedish Postwar Planning Commission*.

Flight From the Free Market

By Virgil Jordan

From an Address Delivered before the American Academy of Political and Social Science at Philadelphia, November 25, 1944

FIRST let us ask ourselves why this sudden burst of interest in the international marketing arrangements we call cartels in the middle of this war, which—whatever it may turn out to be—we still assume is certainly not a trade war, like the last one and all the earlier struggles for commercial empire? Why, then, is this question of cartels dragged like a dead cat into the discussion of every imaginable domestic and international problem today?

Is it because very many of the common men here in America think that cartels are the key to the question of future prosperity and peace? Is it because any great number of the governmental guides and mentors of the common man imagine if we should decide either to climb aboard the cartel band wagon which winds its spectacular way through the planetary political scene or to abolish cartels globally by executive decree it will have very much effect one way or another on their success in furnishing complete employment, universal security, or even four freedoms for the underlying population at home or abroad?

For an Oblique Killing

One has the impression that in all that kind of discussion of international trade arrangements of which the recently issued report of the Kilgore committee is a good example, the cartel question is set up as a sort of decoy to attract other game for which the Nimrods of modern government are really gunning, or to make a killing in some other quarter. At best it serves as a sitting duck in this indoor political sport of planetary planning, as you will realize if you read the long footnote attached to the opening sentence of the sophomore term paper, prepared by Mr. Rosenberg for the Kilgore committee as its report, which carefully explains that what the hunters are shooting at is only private marketing arrangements because government marketing arrangements never are and never will be *cartels*.

Apart from the probability that there was never a cartel, from the time of the British trading companies down to the Soviet export trust of the present, which some government of some country concerned did not sanction, subsidize, or participate in, when we encounter a discussion like the Kilgore report we should ask ourselves whether it is reason-

able to suppose that international marketing arrangements, made either by pure governments or by such pernicious private business enterprise as survives them, will offer or substantially contribute to a solution of the problems of expanding employment and developing foreign trade for us or for any other country after the war. . . .

Busted Bonanza

Hardly anyone is willing as yet to face the fact that, on the basis on which it has been done in the past two decades, and certainly as it is being done today, international trade is virtually insolvent as a business upon which any large amount of self-supporting employment or sound national prosperity can be built. It could be maintained on any considerable scale after this war, cartels or no cartels, only at the expense of taxpayers as a kind of global boondoggle or planetary WPA program on behalf of countries that have gone broke in the war.

In the interval between World War One and the current One World War international trade practically ceased to be a business at all, but became rather a curious combination of charity and robbery, maintained on a fairly large scale mainly by one or another form of governmental intervention, subsidy or sanction, and finally in the form of war and lend-lease.

After the last war the volume of foreign trade, such as it was, was sustained mainly by an international mechanism of credit inflation which centered in the American private security market, and since that broke down it has been sustained by a public credit mechanism centered in the United States Treasury. This went on till it wound up with this country, practically the only one able to produce any large real surplus to export, giving it away to most of the rest of the world as lend-lease or relief, under the military necessities of global war, and planning to continue doing so indefinitely under the political necessities of peace.

The Dehydrated Creditor

Hardly anyone, I suppose, would call this process trade, or imagine it as any sort of lasting answer to the domestic problems of employment. The only system into which it fits is the current economic mythology of the consumer purchasing power school of prosperity or the social security school of peace.

But even from those points of view the process is indubitably busted, because few seem to realize

that so far as that kind of "business" is concerned, the vast creditor nation which carried it on has in fact gone broke, too—it has ceased to be a creditor nation and has become a debtor nation in its external accounts. The magnitude of this cosmic and incomprehensible reversal of Uncle Sam's balance sheet *vis à vis* the world cannot as yet be fully measured, but it must emerge on a very considerable scale when we finally are able to take into account the known and unknown amounts of lend-lease and relief—some of which have been transformed into direct liabilities—the mounting amounts of foreign balances here, the liabilities for invasion currencies, the losses of direct and indirect investments abroad, and other items, over which the veil of governmental secrecy is drawn till V-day.

The large and continuous withdrawal by the peoples of other lands of the gold which is now denied to our citizens is a symptom of an important turning point in the career of the creditor nation which helped so much to support the insolvent structure of world trade during the decades between the World Wars. After this one subsides we shall have to do some substantial exporting to pay our debts, and how much more we can continue to do by way of charity remains to be seen. . . .

True Crime of the Cartel

Cartel arrangements, numerous, widespread and active as they were in the period between the wars, had really very little to do with sustaining or breaking down this bankrupt structure of world trade. They were a part, but merely a minor part, of the vast misdirection of capital, credit and labor, and the mistaken attempts of government to save unproductive investments and support prices and wages—all of which underlay the great depression and this war.

The cartel system was at worst only a minor and mostly unconscious accessory to the progressive insolvency of international trade under American sponsorship during this period since the last war. Its main crime was that it helped to postpone and so to intensify the receivership which ensued in proportion to its apparent success in protecting unsound investment, maintaining prices, supporting wages and promoting unproductive employment anywhere in the world. Most of the international agreements being debated today as part of the global New Deal, from Hot Springs to Bretton Woods and Chicago, are really large-scale cartel plans of this character, and whether or not they help to maintain the appearance of world peace for a period, they should not be mistaken for good business propositions from America's point of view because their purpose is philanthropic, pacific, or purely political.

It has been the silent, unseen march of the machine tool and chemical laboratory round the world

into all corners of the earth in these two decades or more that has steadily narrowed the economic differentials between the raw-material and the machine-producing nations, whittled down the necessary international division of labor and so shrunk the relative dimensions of the structure of international trade based and built upon it. . . .

So What Do We Mean?

But what do we mean when we talk about abolishing cartels? When you set out to abolish something globally you have to have some notion as to what, how many, who, where and how; but as to international market arrangements, though a library of books has been written about them in the academic and bureaucratic cloisters during the past generation, no fairly comprehensive census of the number, type, sponsors and location has ever been made, even by all the king's horses and men in the omniscient Department of Justice. We are not dealing here with an occasional physical phenomenon with a local habitation and name, like bedbugs or cockroaches, but with a ubiquitous form and method of economic organization in world markets, whose roots and tendrils reach into governments, as well as banking systems, shipping on the seven seas, and even into the air and the ether. In some countries like Soviet Russia it is in fact the only form of economic organization that exists; and in many others the main form. In this respect, the United States seems to be an arid desert, an undeveloped primitive frontier amid the lush jungle of cartel flora and fauna which fills most of the rest of the world.

The most recent estimate, of Professors Hausmann and Ahearn of Fordham University, which they offer diffidently as a minimum, is that there were about 5,500 to 6,000 cartels in Europe before this war, not including patent agreements, and probably 1,200 of those were international in their influence on European trade.

By an ingenious method these authors venture a guess that between 1929 and 1937 about half or perhaps a little more than half the world trade was controlled or influenced by cartels (complete or partial), conferences and other forms of marketing arrangements covering agricultural products, metals and minerals, manufactured goods and patents. Shipping, air lines and international communications, insurance and banking, and other services were not included in this minimum estimate; but practically all commodities moving in international trade are included except petroleum, cocoa, and fats and oils, which, to the date of this recent study, the authors say had not been cartelized, though efforts were under way to do so, some of them by governments, like the lately proposed petroleum agreement. Many of the important ones, like the international wheat and tin cartels, are government ar-

rangements and some, like the German potash and coal cartels, are compulsory.

One curious conclusion of the authors, which may cause considerable obsolescence in one of the juiciest pieces of academic and political chewing gum, is that the number of agricultural cartels and cartel-like understandings exceeds that of industrial cartels. "This is a fact," they say, "which contradicts the popular opinion that minerals and manufactured goods are cartelized whereas agricultural products are almost entirely subject to the mercies of the international market." . . .

The Old World Undertow

We shall not reach the core of any candid discussion of the cartel question and its current significance until we understand that in the period since the last war, and with increasing speed during the past decade, after little more than a century of independent development under the idea of economic freedom, the spirit of all these groups and many others in American life has at last been caught in the powerful undertow of Old World standards, ideas and aspirations of individual and social conduct and accomplishment, created by the backwash of the last war.

Business, labor and government, no less than educators, scientists, economists and artists, in one degree or another have felt the drag of this spiritual undertow pulling them back toward the cultural level of the Old World way of life, with its fatalistic philosophies, its class conflicts and social rigidities, its frantic emphasis on security, its fear of individual responsibility and risk, its distrust of personal liberty and individual initiative, its faith in the omnipotence, omniscience and beneficence of the unlimited State and its passive dependence upon government—from all of which our ancestors escaped for a brief century to develop the strongest and most prosperous nation on earth. In innumerable ways this erosive power of the ancient current of Old World ideas has reclaimed America for itself, and during the decade past she has become once more a cultural colony and spiritual dependency of Europe.

This War the Climax

This spiritual reconquest of America is clearly reflected in the profound changes that have occurred in our political institutions and economic organizations during this decade, and in the deepest sense this One World War is its climax. Anyone who understands the direction of the ideas embodied in the postwar plans which are being debated today in Britain, and in the reconstruction schemes proposed for France and other countries on the Continent, and who realizes the influence these have on our ideas about the future in America, must feel the terrific force of this undertow.

It is not necessary to read very deeply between

the lines of the daily news to recognize clearly that, whatever the military or diplomatic outcome of the war in the West, the essential economic and political ideas of national socialism have conquered Europe; but what is more important is that all of these accepted ideas for the postwar world, especially in England, assume it as an imperative condition for their success that this country be brought within the same system permanently after the war, and every modern device for shaping American thought and feeling to this end is being used today, as they have been used during the past decade.

The European statesmen who are planning and building their postwar world on the ideological foundations of national socialism, whose military power has been destroyed, know better or sooner than the Nazis did that that world cannot live for long half under socialist serfdom and half under economic freedom, and I may add that this recognition is no less urgent in the long run for Uncle Joe's totalitarian autarchy than it is for a nation under parliamentary government like England, who must live by trade or starve, and knows that her postwar planned economy, however complete, could not compete with the productive power of a free America. The character and course of development of the American political institutions and economic system after this war have in fact become as much a crucial concern of the rest of the world as those of Germany were at its beginning, or as those of Russia were after the last war, but this time in reverse fashion.

The Subversive Idea—Freedom

In the postwar world of socialist states, the pre-New Deal idea of economic freedom will remain a subversive, disruptive, revolutionary force internationally as well as internally, just as Bolshevism did after the last war. I suggest that this fact will furnish the key to most of the postwar problems of international relations as well as of domestic policy for another decade or two.

As I have said with tiresome monotony during the past ten years, the skeleton structure of national socialism has been deliberately built in America during this decade, largely under the supervision of European architects, and the necessities of the war have established it on a firm foundation and practically completed its operating equipment.

Most of the American people seem to be unaware that they have moved out of America and are living in this new social structure, mainly because so far the fiction of nominal private ownership of property and a large measure of personal freedom of movement, speech and occupation have been preserved; but after twelve years of exposure, a large part of organized labor, and the business community, as well as the press and our educational system, have been assimilated into the atmosphere, manners,

customs and ways of living and thinking of this Old World address, and are beginning to feel pretty much at home.

Whether America can be kept within this international framework of national socialism which has been erected around her political institutions and economic organization during this decade, or whether she is to resume life within the traditional framework of economic freedom and competitive effort where she left off—this is the central issue for the postwar world.

Government Wins

The labor unions won the last war; but unlimited government—the idea of the supreme, all-powerful and all-wise Welfare State—has won this one. Yet where government will go with the victory depends mainly upon the direction in which businessmen and labor drive it by their demands upon it, what they expect from it, and how well they understand the price which they and the rest of the American people will have to pay for what they get from it.

Organized labor has already begun to get some understanding of what bargaining with the Absolute State means; but a good many businessmen still imagine that they can get something from government without paying for it, and are willing to gamble a bit with everybody's liberty to get a little security for themselves. But after a war like this one, no government, here or elsewhere, has any place to go except where it has been going.

Every government today is driven by its momentum down the same road it has been following during the war, and none ever turns off, or back, on its own initiative, so long as it is encouraged to continue. Businessmen as well as governments are making plans for the demobilization of almost everything in the postwar world but government itself. Every group has got its teeth set in some piece of the wartime structure of Statism which it wants to keep for itself in the postwar world, whatever happens to the rest. . . .

The Turn from Freedom

Although the antitrust laws, handed down like the Talmud from the Nineties, remain the official government gospel on cartels and competition, the fundamental economic fact of the decade which culminated in the war is the flight from the free or voluntary market—the free market for goods, labor, capital, information and ideas, in every country, and its final abolition by government in the global war. Everybody has been trying harder and harder to find some way to get out of the open market place or keep out of it, and to move into some economic air-raid shelter.

Governments everywhere have supplied or sanctioned more and more of these shelters and extended their activity as air-raid wardens in keeping people

out of the market place whenever possible. Thus, in innumerable ways, the market has been driven underground along with the population, and since the free market is the birthplace of political freedom and civil liberty, these are being destroyed with it over a large part of the globe.

The Problem of Many Roots

The fact of this flight from the free market has been plain enough in practically every policy of government, business and labor in the past decade; and now, since the war has abolished the voluntary market for nearly everything, the hottest problem that emerges as we approach the postwar promised land is whether and how much, and for what or whom, the voluntary market will be restored or even be permitted to remain where it still survives. Every inch of the rocky road of reconversion, re-employment, and rehabilitation of international trade is crawling with live issues and conflicting purposes that are rooted in this problem, and there is little candor and much confusion of mind about them everywhere.

Perhaps the most common feeling is that we can and should have it both ways at once; that for some things and at certain times the market must and can be voluntary and free, and for others compulsory and managed. In this matter as in most others we have the mystical feeling that modern technology has revealed a method of eating cake and keeping it, too, and that it is dangerous and out of date to commit oneself exclusively to either of these policies on the cake problem.

Most of us are aware in one way or another that something has been happening to the voluntary market, but till the war few have been aware of its ultimate implications, or able to imagine what an economy without free markets really means. For ten years we have not only been afraid of the free market and trying to keep out of it as far as possible, but we have been superimposing upon it—by every sort of device, from plowing under wheat, the modern counterpart of building pyramids, to slum clearance by high explosives—a kind of forced consumption, and transforming the voluntary market into a compulsory one on the part of buyers or sellers, or both, for commodities, capital and labor alike.

Magnified Enigma

We can see this most clearly in the war, which is the climax of the process. Here we have selected some ten million consumers and stepped up their annual rate of consumption to an average of about \$10,000 per year—probably five times what it averaged before—without much reducing the average rate of consumption of the rest of the population.

To put it in national terms, with the help of Messrs. Hitler and Hirohito we have forced our rate of consumption up from about \$70 billion

worth of goods and services per year to double that rate. Our civilian consumption is not much less than the total was before the war, and we are throwing the rest away or at the enemy. That is in fact the essence of war from an economic point of view, and as we approach the end of that process, what many people—statesmen and businessmen and workers alike—are wondering is where and in what form can we find in peacetime among the voluntary consumers in the free markets of the world *the economic equivalent of war as a consumer*.

William James was worried, back in the Nineties, about finding the moral equivalent of war—something that would be as stimulating and inspiring to constructive or productive peacetime effort as war was to combat; but we are not really concerned with that today, because we believe that we have solved the problem of production. We are worried about finding a market whose maw is as voracious as Mars, a voluntary consumer who can use up as much of our product as the cruel compulsion of war does.

This is the economic enigma which the machine tool and the chemical laboratory have brought home to us in this war. So far we have sought an answer in only two directions—one, that of withdrawing or retreating from the market by throttling down our production to its peacetime voluntary capacity; the other, in developing those ideas and devices of compulsory consumption which we have been experimenting with during the Thirties, and have tested in war, of which Lord Keynes can be said to be the main modern promoter, if not the inventor.

Where the Path Ends

These are the directions in which we are turning now as we contemplate the postwar period. The issues of international cartels, reconversion production quotas, transitional price controls and rationing, the guaranteed wage, public works programs, permanent lend-lease proposals, government stockpiling of raw materials, and dozens of others you read about in the daily papers, remind us that scarcely anybody anywhere—workers, savers, investors, producers or traders—is willing to trust himself in the open market any more. Faith in the beneficence of the free forces of the market place has been supplanted by hope for the omnipotent protection of the State or confidence in the bomb shelters of bureaucracy.

Experience tells us plenty about the place where the path of production control as a solution of this dilemma ends, and it is hard to believe that anyone has any illusions left on that score, for government has always been the natural heir or residuary legatee of every form of monopoly and a prolific father of many on its own account. But the modern technique, if not the principle, of compulsory con-

sumption is new and unfamiliar—even invisible—to most of us and we are not yet quite certain where it ends, perhaps because we do not know enough about the Secret of the Pyramids, which were the original source of forced consumption and full employment. I venture the guess that we shall find out where that road ends, too, before long, and when we get there we shall probably find compulsory saving, compulsory investment, compulsory management and compulsory labor waiting for us.

Freezing Everything

In face of this glacial movement on the part of modern government toward freezing everything that might disturb, retard or limit the totalizing of State power, we are not likely to succeed in reconverting the rest of the world to an old-fashioned philosophy of free markets and free competition, even if we believed in it fanatically and went forth like an economic Mahomet to ram the capitalist Koran down the throats of the collectivist infidels who fill the world today—all of which is hard to imagine even for an optimist like me. Doubtless when the war subsides we shall make some romantic and semantic gestures in this direction in the current totalitarian liberal style, probably phrasing our platform in some such lofty phrase as the one that has just emerged—"free public enterprise in the institutional form."

So far as the international marketing arrangement aspect of this is concerned, in most other countries the State has taken over, or intends to take over, the cartel system and run it for its own purposes, compelling its own people to come aboard, *or else*, as we are compelling our workers to join labor cartels and employers to make industry-wide union agreements. It seems probable that in its cartel policy our government, as usual, will want to imitate any imported error as impressive as this, and that is the direction in which it is moving rapidly in most of the international arrangements it is making now.

The New Folklore

All current folklore of collectivism indicates that in the ideology of foreign trade, as at home, we are moving toward the concept of compulsory spending, and that the typical postwar cartel will probably be a compulsory-consumption marketing arrangement. After all, is not this war a colossal and successful compulsory consumption device for maintaining full employment at home and abroad according to the modern formula, with the United Nations as a super-cartel operating with complete success in dumping the maximum amount of high explosives and other nondurable goods on markets in Germany and Japan which have a limited "disposition to consume" them, as Lord Keynes would put it, to say nothing of preventing oversaving and curtailing excessive capacity to produce in these markets? Almost every day do

we not hear some businessman in the Committee for Economic Development or the National Planning Association—as well as the Potomac economists—put to us the trap-question: “If we can provide full employment and promote high-level consumption in wartime, why can’t we do it in peace?”

It seems reasonable to suppose that governments with unlimited and permanent mandates to do so will see in the prewar cartel system, and in the super-political cartel which will run the postwar world, a perfect mechanism for carrying on this process of compulsory consumption in peacetime via the device of lend-lease for reconstruction, establishment of global milk routes among the Hottentots and other peace-loving peoples, et cetera. Certainly anyone who examines the economic ideas that underlie our domestic and foreign policies today must be driven to the confident conclusion that if we can

contrive by any kind of cartels, public or private, to dump enough stuff on foreign markets under some sort of planetary OPA after the war, we are sure to have full employment and plenty of money at home, even though we may not have anything to buy with it.

I conclude with one brief comment, which touches problems far deeper than the one we are discussing tonight. I feel that before we go much farther down this road, American labor as well as business should begin to realize that intergovernmental marketing arrangements in foreign trade, and internal control and regimentation of the life of a people, are the inseparable Siamese twins of the totalitarian serfdom which we set out to destroy in this war; and may the kind providence which watches over fools and children help us to conquer both of them in ourselves.

France on the New Road

From the De Gaulle Speech at Lille

AFTER the war, reconstruction. Because we begin this reconstruction under the most difficult material conditions we shall put into it only more boldness, more work and more energy. We must win this time, we ourselves, the victory of the recovery of employment which alone can open the way to the victory of French reconstruction.

But Frenchmen and Frenchwomen that we are, we understand very well that the effort which we will make in common must not lead back to the point from which we have come. No, no. We do not wish to return to that situation, political, social, moral, which led us to the verge of the abyss; we want something else.

First, in a world now become so small, we have a common duty, which is to make the fullest use of what we possess in our soil, our subsoil and our Empire. This putting of everything to the common use we desire shall be as efficient as possible, because in the world of today where so many are suffering one has not the right to leave any resources ineffectively employed.

We desire, then, to put to use for the common good all that we have on this earth, to succeed in which there is no other means than what is called planned economy. We desire that it may be the state which manages, for the good of all, the economic effort of the whole nation, and so to manage it that the life of every Frenchman and every Frenchwoman may become a better one.

At the point where we are it is no longer possible to allow those concentrations of interests which the world calls the trusts, which have been able to adapt

themselves to a period given over to putting to use the resources of the earth, but which today do not meet the demands of a reformed economic organization, just as in the past the feudal military system ceased to meet the necessity of defending the laws which it had to defend on a national, no longer on a local, plan.

For this directed economy, for this putting to the common use of all the resources of the country, there are conditions to fulfil, of which the first is evidently that the collective—that is to say, the state—assume the direction of the great sources of the common wealth and that it should control certain other activities, without, be it understood, excluding the great levers which exist in the activity of men of initiative, and in just profits.

This is why, although the method and the degree of collaboration between those who labor and those who direct be different, according to the nature and the importance of the enterprises, it is necessary that this collaboration shall be established in a systematic way, between the one and the other, without normally interfering in any way with the action of those who have the responsibility of their direction.

From this point of view the government, as you know, has already made certain decisions in principle. We shall not carry out this program everywhere at the same time, or in a few minutes, as every one well understands, but we shall carry it out, the national plan of French economy, organized within industrial enterprises.—*Translated from the text supplied by the French Information Service.*

A Policy for Wealth in Twenty Points

IN a series of seven articles under the general head of "A Policy for Wealth," *The Economist*, London, has been facing the economic peril in which Great Britain stands, because "*in every direction, in world strategy, in international commerce, in the promises that have been made to the people at home, the British community has mortgaged its wealth beyond its present power to produce.*" Therefore, means of increasing the production of wealth "must be sought wherever they are to be found."

That was the startling text. The articles were not in any sense dogmatic. Their purpose was "to point the necessity for hard thought and effective action, if the foundations of all economic wealth are not to crumble." In the October 14 number, the seven articles are summarized and the suggestions at which they arrived are reduced to the following twenty points.

ONE

"For the British community, and for many years to come, the size of the cake of the national output is certainly as important as, and probably far more important than, any questions about the size of the various slices. Neither full employment nor social security will be accounted successes unless they can be combined with a rising standard of output.

TWO

"In past decades the average rate of increase of productivity per head has been about $1\frac{1}{2}\%$ per annum compound. The objective should be to raise this rate to $2\frac{1}{2}\%$ per annum, which is equivalent to doubling the present average productivity in a generation. This would bring productivity in Britain in 1975 to about the level reached in America today.

THREE

"Though many things contribute to a nation's productivity, by far the most important factor is the amount and quality of its productive equipment. Horsepower per head = wealth per head. The most important single constituent of a policy for wealth should therefore be a speeding up of the rate of increase of productive equipment. Before the war, the British community was investing only about 3% of its income in additional productive equipment. This is not enough.

FOUR

"In the recent past, there has been no lack of savings for the volume of investment in productive equipment that industry was prepared to undertake. But this may have been because that volume was so small. If a policy for wealth is embarked upon, one constituent of it should be action to ensure a

sufficient supply of savings to finance the increased volume of productive investment. This might necessitate a continuance of the national savings campaign, or even taxation.

FIVE

"Unproductive forms of capital, however necessary they may be (*e.g.*, housing), should not be allowed to absorb more than their fair share of the available supply of savings.

SIX

"The machinery of the capital market, by which savings are made available to industry, does not work unsatisfactorily. But there is a need for means by which capital can be supplied on equity terms (*i.e.*, on a risk-sharing and profit-sharing basis), especially to small firms.

SEVEN

"The burden of taxation on industry needs to be radically reconsidered, with a view not so much to reducing its burden as to redistributing its incidence, so as to put a premium on the use of industrial income for the rapid replacement and extension of productive equipment.

EIGHT

"There is no good reason to suppose that the substitution of public for private ownership would, by itself, lead to any increased investment in productive equipment. But in a number of industries, of which coal and steel are examples, the present structure is an obstruction to rapid technical progress. The prescription is technical rationalization with the object of producing the maximum output at the minimum labor cost; ownership is a secondary matter.

NINE

"Restrictionism in all its forms—particularly price-fixing and quota-fixing activities—is the major enemy of efficiency. It penalizes the efficient and protects the inefficient. If there is to be a rapid increase in productivity, it must be brought within bounds.

TEN

"But competition by itself, without a reasonable rate of profits, will lead to the consumption of existing capital rather than to the production of new equipment. The aim of government policy should therefore be 'competition-in-prosperity'—that is, a severe ban on restrictive devices coupled with an effective full-employment policy. Neither one of these two will do much good without the other.

ELEVEN

"Both labor and capital should accept the historically demonstrable fact that good profits and high wages go together. Organized labor should

realize that it is in its interest to ensure a reasonable return on the productive capital employed in the industry—an aim which is entirely compatible with hostility to large incomes for individuals. Industry should realize that its markets depend on the incomes of the wage earners. The best way of linking the two would be by industry-wide profit-sharing schemes, on the lines of the coal-mining 'ascertainment.'

TWELVE

"In return for an official 'high wages' policy, relating wages to the national output, the trade union movement should formally abjure all rules, practices, demarcations and other devices which have the effect of reducing output per man hour. Any doubtful cases should be adjudicated by a tribunal.

THIRTEEN

"Demands for shorter hours (other than those where it can be demonstrated that a higher output per week would result) should be deferred until the national output reaches a figure specified in advance.

FOURTEEN

"Double-shift working should be regarded as the rule, rather than the exception, wherever substantial mechanical equipment is involved.

FIFTEEN

"An effort should be made throughout the educational system to multiply the scientific community by four or five within a generation.

SIXTEEN

"The existing gap between the universities and industry should be closed by the foundation of institutes of technology.

SEVENTEEN

"The expenditure of industry on scientific research and development should be very greatly increased. The status of the scientist in industry should be improved and he should be given a much larger voice in the formation of industrial policy. Particular attention should be paid to the development, or pilot-plant, stage.

EIGHTEEN

"The quality of British industrial management should be improved. Managers need to have much more technical competence. The amateur element on boards of directors should be reduced and the expert element increased. The need for the educated mind in industry should be recognized.

NINETEEN

"Distributive methods should be included in the agenda for technical rationalization. In many cases, uneconomically small-scale production is dictated by the merchanting system.

TWENTY

"The wastes directly and indirectly involved in some forms of advertising should be rigorously examined."

CONCLUSION

A policy so contrived would call for "a major effort on the part of the governmental machine," or something like an economic general staff to make innumerable administrative decisions touching the economic life. This *The Economist* easily concedes. The great difficulty, it thinks, will be to arouse public opinion. The political parties have nothing to offer. The Tory party, dominated by business, either believes in the deliberate protection of inefficiency or takes refuge in expedients with no sense of policy whatever. The conclusion is:

"Only a radical improvement in the efficiency and productivity of the country can enable us to meet the commitments into which we have already entered. . . . The greatest dangers are not deliberate obstruction and stupidity, but apathy, fatalism and an acceptance of inferiority. . . . It is taken too much for granted that the days of expansion and adventure are over. There is too much readiness to accept the superior efficiency of other countries as something that does not concern us—to deny the facts for as long as possible and to offer complacent excuses for them when they cannot be dodged any longer. . . . In economics, as a nation, we are thinking in terms of Maginot lines. But in economics, more even than in strategy, a defense that does not permit any forward movement is doomed to failure. All the great economic problems are one. . . . Social security and full employment will be sterile unless they are built on a basis of rapidly expanding wealth. Nothing could be more foolish than to dispute the order of precedence. All three legs of the tripod are required for security, and the great need is for leadership strong enough to build all three at once. There has never been a greater opportunity for economic statesmanship."

A British Peculiarity

In 1939, it was an extreme rarity to find a manufacturing industry where anything approaching genuine competition prevailed, where no control was exercised over either prices or the scale of production or the conditions of sale—and such exceptions as existed before the war will be found to have disappeared at its end. Even in the various forms of trading enterprise, where a few pockets of competition can still be found, the principle of restriction has made great headway in recent years. Moreover, this trend, so much in evidence in Britain, has been largely confined to this country, at least among the English-speaking nations. If there is some peculiarity of British industry to explain, then this is more likely, *prima facie*, to be the explanation than anything else.—*The Economist*, London.

Modern Governments Must

By Marriner S. Eccles

This is the Speech Delivered by the Chairman of the Board of Governors of the Federal Reserve System before the National Industrial Conference Board on November 16, last

IF WE are to win the peace as well as the war we must know where we are going when war no longer is the driving force of the economy.

In less than four years this nation has accomplished a miracle of production. At the same time we have had a remarkable degree of economic stability. All of us have seen the miracle happen—many of you helped greatly to bring it about—although at times some have lost sight of it in criticism of details. The problems have been and still are staggering. Nevertheless, under government direction, program after program has been put through successfully.

The vast cooperative achievement of our people—industry, labor, agriculture, and all other groups—was only possible because of government organization of united effort, government planning, government financing, and government settlement of countless conflicts of interest on the economic front. Within this framework, the accomplishments of industry have been tremendous. The over-all results have been magnificent.

There have been withdrawn for armed service well over 11 million men and women in the most productive age groups. At the same time we have increased the total output of our country to 75% above 1939 levels. We are supplying goods and services in support of the war effort at a rate of about \$85 billion a year. At the same time, output for civilian use is valued at about \$110 billion. Nearly one-fourth of our food production is going to our Armed Forces and our Allies. Per capita civilian consumption of food is well above the prewar level.

Peak Living in Wartime

While fighting the greatest war in history, the country has succeeded in raising the standard of living for the population as a whole above the level of any peacetime year. Moreover, we have created many new industries or greatly expanded existing ones—for example, magnesium, synthetic rubber, shipbuilding and aircraft. We are producing planes at the astounding rate of 100,000 a year. Before the war we imported nearly all our rubber. Our annual production of rubber now exceeds our imports of rubber before the war. This production record has been achieved by a net increase of about 6 million, or less than 15%, in civilian employment, combined

with a substantial increase in hours of work and more intensive effort.

I mention these facts because they so vividly reveal the magnitude of our postwar job if we are to continue to keep our productive resources fully employed.

Having experienced an output of goods and services of nearly \$200 billion during the war, the people of this country will not be satisfied with a peacetime output of \$125 to \$150 billion.

Having experienced several years of full employment, they will not tolerate mass unemployment.

They will not accept the explanations, so often heard in the past, that “we cannot afford it,” or that it is economically unsound for the government to intervene, or that we must wait for “natural forces” to come to the rescue.

The question before this conference is: “Postwar Price Problem—Inflation or Deflation?” The question so stated implies that we have a choice between one or the other. But if we have inflation, we shall certainly have deflation following it. Thus we may be faced with having both. However, if we avoid inflation, we shall still face the danger of deflation.

The Perilous Ifs

If, in the period of transition from war to peace, we fail to maintain wartime price controls and rationing until civilian goods become available in adequate quantities, an inflationary situation may well develop.

If, later on, we fail to raise the flow of consumers' expenditures greatly above prewar levels, deflation will be inevitable. The danger of inflation in the transition period can surely be met. The danger of deflation presents a vastly more difficult problem. To solve it will be the main challenge to our postwar economy.

Nobody can foretell how strong inflationary pressures will be during the transition from war to peace. Inflation pressures include the pent-up demand for consumers' durable goods and housing; continued shortages of certain food and clothing items; the huge volume of liquid assets in the hands of the public; a potentially large foreign demand; and, finally, the people's desire to return to normal and to get rid of wartime controls once victory is won. The longer the war lasts, the greater the danger of inflation will be because of the cumulative increase in pent-up demand for civilian goods and in liquid assets in the hands of the public.

However, at the same time there will be defla-

tionary pressures working in the opposite direction. There will be large reductions in war expenditures creating unemployment in war industries. Demobilized war veterans will be added to the civilian labor force. There will be large stock piles of many raw materials. Uncertainty about future employment will deter many people from drawing on their savings or spending as much as they otherwise would out of their current income. Similar uncertainty will delay business expenditures. Many other factors in the situation, as the war ends, will add to the mixture of inflationary and deflationary forces.

Controls Must Continue Until—

Because of the uncertainties of the transition period, price, rationing and fiscal controls should be kept intact until industry has resumed civilian production on a scale adequate to meet demand. Only thereby can the consumer be assured that he will not lose by postponing purchases and that the purchasing value of his savings will be protected. This is vital because of the huge volume of liquid savings accumulated in the hands of the public as a result of war financing. If these savings were used prematurely through fear of impending price increases, they would be a destructive inflationary force.

Unless the program for the transition period is carefully planned and carried out, the long-run economic problems of the country will be vastly more difficult to meet. Just as the difficulties of the 1930's were due to the failure of the policies of the 1920's, so will our postwar situation be determined largely by the job we do in the transition period.

For example, we may expand our industrial plant too greatly and in the wrong directions in an effort to satisfy too quickly the huge backlog of demands. They will include not only the large pent-up demands for consumers' durable goods, capital goods and public works, but also large foreign demands. Instead of meeting these demands at once, prudent policy calls for satisfying them in a more gradual and orderly manner so that when these accumulated forces are expended, there will not be a sharp and sudden drop with serious deflationary consequences. It is better to ration, control prices, restrain credit expansion, and delay deferrable public works or foreign loans in this period than to have an unsustainable overextension.

Preparing the Higher Standards

It is most important during this transition period, while we have the sustaining power of backlog demands, to adopt policies designed to lay the groundwork for the higher standards of living we must have later on. These policies should include, among other things, a Social Security program covering all of our people and providing adequate benefits; a modified tax structure; maintenance of low rates of interest

to encourage new investment, including housing; and the planning of federal, state and local public works to be undertaken when the need to provide additional employment develops.

It is at this time, when the backlog of deferred need has been largely met and we must rely upon current demand, that we shall face the most difficult test of our ability to prevent deflation and mass unemployment.

On the average this year, about 52 million civilians are employed. In addition, more than 11 million are in the Armed Forces, making a total of more than 63 million, or nearly one-half of our total population. After the war, a substantial number of people attracted to the labor force during the war will retire or return to school or housework. A rich country such as ours can afford to give its young people adequate education and to provide retirement for its older people. But even after making full allowance for probable withdrawals from the labor force, it is evident that more people will be available for work in peacetime activities than are now employed.

The Minimum Income

What does this mean in terms of production in the postwar years? It has been conservatively estimated that in order to have reasonably full employment in the second year after victory, we will need to produce goods and services amounting to \$170 billion at 1943 prices. As the labor force and efficiency increase, this figure will have to be revised upward.

Yet, even a \$170 billion total reflects a volume of output vastly above that of 1939. In order to visualize what \$170 billion of expenditures means, let's divide them as follows: \$110 billion in consumers' goods and services; \$25 billion in plant, equipment, housing and other new investments; and \$35 billion in goods and services supplied by federal, state and local governments.

Allowing for price advances since 1939, these figures mean, for example, that as compared with 1939 we will need to have 40% more in consumers' goods and services, nearly twice as much in plant, equipment, housing and other new investment, and double the total of public expenditures.

These are challenging figures. They are significant not because they are in any sense a forecast but because they indicate the general magnitude of the job that lies ahead of us. It is apparent that we must aim high; that we can never go back. If we were to return to 1939 levels of production, from 15 to 20 million of our postwar labor force would be without jobs, an intolerable situation. Many of those without jobs would be veterans of this war.

The over-all economic problem may be defined in this way: in order for 56 million workers to have jobs, enough money must be spent to buy the output of 56 million workers. Production large enough

to employ substantially all workers is possible only if the total income from their product is spent either on consumers' goods and services or is saved and goes into new investment directly or indirectly.

Savings which are invested are returned to the stream of expenditures and thus continue to give employment. Savings that are held idle or used to bid up prices of existing assets do not.

If the flow of income back into the expenditure stream is interrupted, demand becomes insufficient to take off the market what is produced at full employment. As a result, production, income and employment inevitably decline. To assure a sufficient flow of expenditures is, first of all, the responsibility of the people and businesses who receive income and who decide how to use it. But there are millions of income recipients and tens of thousands of businesses in our country, and there is no assurance that a sufficient amount of expenditures will come forth in a steady stream.

If the purchases and investments of the people are not sufficient to buy the goods and services provided by full employment, then cumulative deflation and unemployment will develop unless the government steps in and provides a sufficient volume of total expenditures.

The larger the unused savings the larger must government expenditures be to overcome the deficiency in private spending and investment. The government has two ways of channeling idle savings back into the income stream; that is, either through taxation or through borrowing. As between the two, I believe that taxation must carry the main burden. I would be most hesitant to see further additions to the public debt after the war.

This Time and Before

In this respect, the postwar picture will differ greatly from that in the early 1930's when the economy had undergone a drastic deflation and large government deficits were not only unavoidable, but it was desirable to replenish a contracted money supply. An entirely different situation will exist after this war.

Upon the termination of the war, the total volume of currency, bank deposits and government securities, which are the equivalent of cash, will be far more than adequate as a basis for the purchasing power needed to provide full employment.

A more direct approach than deficit financing should be found in order to maintain necessary expenditures. Since we cannot afford, in the postwar economy, to have widespread unemployment, it will be essential, if all other methods of providing employment fail, to have the government underwrite employment through borrowing the unspent savings of the people and returning them to the income stream. However, this should be a last recourse.

A much more satisfactory approach would be to bring about the necessary increase in the flow of expenditures by other means; for example, by an extension of the Social Security program and by appropriate tax policies that would induce more spending and reduce idle savings.

Consumers Must Consume

A high level of consumers' expenditures is the basic requirement for postwar prosperity. The consumer is the real employer. If he receives adequate income, business has a buyer for its products; and having a buyer for its products, it has jobs for the workers. If the consumer does not buy, the markets for the output of business shrink and total income and employment fall off.

Much can be done to increase consumption through a much broader Social Security system. The government should underwrite and guarantee a national minimum of income, education, health and old-age security for all citizens. By so doing, the government can place a floor of purchasing power under the economy. This in turn will place a floor under the market for the goods and services of business, industry, and agriculture.

Decent minimum levels of income will themselves help to achieve and maintain full employment. Our productive capacity is so great that such minimum standards will not be a strain nor will they impose a dead level of uniformity. Ample room will be left for most people to raise their incomes far above these minimum levels.

Postwar Social Security benefits should not be based upon further additions to the payroll tax, but should be paid for out of the general budget, because a tax on payrolls is a tax on consumption and, therefore, undesirable when more consumption is needed.

The federal budget is not likely to be less than \$25 billion a year after the war, or about three times the prewar level of 1939. If we succeed in maintaining full employment, however, a budget of this size, in order to be balanced, will not require tax rates to be three times as high as before the war because the income base will be far larger.

Cost of Government

The higher the national income, the easier it will be to pay for the costs of government. It is doubly important, therefore, to recognize the close relationship between the way in which our taxes are collected and the flow of income from which they are drawn. Our postwar tax system should be designed to induce a high level of consumers' expenditures. Accordingly, the first requirement should be a drastic reduction in excise taxes because they tax consumption and thus undermine the markets for busi-

ness. Secondly, personal income taxes upon the lower income group should be reduced.

There is no lack of need for everything that we can produce. There are still a great many people in this country whose standard of living is shamefully inadequate. The basic problem is to see that the necessary purchasing power flows into the hands of those who will use it to increase their standard of living. An adequate Social Security program as well as assured employment will do much to induce the spending of current income and thus increase the standard of living.

A high level of consumers' expenditures is not possible without a large volume of wage and salary income. If our economy is to operate at full capacity, average wage and salary incomes must be high enough at normal hours of work to give the people sufficient purchasing power to take the product off the market. When, after the war, hours return to normal and overtime pay is discontinued, total wage and salary income will decline sharply. If we are to avoid sharply declining prices and loss of markets which discourage production and business expansion, a gradual upward adjustment will be necessary in the wages and salaries of the great mass of comparatively lower-paid workers.

Necessity for Higher Wages

Increases in productivity should be passed on to the public largely in the form of higher wages and salaries. In those industries in which productivity is increasing much faster than average, prices should be reduced in order to reach larger mass markets. Throughout, prices should be set on the basis of narrow margins per unit of output.

Once a high level of consumer expenditure is assured, the foundation for investment expenditures of business will be laid. Investment expenditures are made in anticipation of consumer demands and are not likely to be made unless business is assured in advance of an adequate market. We hear much about the reluctance of businessmen to take risks and engage in new ventures because of lack of confidence. However, business confidence is an effect and not a cause. It will exist if there are markets to look forward to; it will not exist if markets are lacking.

To assure adequate total purchasing power, it is necessary for business to disburse the funds which it receives from the buyers of its product. Corporate profits that are not used for capital expansion should be passed on to the workers or the owners, and thus returned to the expenditure stream. Depreciation and depletion reserves which accumulate as idle balances similarly constitute a drain on the expenditure stream. Currency, deposits and government securities held by businesses other than banks and insurance companies have increased from about \$24 billion in 1941 to the unprecedented total of \$66 bil-

lion. They should not continue to increase after the war because, as I have emphasized, business receipts must be respent currently to help sustain full production and employment.

The Tax Instrument

There is much discussion today in favor of reducing corporate taxation after the war. I believe that much of the current discussion is in the realm of wishful thinking because the revenue objective is set entirely too low. Also, I believe that removal of various excise taxes and a reduction of income taxes on the lower-income groups should come first. Once this has been done and revenue needs permit, I would favor a reduction in the corporation income tax. The rate might be lowered to 25% or 30% and the corporation permitted to take out of its taxable income that part of its profits which it distributes as dividends. This would remove double taxation of dividends under the corporation income tax. It would be an inducement for corporations to distribute their earnings.

The excess-profits tax with its carry-over and carry-back provisions should be retained for some time after the war at a reduced rate of around 65%. High profits that will be earned in that period are traceable to backlog demands and are thus in the nature of war profits.

As an encouragement to small business enterprise, provision should also be made for substantial tax benefits. This would stimulate investment in small and independent concerns. It would be the most effective way to make equity capital available to them and be of far greater help than to provide too much easy credit. Encouragement of small enterprise is essential not only for economic reasons, but to vitalize our democratic institutions and help keep alive the spirit of American enterprise.

This \$200-billion Country

Our economic problems must be worked out at home. There has been, in recent discussion, too much reliance on the stimulus to our domestic prosperity which may result from world trade. International cooperation is essential and international agreements, such as those planned at Bretton Woods, are desirable. Yet we must not forget that the level of postwar employment in the United States will depend primarily upon the existence of domestic markets for our products. Our first responsibility is full employment at home and achieving it is the most powerful contribution we can make to a prosperous world economy.

In the period ahead, we should keep constantly in mind that this is a \$200-billion-a-year country. We all know by now that we cannot gain by fighting over shares of a small total output. In 1932 when

many millions were unemployed, corporations as a whole lost nearly \$3½ billion and net current income of farm operators amounted to less than \$2 billion. In 1943 with full employment, corporations, after tax liabilities of about \$15 billion, had net incomes of nearly \$9 billion, an all-time high. Similarly, net current income of farm operators amounted to more than \$12 billion, likewise an all-time high. There is no profit in goods that are not produced. On the other hand, we all gain from a larger total output.

The Program

I have sought to outline the principal economic factors in prospect and the approach to the solution of our postwar problems which I believe promises the best hope of success. Such suggestions as I have made are, of course, only a part of a comprehensive long-run program for full employment. The objectives of such a program may be summed up as follows:

To maintain full and stable national production, income and employment to the maximum possible extent through encouraging the expansion of private enterprise.

To guarantee minimum standards of health, education, and personal security for all members of the community.

To provide for a steadily rising standard of living for the nation as a whole by development of our economic resources and by improving the efficiency with which they are used.

To promote a high level of world prosperity and world trade in cooperation with other nations.

Modern Government Is Obligated

There will not be much disagreement today among thoughtful people, regardless of political faith or economic background, on these goals of national economic policy.

Modern governments, including our own, have long since assumed a primary responsibility for the economic guidance and progress of their peoples. A highly developed nation like our own, with demonstrated capacity for providing a standard of living for all of the people far higher than anything we have ever known, can well afford to provide a national minimum of income, education, health and old-age security for all of the population. It cannot afford to do less.

Such a guarantee is not the impractical dream of the social reformer. It is essential for our national economic security and for protection of what we call our free enterprise system. Only defeatists today in the face of the war record will say that the goals of full employment are impossible of attainment under our economic system and form of government.

Eleven million of the youth of this nation now serving in the Armed Forces are not likely to believe

that we cannot afford in peace as in war to provide jobs for able and willing workers. They are well aware of the widespread discussion of postwar plans, and if they are impatient with it now because they think it shows an unawareness of all of the bitter fighting that remains to be done, they will be far less tolerant if, when they come home, they find that the planning and the promises about free enterprise and full employment are only a mirage.

Profit in War Still

How many will never come home, how many will return maimed for life—we do not yet know. We do know that it is these 11 million who are risking and losing everything to save this system of ours. We do know that the good intentions of a few years ago about taking the profit out of war seem rather like a mockery today. We do know that these 11 million have not shared in the veritable war boom which has enriched the home front. They have given up homes, jobs, businesses, and life itself. Those who have stayed at home, safe and protected, have been provided with a higher over-all standard of living than the nation has ever before enjoyed. They have accumulated the greatest volume of savings in our history. Farmers, workers, corporations, businessmen have on the whole higher salaries and wages, more profits, more savings and fewer debts than ever before. Most of this has come out of an expanding, already mountainous, national debt.

The stay-at-homes—you and I—own the shares in that debt. We will get the interest and be paid the principal on that debt when we want it. The 11 million—those who survive—will have to help shoulder that mountain of debt of which we stay-at-homes are the principal owners. They may be quite willing to do so if they have adequate jobs and economic security.

What Might Happen

You and I should have imagination enough to realize what would happen if we on the home front, who have profited so much and risked so little—while they have risked so much and profited so little—if we who have the economic power or the political power in this country accept the defeatism still expressed by some to the effect that the country cannot afford the goal of full employment because the dictates of so-called “sound finance” stand in the way. I cannot imagine more unsound finance or a plainer proof that we do not at heart believe in our system or in our democracy.

Those who have overcome the most terrible of obstacles to win this war are not defeatists. If we at home fail them, they will rightly take command and throw the defeatists out of public and private places of power and responsibility—and I, for one, would be all for helping them to do it. It need not happen that way.

Chester Bowles—

By *Himself*

Excerpts from the Speeches, Letters, Articles and Statements of the Price Control Administrator

IT HAS taken a second World War to press home upon us what our responsibility in international affairs must be. I hope it will not take a second great depression to teach us what is the appropriate role of government in the economic sphere.

* * * * *

If we are not prepared to accept enough government we may end up with too much. It may be paradoxical, but it is true.

* * * * *

If we want to avoid too much government after the war, we must recognize in advance the proper functions of government and we must agree on the policies and on the appropriate organization to discharge those functions efficiently and democratically. If we don't act wisely it may spell our finish as a democratic nation.

* * * * *

We must determine now that needed public works—federal, state and local—will be thrown into the breach at precisely the time and in whatever quantity is needed to keep the wheels of industry running and to keep men at their jobs.

* * * * *

We must determine now that any broad deflation of our present price and wage structure will not be permitted. We have placed ceilings over prices and wages to prevent wartime inflation. In the reconversion period we must protect prices and wages to prevent equally disastrous deflation.

* * * * *

As I see it, the essential role of government in this team is to underwrite the level of the national income and of business activity. It must therefore be prepared at all times—through public works, through adjustment of taxes and public expenditure, through stimulation of exports—to step in at the first sign of recession.

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Never before in our history has the democratic process worked with greater vigor and vitality than it does today.

* * * * *

If when the war is over we fail to take full and immediate advantage of our export opportunities, if we are not prepared to throw in public works when they are needed, business activity will slow

down. If that happens, employment, payrolls and prices will begin to fall and the vast potential demand of 132 million consumers and of 3 million businesses will dry up and disappear.

* * * * *

When the war in Germany is over, some businessmen will urge that prices be allowed to seek their own levels. Then they will ask, why put brakes on business? Why not close up OPA and let manufacturers charge whatever prices they think necessary and let it go at that? . . . But the bitter lesson of 1918-1921, when prices, left to their own devices, first skyrocketed and then collapsed, has made me feel that my job here is far from finished—much as I might personally will it otherwise.

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I believe this lesson should be clear to all of us. Much as we may wish to do so, we must not tear up the price regulations to provide confetti for the European victory celebration.

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As the country reconverts to peace, it is our job on the price sector to set price limits on the returning civilian products until the nation struggles back to solid economic ground. The job will not simply be one of controlling prices. No longer is inflation our only concern. At stake today are prosperity, full production, full employment.

* * * * *

We are determined to let the manufacturer cover his costs and make a profit. But we are equally determined to weigh the higher costs of labor and materials against the lower costs stemming from improved efficiency and mass production.

* * * * *

It was the war and only the war that brought the farmer real prosperity, the first real prosperity since the last war.

* * * * *

The war has shown that our farmers need more than a mere opportunity to share equitably in the national income, however low that income may be. They need an opportunity to get their fair share of the high national income which we can so easily produce when we are all working.

* * * * *

In the absence of wartime laws definitely assigning each individual to some wartime task, it became necessary to place price controls more widely throughout our economy than would otherwise have been necessary. This is a point of view which I personally accepted with reluctance, and only in the presence of facts which were irrefutable.

Mythologies of Reconversion

By Garet Garrett

THE physical problems of reconversion are measurable, and what can be measured is manageable. But the climatic conditions, political and social, under which reconversion will take place are neither measurable nor predictable, because, first, they arise from a series of strange mythologies, and because, in the second place, the mythologies from which the conditions arise are evolving and have no working history. Hence the confusion of postwar thinking, which in the individual case is often resolved by an escape into fatalism, as if, since nobody can think it through, one must believe that somehow it is bound to come out all right because this is a rich, resourceful and sane nation.

In all the literature of the subject so simply called reconversion, the idea that the task of restoring the economy to the peacetime rhythm should be left to the ways and means of free enterprise, with no intervention of government, is nonexistent. Indeed, if that idea should present itself in the naked form it would be alarming even to private enterprise.

Charles P. Taft, Director of the Office of Wartime Economic Affairs in the State Department, says:

"It seems to me high time that private business got away from its liking, perhaps unadmitted, for the security of government distribution of business under a quota system and began to justify the descriptive term 'enterprise.' The only reason I mention that is that, within the past few months, we in the State Department who have been pushing with all our ability for the reduction of trade controls, have been startled on at least two occasions to have delegations from the trade coming in to insist with us on the continuance of public purchase or other government intervention, because they were not prepared to take the kind of chances which I had always assumed were part of normal business risk. American foreign trade reached its peak in the days of the clipper ships, so far as its relation to our total trade was concerned. And those were the days when the foreign trader was a real 'enterpriser.' We shall regain such a position for foreign trade only when that spirit returns to foreign traders."

He is speaking of international trade. Nevertheless, the same words would make the same sense if they were addressed, as they might be, to the inwardness of the national economy.

The Lost Pattern

Our original experience with wartime control of the national economy—control of prices, production, distribution and money—was in the first world struggle, 1917-1918. Then coming to the problem of reconversion the question appeared: shall private enterprise immediately take over and do it alone,

or shall the wartime controls be continued for a while and relaxed in a gradual manner?

There was a decision. How it was arrived at you could hardly say. Business did not make it; nor did the government make it in any way to leave a formal record, as, for example, a debate in Congress. What happened was that the dollar-a-year men who had controlled the economy during the war, with almost no law at all, put on their hats and went home.

But who now will seriously propose the question: shall our peacetime economy be restored by private enterprise alone, with no overhand of government in it?

It is taken for granted as if it were a natural political fact that the government is obliged to participate and that it will in any crisis exercise the ultimate economic power. Laws to govern economic demobilization have already been enacted. Demobilization policies have been announced by executive agencies of government.

When the fighting stops the federal debt, it is supposed, will be of the order of \$300 billion, and the mopping-up may well require an addition of \$100 billion more. On the other hand, the liquid assets of business are of the prodigious order of more than \$75 billion, money in circulation is nearly \$25 billion, and the credit reserves of the banking system are nearly fivefold what they ever were before; and yet the Federal Government is expected to assume toward business an unlimited liability to provide loans and capital for purposes of reconversion, even, if necessary, venture capital.

How Attitudes Have Changed

So far as one can see, the road is paved, the directional signs are clear, and the sensation is that of coasting uphill. Whatever else happens, reconversion will be an experience with mixed economy; which is to say, an economy partly controlled and partly free, with consequences that no one may now foretell. The common consent with which this fact is accepted, notwithstanding the axiom now common in economic theory that government intervention feeds upon itself, marks a significant change in our ways of thinking and feeling. As the attitude of government toward business has changed, so has the attitude of business toward government changed; and, thirdly, there is a change in the attitude of business toward itself.

Many leaders in business are heard to say that private enterprise no longer has anything to do with the climate in which it must function; the govern-

ment controls the climate and it behooves business only to accept it and make the best of it.

Many things have run together to bring this change to pass. Habits of dependence are easy to form and very hard to break. Business has never recovered the hardihood of spirit it lost in the trough of the great depression, when to surrender control of banking to the government seemed the lesser evil, and the guardian wings of the Blue Eagle were a refuge from the severities of free competition.

Things That Are Caesar's

There is the fact also that for purposes of this war the things that are Caesar's and the things that are free have become extensively commingled. During the war before, the government acquired of its own no means of production except to make explosives. At the end of this war it will own 10% of the steel industry, more than 30% of the machine tool industry, more than one-half of the aluminum industry, nine-tenths of the aircraft industry, more than nine-tenths of the manganese industry, and practically the whole of the synthetic rubber industry—or, all together, more than one-tenth of the country's total means of industrial production.

In the individual case commingling is very bewildering, as when you walk through what was formerly a motor-car plant and note that Caesar's machines and free machines stand side by side, linked in one chain of production. Those that belong to the government may be identified by their brass legend plates—"Property of the Defense Plant Corporation, an instrumentality of the United States Government"; or "Property of the Bureau of Ordnance, U. S. A."; or "Property of the United States Navy."

Government as Enterpriser

The government was under no actual necessity to acquire ownership in the means of production. It might have confined itself to the part of banker or underwriter, instead of becoming itself the enterpriser. There could not have been one miracle more or less either way, because there was only one great pool of know-how and it belonged to private enterprise; and as for anything that was created out of it for purposes of war, such for instance as the rubber industry or the addition of 10% to the steel industry, it made no difference in time, quantity, or quality, whether the government hired it, borrowed it, or bought it. The difference comes afterward when the government, having bought it, must decide either to keep it and work it as a public enterprise or sell it.

But the change that has taken place is not yet accounted for. The commingling of things that are free and things that are owned by the government, even competitive things, is an effect, not a cause. Why was there that preference for government ownership? Although this may have been in the first place a preference on the part of government, it was

not entirely so. In many cases, in fact generally, private enterprise was readier to build new facilities for the government as owner, and then operate them for the government on a fee basis, than it was to assume the responsibility and risks of ownership. That also must be explained.

Consider, therefore, the mythologies aforesaid out of which will arise the new climatic conditions, political and social, under which private enterprise must flourish again. Let a mythology be understood to mean a set of popular ideas concerning, not natural phenomena as of old, but now economic phenomena. Some of these popular ideas have received scholastic statement in scientific terms that are beyond the ordinary capacities of comprehension, becoming thereby formidable to meet and hard to dispute, but no more or less valid on that account.

The Mythologies

There is first the *purchasing power* mythology, wherein it is believed that production is the result of income instead of income being the result of production. If that is true, everything else is simple. You don't worry about how to increase the production of divisible wealth, nor about the cost of increasing it; you think only of how to create and distribute in the form of spendable money an amount of buying power equal to a predetermined output of consumable wealth. If people have the money to spend, production will follow. Formerly it was supposed that in order to consume people had first to produce; now it is that in order to produce they must first be able to consume.

There is the mythology of an *expansionist economy*. This does not mean an economy that expands. Every economy does either expand naturally or become static and die. An *expansionist economy* is one that must be directed by a grand national policy; the ultimate responsibility to see that it works belongs to government, and the aim is a steady job at high wages for everybody who wants to work for wages, a profitable business for everyone who prefers that, which together with social insurance for all the rest will produce a standard of living very much higher than was ever known before the war. The term "expansionist policy" seems to have been invented in England, and in order to pursue it Great Britain has already adopted the principle of a planned economy after the war. And all of this comes from saying: "The performances of wartime, with everybody employed at high wages, must be continued in time of peace; it needs only to be intended and planned that way." It may be that only three things are left out, namely: (1) the progressive exhaustions, (2) the heedless waste, and (3) the fact of unlimited compulsory consumption, in time of war.

There is the mythology of the *compensatory budget*. Entwined with this one are certain others,

such as the mythology of fourth dimensional debt, which has no weight because people owe it to themselves; the mythology of a currency also without weight, redeemable only in itself, upheld in space by an internal planetary law; the mythology of thrift as an anti-social habit, which obliges the government to take from those who save too much and spend it for the sake of those who do not save at all; and the mythology of virtual solvency, which takes the premise that although a government pursuing an expansionist policy must not forget the realities of sound finance, still its ideas of solvency must be reasonable and relative, not rigid. As between immediate welfare and solvency, or as between immediate welfare and inflation, there can be no choice.

Crudity of Pump Priming

In this country the mythology of the *compensatory budget* grew out of the crude idea of pump priming, which never quite worked, for the reason the zealots said, that there never was enough of it. In order to produce its effects it must be done on a very large scale, uninhibited by the fetish of solvency. In other countries, as in Italy and Germany, there was neither a scientific theory nor a proper name for it. Simply, it was a cynical way of bribing people with their own money, leading to inflation and then either to bankruptcy or totalitarianism. The theory of the *compensatory budget* is that in bad times the government will borrow and spend in order to keep the national income at a predetermined level, on the ground, as before, that production is a result of income. As the government does this it may hope to be able, when the tide turns, to balance its budget out of taxation and pay off some of the debt. The theory runs to many refinements and complications, including the theory of taxation as an instrument of social policy to govern the distribution of wealth. Taxation for revenue only is a thought now relegated to the age of *laissez faire*.

Then there is what might be called a *lend-lease mythology*. This one evolves obscurely, owing to the fact that knowledge of its workings is wartime knowledge, and for that reason imperfect. It may even change its name. However, what is building seems fairly clear. The idea is, first, that it is no longer possible for America to prosper in the selfish and incomparable manner of old, because the have-not people will be too sensitive and too envious; secondly, in order to raise our own standard of living we shall have to provide all the have-not people of the world with more purchasing power; and thirdly, in order to have full employment at home we must enormously increase our exports, and this necessity to increase exports is so great that if we cannot sell our surplus abroad to people who can afford to buy it, then it will be better to lend-lease it to them than not to get rid of it at all. How we shall be able to increase the purchasing power of other people by

giving our goods to them is a matter that has not been fully worked out. The theorists have not yet had their fair chance at this mythology. They would probably admit that the beneficiaries should have the right to select the goods they receive for nothing, because there is nearly always something they could not afford to take. This was illustrated in the case of the British, greatly worried about the future of their merchant marine, who suddenly discovered that they could not afford to receive from the United States one thousand ships as a gift, even if this country were willing to equalize matters in that way, because if they did take the ships, and got them for nothing, what would their own shipyards do for work while the ships were wearing out?

One of the ideas now developing is that between the United States and Great Britain, who will be the two principal competitors for international trade, reconversion shall be cartelized. This means that in both countries wartime controls shall be lifted in a synchronous manner so that the start may be even.

Finally there is the popular mythology of social security. The powerful emotional drive behind this idea causes it to be almost immune from criticism. Therefore it is likely to go far, even further here than anywhere in Europe, but on a much narrower base of experience, and perhaps to the logical extreme. At that extreme, with everyone fully insured by the government against unemployment, sickness, accident, old age, crop failure, business failure, and low prices, the government would be in the position of the individual who insures himself. Who will insure the government? Who will guarantee the security of the public fund?

The Weather Ahead

Such are the ideas that will make the weather ahead. It is going to be strange weather; on the horizon are some very ugly cloud formations. Nevertheless, private enterprise is expected to set all sail and go straight into it. To do so is not an act of judgment; it is a gamble with faith.

And how does the mind of private enterprise react to this adventure? What does it say of itself? It says: "There is nothing to be done about the weather. We shall have to take it as it comes." Then the private enterpriser turns to problems that are near and measurable, and these fall under three heads, namely: production, cost and price.

Take prices first. Prices are a function of money. It is impossible to make a rational calculation for the future without assuming something about money.

So a man goes to his banker and asks, "What is going to happen to money?"

The banker replies that nobody can say what is going to happen to money.

The man says: "But look at this. If we say that during the war production has doubled, the amount

of money in circulation during the same time has increased fourfold. The only reason why we have not already had terrific price inflation is that prices have been controlled by the government."

The banker says that is so.

The man continues: "Well then, even if we can maintain production in peacetime at the level of wartime, still there will be too much money in circulation, and the amount will increase as the government brings out its postwar loans. How will that excess of money be retired, and if it is not retired, how can you keep it from dividing itself into prices, with very serious inflationary effects?"

The banker does not know the answer. Nobody can form an intelligent answer until there is a postwar fiscal policy, and any postwar fiscal policy is bound to be influenced, perhaps governed, by the mythologies.

The Cost Minus Theory

Wondering in a vague way which would be the lesser evil, inflation or continued price control, this typical enterpriser turns his mind to the problem of costs. Cost is a function of price. It is true that the cost of production and the selling price of the product may rise together, leaving a margin for profit, but at this point he may read a statement by Chester Bowles, head of the OPA, on postwar price policy. Mr. Bowles says:

"When V-E day comes, there will be hundreds of manufacturers wanting to know what prices they can charge on items which have long been off the market. We are setting up machinery to give them these prices, and give them without delay. We don't want manufacturers hopping trains to Washington and spending anxious days waiting to find out what their prices are going to be."

Therefore, price ceilings, to begin with, fixed at Washington. Specifically as to motor cars, Mr. Bowles says:

"There has been loose talk that automobile prices would be up 25% to 35%. What are facts in the automobile industry which will determine the price of the postwar car? Remember, I have said that we shall permit the manufacturer to increase his price if necessary to cover any real increases in his direct labor and material costs. But straight-time wage rates in the automobile industry have advanced only 4½% since early 1942. Major materials that go into automobile construction, such as iron and steel, have not advanced at all. While textiles and lumber have advanced somewhat, other materials, such as aluminum and magnesium, have actually declined. I am no production expert, and there may be cost increases which I do not know about. But I do know that the automobile industry has taken no back seat in war production. The industry has new and even greater know-how than it had before Pearl Harbor. On the face of it, reports that your new car will cost 25% to 35% more than it did before the war are emphatically not true. I am not sure there need be any in-

creases at all. The OPA intends to review all new prices on reconverted products after a few months of operation. When the new machines and techniques are carried over from wartime production to civilian factories, they should more than offset higher wages and materials. In time, I am confident, you will get better products at lower prices than ever before."

Bad Shadows

This means that the motor-car industry will be expected itself to absorb increased costs instead of adding them to the price of the automobile. "Straight-time wage rates in the motor industries," says Mr. Bowles, "have advanced only 4½%," and that seems to him very little for the industry to cancel out by its know-how. But the wage rate is not the measure of labor cost. You may have a low labor cost with high wages or a high labor cost with low wages. The controlling factor is productivity per man hour of labor, and the components of that factor are four, namely: (1) tool power, (2) efficiency of management, (3) efficiency of labor, and (4) the willingness of labor to let its productivity rise.

Will organized labor be willing to resume the prewar standard of productivity? The evidence so far is not very encouraging. Recently one of the big motor-car companies set up to make a limited number of trucks for civilian use. Labor was unwilling in that case to maintain even the wartime standard of productivity, and as for going back to the prewar standard, which was higher, it said no, flatly, and the work for that reason was stopped until a compromise could be worked out. It was not a question of wage rates. It was a question of costs. Certainly the motor industry is one that could be trusted not to overprice its product. It was entirely built on the opposite principle.

Or Else

Thus it appears that private enterprise will be put on a spot. Reconversion will be a kind of trial by ordeal. The conditions under which it produced the American phenomenon no longer exist. Nevertheless, it must produce another phenomenon. It must provide full employment at high wages, and a predetermined national income, which shall be twice as large as before the war. American enterprise must do this on demand and do it at once—or else. What *or else* means is that if people are disappointed the consequences for private enterprise will be dire. If private enterprise can't, or won't, the government will. This *or else* thesis was expounded in the May, 1944, bulletin of the Federal Reserve System; the premise is that unless gross national product can be held at the level of \$170 billion, or at about twice what it ever was before in time of peace, our institutions will be in danger—one of the institutions being of course, free private enterprise.

And so it is that private enterprise will come to

the enormous physical reality of reconversion in the character of a prepared scapegoat, guilty beforehand of anything that may go wrong, especially for any seeming loss of time.

The Matter of Time

A common notion is that going from war to peace ought to take less time than it took to go from peace to war, because the things that had to be made for war were all strange, whereas in going back to production for civilian use industry will know exactly the things it wants to make and how to make them, having done it all before.

It is impossible, however, that in the transition from war to peace there can be anything like the sense of desperate urgency that controlled the work of converting industry to the uses of war. Moreover, in the reaction from the compulsions and restraints of wartime, people very naturally will feel heady with release and be inclined to test their freedoms, as, for instance, their freedom to strike. All indications are that industry will be faced with an extremely bad labor situation.

Secondly, it is one thing to make industry over for one insatiable customer, *i.e.*, war, with no thought whatever of cost or price, and a very different thing to make it back again on a competitive basis, for millions of customers exercising once more the freedom of consumer choice, with all the factors of cost and price restored. And if a time comes, as it probably will, when conversion seems to be lagging and the recriminations begin between government and industry over who is wasting the precious days, the difficulty will be to make people comprehend the complexities of mass production.

Invisible Phenomena of Mass Production

Those who have seen miles of automatic machines in chain, a moving assembly line, finished motor cars cutting off at the end of it at the rate of two or three a minute, may think they have seen mass production. But they haven't. They have seen only the finale of it. Back of all that, invisible, is an organized flow of material and parts resembling somewhat a continental drainage system, beginning with springs, creeks, and rivulets, all running together to form the tributaries, and then the great river that arrives in Detroit and gives you there the spectacle of motor-car falls. There is one flaw in the analogy. In a natural drainage system many little sources may fail without drying up the falls, whereas in the flow of materials and parts that is organized for the mass production of motor cars in Detroit the failure of even one little spring or one little stream at the source may cause the assembly line to stop for want of a thing you could hold in your hand, a bronze bearing perhaps.

But this is all movement and process. There are antecedent events that have a certain sequence and

take time. What to make is the first question. What will it cost? Can it be sold at a price that will recover the cost? Here crucial decisions must be made, based partly on fact and partly on judgment, and any serious error will be fatal. Then the designing and the engineering begin; there must be a blueprint for each part of the thing that is to be made.

Next come the tool engineers who from these blueprints determine what machine tools will be needed. Some will be standard machines. Many will be special-purpose machines, and for each special-purpose machine there must be first a design and then a blueprint for the machine tool builder.

At this point the supply men begin. First are those who set up a chart of the machine tools that are wanted, order them from the machine tool builders, and pursue each order by telephone with threatenings, wheedlings and prayer, until the machine appears on the chart as one that is finished and incoming. Secondly come those supply men who will begin to organize the flow by placing orders for materials, parts, and accessories with a thousand suppliers all over the country.

In Either of Two Cases

The law of this sequence has the rigor of a mechanical principle. Consider it in relation to the automobile industry. Suppose that the war has come to a sudden end and everything is free for a total reconversion of the industry. Suppose also that the preliminary engineering has all been done beforehand and that the blueprints are ready. Even so, the production of motor vehicles cannot be resumed until the industry gets thousands of new machine tools. The automobile industry, therefore, will be waiting on the machine tool industry and there will be nothing that anybody can do about it.

People will ask why any new machine tools are needed. Why can't the automobile people bring back the machine tools they had when the production of motor cars stopped? The answer is that many of those machine tools were dispersed for war uses. Many others were rebuilt for war uses. Some are simply obsolete. In order to absorb even part of the increased labor cost instead of adding it to the price of the automobile the industry must have better machine tools than it had before. It cannot afford to reinstall those that have become obsolete.

Or suppose that the war has come to an end only in Europe, which is more likely to be the case, and that reconversion, therefore, must take place on a limited basis, the government saying to the big motor-car corporations in Detroit: "One-half of your capacity is hereby released for civilian production. To that point the government reduces its demands upon you, removes its material and machines and gets out of your way. Now begin and begin immediately, so that there shall be no unemployment." But can the motor-car industry begin simply by

moving half of the government's things out and putting its own things back? Not immediately. Not at all, unless at the same time in a parallel manner an equivalent amount of industrial capacity has been released among thousands of suppliers of raw material, parts, and accessories, all the way back to the sources of flow.

In either case—total reconversion from the dead end of war or limited conversion from a drastic cut-back in war orders, come V-day in Europe—the time it will take can be foreshortened only by thought beforehand and getting the preliminary work done.

To tool up the war job the machine tool industry was enormously expanded. Then when the war tooling came to an end a large part of the machine tool industry was idle. That idle capacity, or part of it, might have been employed to make the machine tools that are going to be needed to reequip industry for peacetime production. That was the use of it that was recommended by industry. But it was not so employed. All that idle capacity of the machine tool industry was converted from tool making to war production. This was in itself a notable feat and perhaps necessary. Nevertheless, if it happens that when reconversion begins everybody has to wait for machine tools it should be remembered that the time that might have been saved was devoured as an act of military judgment. The loss of it should be charged to the waste of war.

Kinds of Waste

The amount of waste that will overrun the end of the war is almost unimaginable. From an incredible production job you are bound to get an incredible junk heap. But whereas nobody cared what the production job cost there will be anguish and scandal over what the junk heap represents in terms of past expenditures. Any number of planes and guns might be piled there and that could be understood. They were expendable items. But the wonderful machine tools that made the planes and guns are not easily so regarded, and when the machines begin to be junked there will be an outcry against it.

You may explain that owing to the advance in the machine tool art you can no longer say a lathe is a lathe, because the skill to do a special thing now is built into the machine; but when you have so explained it people will say, looking at that machine on the junk heap, "But it must be good for something." For something, yes. So you might use a monkey wrench as a machine hammer, but that is not what it is for, and if you did it only because you had a surplus of monkey wrenches it would be cheaper in the end to throw them away and buy hammers.

There are, of course, standard machine tools for general work and lathes that are lathes still. None of these will have to be junked; but specialized

machines are generally the more costly to build and the least available for reconversion. To rebuild them for other special purposes, even where that is possible, would generally cost more than to throw them away. The government itself has had this experience. In a very large bomber engine plant the tooling was originally designed for two engines. Then the government decided to devote the plant—its own plant—to one type of engine only, and a large number of machine tools already installed to make the other engine had to be moved out. They are now housed in sheds, on the grass outside, and probably will never be used on airplane engines or anything else, which means that they will probably die without ever having been used at all.

Notions about Salvage

Popular notions of the salvage value of surplus war property are naive and extravagant. That appeared, as you would expect, in the debate on the Surplus Property Act, the theme being that the government must protect itself against those who would try to make it believe its surplus property was worthless, then buy it at distressed prices and make a killing either by using it or reselling it. Industry's experience with its own salvage, as for example, when there is a change of product and a lot of equipment has to be scrapped, is that the average recovery is approximately 5% of cost, and that is the result when the quantity is relatively small and the bargaining is fast. Now let the disposal of vast quantities of surplus government property become involved in bureaucratic deliberation and it is not at all improbable that the average recovery will sink to zero. In many cases the cost of selling it may be greater than the recovery, if storage and interest charges are accounted for.

It is even more painful to think of scrapping the magnificent war plants that have appeared all over the country. They are suitable only for big industry. Only big industry could buy them. But as a rule big industry does not want them. Take the big bomber engine plant in Chicago, built, tooled, and operated by the Chrysler Corporation, but entirely owned by the government. It is the largest single war plant. All that the Chrysler Corporation can think of to do with it when the war ends is to lock the door, give the key to the government, and walk off the job. If you ask, "Why not make motor cars in this plant?" the answer is: "We make motor cars in Detroit. If we make them here what shall we do with our people in Detroit? They have their roots there with us."

Nearly every large corporation has plans for plant expansion after the war. Knowing this, and hearing that the head of a large corporation says he would not give a nickel for one of those war plants, people say: "Ah! He wants to get it for nothing." But in many cases he wouldn't take it for nothing. The

explanation is that one may no longer say that a plant is a plant—walls, doors, windows, power facilities, and a side track—any more than one may say that a lathe is a lathe. The design of a modern industrial plant is now functional, like the design of a machine tool. To be efficient it must be designed for what it is for.

Recently one of the big Detroit motor companies had its accountants work out the figures to show which way in the end would have been cheaper—to have done it as they did do it, converting their motor-car plant entirely to war orders, or to have built a war plant for war work only. The figures proved that if the motor-car plant had simply been locked up and left as it was, and a war plant had been built and equipped to make the guns, the plane sections and so on, and if at the end of the war the war plant had to be entirely scrapped, still that would have turned out to be the cheaper way both for the government and the motor company.

Small business cannot buy these war plants. They are too big. Maury Maverick, head of the Smaller War Plants Corporation, thinks they might be turned into industrial tenements. Meanwhile there is rising a demand that the government shall keep and oper-

ate them for public benefit. Where the government's interest is relatively small, as it is in steel, representing only one-tenth the country's total capacity, the idea would be that of the yardstick—the government to keep a yardstick against which to measure private steel prices. But where the government's interest is very large, or already dominant, as in aluminum, rubber, and magnesium, the idea now forming is that of "free public enterprise in the institutional form." It is likely that that ingenious phrase will become a kind of slogan for socializing industry.

Reconversion before was a business of getting back to something we knew. The national economy had been to war and it had won the war without losing its law, its principles or its traditions. It had only to be restored.

Reconversion this time will not be simply a business of restoration; this time, according to the mythologies, it shall be a flying leap across the chasm of bitter postwar realities to a very high plateau of social security, economic stability, and a state of common well-being such as was never hitherto imagined, and all of that with the greatest of ease, if only it is rightly intended.

But Who Will Guarantee Work?

By Leo Wolman

WHEN you examine industrial policies in this country, you find that our Federal Government is—and, to a lesser extent, our state governments are—full of policies and regulations, and when you stop to inquire what those policies and regulations do, then you come smack up against a question of this kind:

How can a government undertake to guarantee income—which I don't think it can do—if it is not in a position to guarantee work?

There is no legerdemain by which product is created without labor, and hard labor. The thing to remember about the United States is that in order to get a product which gives the people of this country a moderate standard of living, better than anywhere else in the world, you need 55 million people working, working pretty hard on machines, with highly developed divisions of labor.

Suppose a government policy comes along and says: "You don't have to work so hard. We will guarantee your income."

What do you think people will do? What do you think they have already done?

Will the government, which guarantees income, undertake to guarantee work? Well, we know the answer to that. We have policy-making agencies in

Washington that are the sources of immense power over industry. They are making policies every minute of the day, and I spend a great deal of my time reading them and studying them, and I haven't found any yet that I would put in the category of policies in which the regulatory agency undertakes to tell people, "Well, you have to work a little harder than you did in order to justify this privilege, this right, this gain that you ask for."

Let me go to another country which has already guaranteed employment, which we haven't yet done, and take a look at one of their industries, because when you guarantee employment you don't guarantee it to a system. A system is a statistical invention. It is convenient; the Census needs it because the Census gathers a great deal of information, and it has to classify it some way. That isn't what industry is made up of. It is made up of firms, fellows that are in business, working, making money, borrowing money, losing money, everything that constitutes business.

In England you have a lot of industries. Take one of their most troublesome industries, one of the industries which produced depressed areas, the coal industry, which kept losing employment in England from 1920, the end of the last war, to 1940, the be-

ginning of this war. Why do you think it lost employment? Not because the coal operators didn't want to give it. I don't think it was because of any fiscal policy, or currency policy, or banking policy, but because they lost their markets.

Fate of Guarantees

Well, now, look what has happened during the war. There has been a drastic need for coal in England during the war. The man-day output of coal miners in England during the war has declined from 1.13 tons to 1.03. That is, instead of their man-day output going up, it has gone down, though there has been a substantial increase in the mechanization of British coal mines. I don't care what the reasons are, that is the fact.

The wages of British coal miners have doubled in this period.

Well, who is going to guarantee two things to the British coal miner and get away with it in England after the war if this trend continues—and I venture to guess it will—who is going to guarantee (1) employment to a satisfactory quota of coal miners? (2) a satisfactory income to them under those economic conditions?

I say the power that guarantees that is doomed to disappointment.

Social insurance, the greatest of potential benefits, but an instrument like other public instruments which can be perverted to uses for which they are not suited, raises many of the same questions. What are they? When you start a social insurance system you have a simple thing in mind, to collect premiums, to distribute benefits, in the eventuality of the existence of a risk. It is an insurance mechanism. What does it become in a very short while? It becomes an instrument for fixing standards of work through the country.

Unintended Consequences

Nobody intended unemployment insurance to be an instrument for fixing wages, hours of labor, the character of labor relations, whether you should work through collective or individual bargaining, but that is what it becomes almost instantaneously. So that the good it might do as a well-run, well-considered, well-managed social insurance system is undone by these other operations that it undertakes to assume.

Take the American railroads. Nobody who knew them would pick them as the place to look for big gratuities in the future. They are going to have a hard time employing the 900,000 people they employed before this war. They are going to have a hard time maintaining a moderate volume of employment. Well, through some turn of a wheel—characteristic of these developments under a democratic society in which there are pressures and ele-

ments that yield to pressure—somebody set up a special social insurance scheme for the railroad workers. Why? Not because the railroads are more prosperous than any other industry. The railroads weren't picked because they were the most prosperous industry in the country but because of fortuitous political considerations.

Then comes a new railroad social insurance bill making it even more separate, even more independent and distinct and liberal than any social insurance anybody the world over has conceived, in an amended bill which is now in the hands of the Senate committee and stands a good chance of being adopted. This bill provides social insurance benefits for the railroad workers in the United States which would cost, if measured that way, a minimum of 20% of the payroll.

When you begin to talk about costs of that kind, you are talking about things of importance. What can a monetary policy, banking policy, fiscal policy do about that? All you can do is have the government spend money to sustain something that ought never to have been done. Just as government spending will be used after this war to do what? To do a number of things, but among many of its important uses will be this one, that of sustaining wage rates that cannot sustain themselves.

Subsidized Unemployment

What do I mean when I say that government spending will be used to sustain wage rates that can't sustain themselves? I mean there will exist thousands of wage rates in this country at which people cannot find work. That is a demonstrably plain proposition. Everybody knows it is so. Well, then, these men who are out of work will be supported somehow, some way by the government. I don't think that is a sound function of public finance, of a banking and currency system, of a government. I think the sound policy of the government is to put things right so as to facilitate men and women going into jobs, and not so as to keep them out of work. And if with one policy you do things to keep them unemployed, you will have to invent another policy on the other side to support them for the longer or shorter period in which substantial numbers of people are not working. That was the history of the 1930's.

We can't go on in this country, there is no question about it, without government controls, without government intervention, without regulation and regulatory agencies, but what we have to make up our minds about in this country is a different question. It is this: what can the government safely and effectively regulate? There is something to study. There are points at which government regulation can be most effective—at least cost to its people. They are the points we want to find.

The Extreme Case against Unionism

By Henry C. Simons

This Is an Abridgment by the Editor of the Essay Entitled "Some Reflections on Syndicalism" that Appeared originally in The Journal of Political Economy, March, 1944

QUESTIONING the virtues of the organized labor movement is like attacking religion, monogamy, motherhood, or the home. Among the modern intelligentsia any doubts about collective bargaining admit of explanation only in terms of insanity, knavery, or subservience to "the interests." Discussion of skeptical views runs almost entirely in terms of how one came by such persuasions, as though they were symptoms of disease. One simply cannot argue that organization is injurious to labor; one is either for labor or against it, and the test is one's attitude toward unionism.

But let me indicate from the outset that my central interest, and the criterion in terms of which I wish to argue, is a maximizing of aggregate labor income and a minimizing of inequality. If unionism were good for labor as a whole, that would be the end of the issue for me, since the community whose welfare concerns us is composed overwhelmingly of laborers.

Our problem here, at bottom, is one of broad political philosophy. Advocates of trade-unionism are, I think, obligated morally and intellectually to present a clear picture of the total political-economic system toward which they would have us move. For my part, I simply cannot conceive of any tolerable or enduring order in which there exists widespread organization of workers along occupational, industrial, functional lines.

The Conflict Defined

Sentimentalists view such developments merely as a conflict between workers who earn too little and enterprises which earn too much; and, unfortunately, there has been enough monopsony in labor markets to make this view superficially plausible, though not enough to make it descriptively important.

What we generally fail to see is the identity of interest between the whole community and enterprises seeking to keep down costs. Where enterprise is competitive—and substantial, enduring restraint of competition in product markets is rare—enterprises represent the community interest effectively; indeed, they are merely intermediaries between consumers of goods and sellers of services. Thus we commonly overlook the conflict of interest between every large organized group of laborers and the community as a whole.

What I want to ask is how this conflict can be reconciled, how the power of strongly organized sellers can be limited out of regard for the general welfare.

No insuperable problem arises so long as organization is partial and precarious, so long as most unions face substantial nonunion competition, or so long as they must exercise monopoly powers sparingly because of organization insecurity. Weak unions have no large monopoly powers. But how does a democratic community limit the demands and exactions of strong, secure organizations?

The Position of Power

In an economy of intricate division of labor, every large organized group is in a position at any time to disrupt or to stop the whole flow of social income; and the system must soon break down if groups persist in exercising that power or if they must continuously be bribed to forego its disastrous exercise.

There is no means, save internal competition, to protect the whole community against organized labor minorities and, indeed, no other means to protect the common interests of organized groups themselves.

The dilemma here is not peculiar to our present economic order; it must appear in any kind of system. This minority-monopoly problem would be quite as serious for a democratic socialism as it is for the mixed individualist-collectivist system of the present. It is the rock on which our present system is most likely to crack up; and it is the rock on which democratic socialism would be destroyed if it could ever come into being at all.

All the grosser mistakes in economic policy, if not most manifestations of democratic corruption, arise from focusing upon the interests of people as producers rather than upon their interests as consumers; *i.e.*, from acting on behalf of producer minorities rather than on behalf of the whole community as sellers of services and buyers of products.

The Ultimate Interest

One gets the right answers usually by regarding simply the interests of consumers, since we are all consumers; and the answers reached by this approach are presumably the correct ones for laborers as a whole. But one doesn't get elected by approaching issues in this way! People seldom vote in terms of their common interests, whether as sellers or as buyers.

There is no means for protecting the common interest save in terms of rules of policy; and it is only

in terms of general rules or principles that democracy, which is government by free, intelligent discussion, can function tolerably or endure. Its nemesis is racketeering—tariffs, other subsidies, and patronage dispensations generally and, outside of government, monopoly, which in its basic aspect is impairment of the state's monopoly of coercive power.

Trade unionism may be attacked as a threat to order under any kind of system. The case against it is crystal clear if one thinks in terms of purer types of systems like democratic collectivism. A socialist government, faced with numerous functional minorities each organized to disrupt the whole production process unless its demands are met, would be exactly in the position of recent Chinese governments faced with great bandit armies continuously collecting ransom from the nominal sovereign. It would either deprive such minorities of the power to act as units in withholding services or be displaced by a non-democratic authority which could and would restore monopoly of violence.

There is no place for collective bargaining, or for the right to strike, or for effective occupational organization in the socialist state, save in the sense that revolution against established authority is an undeniable privilege and violent chaos always an imminent possibility; and every intelligent socialist, whatever his public utterances, knows as much. . . .

Power Must Be Dispersed

I am arguing, however, not as a socialist, but as an advocate of the elaborate mixed system of traditional economic liberalism. The essence of this practical political philosophy is a distrust of all concentrations of power. No individual may be trusted with much power, no organization, and no institution save the state itself.

The state or sovereign must, of course, possess great reserves of power, if only to prevent other organizations from threatening or usurping its monopoly of violence. But the exercise of power inherent in government must be rigidly economized. Decentralization of government is essential. Indeed, the proper purpose of all large-scale organization or federation—as should be obvious to people facing the problem of world order—is that of dispersing power. . . .

Governments can be trusted to exercise large power, broad functions, and extensive control only at levels of small units like American states and under the limitations imposed by freedom of external trade. Especially in the higher levels or larger units of government, action must follow broad general rules or principles. Only by adherence to "constitutional" principles of policy can the common interest be protected against minorities, patronage, and logrolling; and only in terms of issues of broad principle can government by free, intelligent discus-

sion (democracy) prevail. Most important here are the presumptions in favor of free trade and against dispensations to producer minorities. . . .

The government must not tolerate erection of great private corporate empires or cartel organizations which suppress competition and rival in power great governmental units themselves. It must guard its powers jealously both against the combination of numerous pressure groups and against powerful lobbies like the present federal lobby of landowners. It must hold in check organizations designed for raiding the Treasury (witness the history of pension legislation and the political power of veterans' organizations). Finally, and most important for the future, it must guard its powers against great trade unions, both as pressure groups in government and as monopolists outside.

Until There Is No Solution

The danger here is now most ominous, in the very nature of such agencies and also because the danger is least well recognized and commonly denied entirely. In other areas we are, if diffident and careless, at least on our guard; nothing is likely to happen that cannot be undone if we will; but labor monopolies and labor "states" may readily become a problem which democracy simply cannot solve at all.

There must be effective limitations upon their powers; but I do not see how they can be disciplined democratically save by internal competition or how that discipline can be effected without breaking down organization itself.

Here, possibly, is an awful dilemma: democracy cannot live with tight occupational monopolies; and it cannot destroy them, once they attain great power, without destroying itself in the process.

If democratic governments cannot suppress organized extortion and preserve their monopoly of violence, they will be superseded by other kinds of government. Organized economic warfare is like organized banditry and, if allowed to spread, must lead to total revolution, which will, on very hard terms, restore some order and enable us to maintain some real income instead of fighting interminably over its division among minorities.

A community which fails to preserve the discipline of competition exposes itself to the discipline of absolute authority. Preserving the former discipline, we may govern ourselves and look forward to a peaceful world order; without it, we must submit to arbitrary authority and to hopeless disorder internationally. And, let me suggest again, the problem is quite as critical for democratic socialism as for the decentralized system of orthodox liberalism. An obvious danger in collectivism is that the vast powers of government would be abused in favoritism to particular producer groups, organized to demand

favors as the price of maintaining peace, and available to support established authorities against political opposition. Adherence to competitive, productivity norms is, now or under socialism, a means for avoiding arbitrariness and, to my mind, the only feasible means.

The Free Line

Observance of such norms *does not* preclude wholesale redistribution of income afterward, if such redistribution proceeds even-handedly on the basis of definite, broad rules.

There is room for much socialized consumption, made available without price restraints or at prices well below cost. The policy requires, for good results, both deliberate supplementing of earnings at the bottom of the scale (relief, family allowances, old-age assistance, etc.) and, especially under free enterprise, progressive taxation of the most fortunate and their heirs and assigns. But the supplementing of public spending and the scaling-down by taxation must proceed even-handedly among functional groups, in terms of objective economic (income) circumstances and without arbitrary occupational differentiation.

Thus, poor farmers may properly be subsidized, like others of similar income and needs, because they are poor but *not* because they are farmers; and wealthy manufacturers may be taxed heavily, not because they are manufacturers of this or that, but because their incomes are large.

Incidentally, it is one merit of our present (past) system that inequality is measured closely by income and can most easily be modified systematically through taxation and spending. Inequalities of political power, which alternative systems are likely to produce in extreme form, are likely to be more obscure and certainly are not amenable to quantitative measurement or to continuous, systematic correction or mitigation. . . .

Who Will Forbear?

Every organized group of sellers is typically in a position to gain by raising price and restricting sales; the popular notion that they commonly are more exploitative than their own interests would dictate (that we need only more enlightened price and wage policies by organized groups) is simply mistaken. . . . There is little hope that mass organizations with monopoly power will submit to competitive prices for their services while they retain their organization and power. No one and no group can be trusted with much power; and it is merely silly to complain because groups exercise power selfishly. The mistake lies simply in permitting them to have it.

Monopoly power must be abused. It has no use save abuse. Some people evidently have believed

that labor organizations should have monopoly powers and be trusted not to use them. Collective bargaining, for the Webbs, was evidently a scheme whereby labor monopolies were to raise wages to competitive levels, merely counteracting monopsony among buyers, but eschewing further exercise of organizational powers. A trade unionism, affecting wages and working rules only within such limits, and doing all the many other good things that unions can do, would be a blessing all around. No one could seriously question its merits in the abstract. But monopsony in the labor market is, I think, very unsubstantial or transitory; and it is romantic and unreasonable to expect organizations to exercise powers only within limits consistent with the common interest. All bargaining power is monopoly power. Such power, once attained, will be used as fully as its conservation permits and also used continuously for its own accretion and consolidation. The skin disease of monopsony is certainly a poor excuse for stopping the peaceful and productive game of free enterprise and free exchange in favor of the violent contest of organized producer minorities.

Enterprise Monopoly

I do not assert that our only monopoly problems lie in the labor market. Save for the monopolies which government is promoting in agriculture, however, no others seem comparably important for the future. It is shameful to have permitted the growth of vast corporate empires, the collusive restraint of trade by trade associations, and the gross abuse of patent privilege for extortion, exclusion, and output restriction. But enterprise monopoly is also a skin disease, easy to correct when and if we will, and usually moderate in its abuses, since its powers are necessarily small, and since the danger of political reckoning is never very remote.

Enterprise monopoly, enjoying very limited access to violence and facing heavy penalties for unfair methods against rivals, is always plagued by competition, actual and potential, and must always operate against a deeply hostile, if lethargic, attitude of courts, legislatures, and the public. In exceptional cases it has acquired vast power and sustained power over long periods. In many cases it has transformed salutary price competition into perverse and wasteful "competition" in merchandising and advertising. But, to repeat, the proper remedies here are not very difficult technically or politically.

The Other Animal

Labor monopolies are, now or potentially, a different kind of animal. If much violence has been used against them as they struggled into existence, this should not obscure the fact that, once estab-

lished, they enjoy an access to violence which is unparalleled in other monopolies.

If governments have tolerated flagrant violations of law by employers, they are nearly impotent to enforce laws against mass minorities even if majority opinion permitted it. Thus, unions may deal with scabs in ways which make even Rockefeller's early methods seem polite and legitimate. They have little to fear from chiselers in their own midst; and they have now little to fear from Congress or the courts.

Freedom of Entry

Patently restrictive practices are now commonly deplored and, perhaps because unnecessary, seem somewhat on the wane. But there have been many cases of severe limitations upon entry—high initiation fees, excessive periods of apprenticeship and restrictions upon numbers of apprentices, barriers to movement between related trades, and, of course, make-work restrictions, cost-increasing working rules, and prohibition of cost-reducing innovations, notably in the building trades—not to mention racial and sex discriminations against which effective competition in labor markets is probably a necessary, if not a sufficient, protection.

It is not commonly recognized, however, that control of wage rates *is* control of entry, especially where seniority rules are in force and, even failing such rules, where qualitative selection is important and turnover itself very costly to firms. If able to enforce standard rates, experienced, established workers can insulate themselves from the competition of new workers merely by making their cost excessive; *i.e.*, by establishing labor costs and wage expectations which preclude expansion of production or employment in their field.

New and displaced workers typically migrate, not to high-wage occupations but to places where employment opportunities exist; high wages are less attractive if jobs cannot be had. Wage control, determining a major element in operating cost, also determines the rate at which a whole industry will expand or, more likely, with strong organization, the rate of contraction. . . .

The situation is more complicated, of course, where unions do permit and facilitate entry; *i.e.*, where work is shared equally between newcomers and others. Here the advantages of high wages are dissipated by the sharing of unemployment; and annual wages may even drop below a competitive level, if workers value leisure highly or are usually able to find other remunerative work during their periods of layoff. The outcome resembles that of the pure cartel among enterprises, where price is fixed by voluntary agreement, output divided by quotas, and newcomers admitted freely and granted quotas on the same basis as old firms. No one gains, and everybody as consumer loses. There is great

social wastage of resources, of labor in one case, of investment in the other; and the two wastes are likely to occur together, as in coal mining.

But free entry and division of work are not likely to characterize unionism of the future and have rarely prevailed in the past. Employees increasingly seek seniority rights; employers prefer to exercise qualitative selection; and the demands from both sides are roughly consistent, especially in large established firms where workers are carefully selected in the first place and experience is important. . . .

Sentimentalists will urge that strong unions should moderate wage demands, recognizing an obligation to permit entry of young workers and workers displaced in decadent industries; but I should not expect them to behave so or blame them for using power, if they have it, in their own interest; and I see no way to avoid severely restrictive policies save by depriving them of control over wages, *i.e.*, of bargaining power.

Delusion of the Costless Wage

In passing, let me propose, as something better than half-truth, the generalization that, by and large, employers get the kind of labor they pay for. Highest enterprise earnings usually go with highest wage rates; and so-called marginal firms commonly pay both their workers and their owners rather poorly. Some people deduce from these facts the conclusion that wage increases, whether enforced by legislation or by unions, will be relatively costless, forcing economies in management and improvement in methods. . . .

As between firms and even between industries, large differences in wage rates may persist without corresponding differences in costs. A single firm, offering higher wages than its competitors, may get better morale and cooperation which are well worth the cost; and surely it will be able to enlist and maintain a qualitatively superior labor force.

A whole industry may accomplish the same thing, competing for labor with other industries. Depending upon prevailing rates of pay, one industry may get high-quality labor in all firms; another, very mediocre workers. Thus, wage concessions to organized groups may at the outset cost nothing at all, to a firm as against other firms or to an industry as against other industries. All that happens is that quality standards are raised and inferior workers more rigidly excluded.

But down-grading cannot go on forever; the trick works only if it is confined to a few cases; we should guard here against fallacies of composition. The automobile industry may employ only the best human material, leaving other industries to absorb lower grades. But beyond narrow limits wage increases will not permit corresponding improvement in quality, even for a single firm. When all industry or many industries try the trick, poorer labor is

simply frozen out and driven into unemployment or into much less remunerative and less socially productive employment where standards are less severe.

In the old days the steel industry, the garment industry, and coal mining, with all their abuses, did absorb and train a great mass of low-grade immigrant labor. What industries will do this job for us in the future? Where, to repeat, is our surplus agricultural labor going to be absorbed? Surely not in steel, which has now little place for anything but the best.

Adventure Restrained

Consider also the untoward effects of standard rates on new and venturesome enterprise. The most vital competition commonly arises from firms content to experiment with new locations and relatively untrained labor. Such enterprises must offer workers better terms than they have received in alternative previous employment but cannot offer the wages paid to highly specialized, selected workers in established centers. If compelled to offer such terms, they will not arise.

Yet it is obviously one of the finest services of new and venturesome enterprise to find better uses for existing labor and to employ more productively than theretofore labor resources which need not be confined to activities of low value. Indeed, every new firm must do this in large measure.

Old, established firms have skimmed off the cream of the labor supply and have trained their workers to a substantial superiority over the inexperienced. If potential competitors must pay the same wages as old firms, the established enterprises will be nearly immune to new competition, just as high-grade workers are immune to the competition of poorer grades. Here again one sees an alarming identity of interest between organized workers and employers and a rising barrier to entry of new firms, as well as to entry of new workers. . . .

The Natural Wage

The proper wage in any area or occupational category is the lowest wage which will bring forth an adequate supply of labor in competition with other employment opportunities. . . . In other words, it is the wage which will permit the maximum transfer of workers from less attractive, less remunerative, less productive employments.

Broadly, for factory employment in general, it is the wage or wage level which will condemn the minimum number of workers to casual labor and to subsistence agriculture. We imply that any wage is excessive if more qualified workers are obtainable at that wage than are employed—provided only that the industry is reasonably competitive as among

firms. Reduction of rates would permit workers to enter who otherwise would be compelled to accept employment less attractive to them and less productive for the community or to accept involuntary unemployment. This amounts to saying that any relative wage may be presumed to be too high if it requires the support of force (organization) or law.

The basic principle here is freedom of entry—freedom of migration, between localities, between industries, between occupational categories. If such freedom is to exist—and it is limited inevitably by costs and by defects of training and experience—wages must fall to accommodate new workers in any area to which many qualified persons wish to move. Freedom of migration implies freedom of qualified workers, not merely to seek jobs but to get them; free entry implies full employment for all qualified persons who wish to enter. Whether the wage permits an adequate family scale of living, according to social service workers, is simply irrelevant—as, indeed, are the net earnings of employers. . . .

Monopoly Compounded

Now freedom of entry is peculiarly essential in the case of unusually remunerative employments, if one believes in greater equality of opportunity. Only by permitting the freest movement upward through wage categories can we minimize economic inequality and maximize incomes at the bottom of the scale.

But it is exactly the high-wage industries which invite and facilitate organization; and it is the favorably situated who have most to gain by exclusion, restriction, and monopolistic practices. At best, no labor organization is likely to be more unselfish or to make less use of its powers than the American Medical Association; and, considering its loose organization and small power, the comparison is surely alarming.

Organization is a device by which privilege may be entrenched and consolidated. It is a device by which the strong may raise themselves higher by pressing down the weak. Unionism, barring entry into the most attractive employments, makes high wages higher and low wages lower. Universally applied, it gets nowhere save to create disorder.

Surely we cannot all get rich by restricting production. Monopoly works when everyone does not try it or when few have effective power. Universally applied, it is like universal, uniform subsidy paid out of universal, uniform taxation, save that the latter is merely ridiculous while the former is also incompatible with economy of resources and even with order.

But the dictator will be installed long before monopoly or functional organization becomes universal. Must we leave it to the man on horseback,

or to popes of the future, to restore freedom of opportunity and freedom of occupational movement? . . .

Deeper than Corruption

I am not concerned here with corruption and dishonesty among labor leaders, or with their salaries, although much can and should be said on that score. The whole scheme of monopolizing labor markets obviously invites abuses of bribery and extortion, and use of power by leaders for both political and pecuniary advantage to themselves. But, for purposes of argument here, I am willing to ignore personal corruption and private extortion; *i. e.*, I am willing to suppose that unions are always managed scrupulously and faithfully in the interest of the overwhelming majority of their established members.

When I say that investors and enterprisers face an alarming prospect of extortion at the hands of organized sellers of labor, I refer merely to the prospect that bargaining or monopoly powers inherent in organization will be exercised fully, in a manner now recognized and sanctioned as proper and legitimate.

There is every prospect that opportunities for collective, collusive, monopolistic action in particular labor markets will increase indefinitely wherever organization is possible. This prospect alone suffices to explain the ominous decline of private investment and the virtual disappearance of venture-some new enterprise. . . .

In that Fatal Direction

Few Americans will straightforwardly espouse syndicalism or look with approval on Il Duce's corporative state. Few likewise will face the patent fact that we are rushing pell-mell toward and into that political order in the United States. Our formal political structure, of course, retains its traditional character. Our legislators, state and federal, still represent geographic sections of the nation. But alongside this formal political structure arises now a structure of powerful organizations of labor, immune to prosecution as monopolies and largely immune to the proscriptions or penalties of other laws. . . .

We have never faced the kind of minority problem which widespread, aggressive, national and regional unions and their federations present. They are essentially occupational armies, born and reared amidst violence, led by fighters, and capable of becoming peaceful only as their power becomes irresistible. Other groups practice violence, of course; but few others practice it with general, public approbation or employ it at all without grave risks of punishment or loss of power. Peaceful strikes, even in the absence of overt violence or intimidation, are

a meaningless conception when they involve disruption of an elaborate production process with intricate division of labor. . . .

Our great minority and monopoly problem of the present and of the discernible future is the problem of labor organization. One may stress the right of voluntary association or, rather, the right of free entry into occupations. One may stress the right to bargain collectively on a national or regional scale or, rather, the right of free occupational migration. In neither case can one sensibly defend both categorically. If one is accorded and exercised, the other is curtailed or destroyed. The issue is simply whether wage rates should be determined competitively or monopolistically.

The Embrace

The obvious struggle within particular industries over division of earnings tends largely to obscure the more substantial identity of interest and functional complementarity of labor and employer organizations. Popularly regarded and defended as counterpoises to industrial concentration or enterprise monopoly, unions in fact serve mainly to buttress effective monopoly in product markets where it already obtains, and to call it into existence when it does not. Labor leaders have, indeed, a quite normal appetite for monopoly prices and for monopoly profits which bargaining power permits them to appropriate and to distribute among their members.

While extremely ill-informed, I know of no instance where a powerful union has proposed reduction of a monopolistic product price or given real support, singly or in federations, to anti-trust policy. On the other hand, NIRA, like extreme tariff protection, was strongly supported by organized labor. The formal and enforced cartelization of the coal industry may be credited largely to the UMW. And, if some proposals of CIO leaders for labor participation in management are not pure cartel schemes, I cannot identify the beast when I see it. If labor remains and becomes increasingly cartelized along industry lines, enterprises must be similarly organized for bargaining purposes—not only to present a united front and to recoup wage increases from consumers, but because labor itself will prefer, demand, and, in any case, compel such employer organization.

The Old World Design

We have often been told that difficulties in collective bargaining, and mutual intransigence of the participants, were only vestiges of the frontier and would disappear as America caught up with European civilization. We have been chided for our backwardness and urged to seek that matter-of-fact acceptance of collective bargaining and that maturity in union-employer relations which have ob-

tained in Germany, France, and England. It may seem unreporting, in these days, to note that history has recently played nasty tricks on condescending apologists for American adolescence and upon zealous importers of European institutions—but, in fact, these folk seem only more capable of ignoring history when it screams against their position than of misinterpreting it when it can be used plausibly for their purposes.

I do not maintain that German trade unions caused I. G. Farben and the Nazi revolution, or that French labor caused the disintegration of the French army, or that I.C.I. and the awful state of English industry are attributable to national collective bar-

gaining. I do hold that *large and powerful labor unions are integral elements in a total institutional complex whose development is everywhere antithetical to economic freedom, to political liberty, and to world peace*; that we should here stop the development short of the German or French denouement and short of the awful mess which is now the English economy; and that we cannot import and retain the labor-organization component of this complex or trend without importing the rest of it too. If western Europe had maturity in collective bargaining and labor relations and if England has it still, these facts argue strongly against abandoning our democratic adolescence.

Unionism as a Moral Imperative

"To labor, as to an old friend, the Church addresses the message: ORGANIZE!"

A Sermon by the Most Reverend Bernard J. Shiel, Senior Auxiliary Bishop of Chicago

THE relationship between capital and labor that the Church desires is one of peace. The exemplar that she holds out before both parties is her own unity as the Mystical Body of Christ. She wants the life of all men in its economic and naturally social aspects to mirror her own union with her Divine Spouse. She demands in the words of Pope Pius XI, of happy memory, that all "man's various economic activities combine and unite into one single organism and become members of a common body, lending each other mutual help and service."

But if the Church stands for harmony between capital and labor, she means by that a real peace. She means *that* peace which is the work of justice. Without justice, "peace" is empty and meaningless, and the term can never signify more than a virtual conflict.

The Church is not blind. She is, it is true, ready to condemn transgressions wherever she finds them, whether in the ranks of the workers or in the office of the entrepreneur. But she sees the situation.

Is Man Replaceable?

She sees the worker propertyless and plagued by insecurity. She sees him "figured in" and "counted out," not as a human person, but as a replaceable part in the industrial process—much as the coal, the steel, the railroad train. She sees him subjected to crushing economic domination, his efforts to combine with his fellow workers resisted, and she sees, finally, his piteous individual helplessness. She sees him sacrificed to profit and cast out as refuse from the whole mad show at forty years of age. And, in all this unequal struggle, she sees with sadness what

happens to his soul, how he grows bleared of eye to eternal salvation and hamstrung in his pilgrimage to God.

Observing this, she takes her stand, as she must, unequivocally by the side of the worker.

With moral indignation she protests to capital. She tells it that the organic setup of society she insists upon is no pious fancy. It is a postulate of the true and complete conception of the human person. It is the only manner of common life which does not violate human nature and under which society can serve its true purpose as a stepping stone to eternal life.

No Market Price for Labor

She charges the employer to recognize that all of us are bound one to another whether we will it or not; and that, if there is not an interchange of mutual help and cooperation, there will of necessity be an interchange of injuries and hate. She warns capital to take the scales from its eyes, to see that "no one section of human society can be grievously injured without that injury reacting harmfully in the final analysis on all other sections of society."

The Church flatly tells the employer that the liberalistic ideal of "unrestrained competition, market prices for labor and unlimited profits" is a hoax perpetrated by, among others, the eighteenth and nineteenth centuries; and that, as a Christian, he may not subscribe to it.

Owners and employers may not follow the principles of Liberalism in the hiring of working people. They cannot hire a man exclusively for their own benefit and profit. They are not allowed to forget that the man whose labor they engage is a human

person and is endowed with human dignity. They may not make of him a mere commodity. They may not compute his wages according to the vicious, anti-social and anti-Christian principle that labor is to be compensated only to the extent necessary to keep it physically efficient and capable of reproducing itself in new generations of workingmen.

What a Living Wage Means

The Church lays upon industry as its first obligation the payment of a living wage. This obligation, let me state with emphasis, takes priority over any claim of the owners to profits. And by "living wage" the Church means an *annual, family, saving* wage. A yearly income so small that it must be supplemented by the wages of the wife and mother, or by the earnings of the children, does not satisfy this first obligation of industry. Nor does a wage which provides merely for the present necessities of food, clothing, shelter and the spiritual and cultural needs of the family.

It is essential to the notion of a living wage that it permit the setting aside of a fund to provide for the contingencies of unemployment, sickness, death and old age. This an obligation which cannot be avoided. It is a necessary implication of the great central principle of Pius XI's historic and social document, *Quadragesimo Anno*. The Encyclical says without qualification: "*The size of the wage is to be determined by the public economic good.*"

To Capital a Word of Irony

The Church further admonishes the employer that the worker's right to organize is a natural right, that to deprive him of it is to render him something less than human. She forbids the employer under pain of "criminal injustice" to deny or thwart the exercise of what the United States Supreme Court has called "the fundamental right . . . of employees to self-organization and to select representatives of their own choosing for collective bargaining or other mutual protection without restraint or coercion by their employer."

The Church's final word to capital is not without some irony. As if by way of anticipation, she warns employers not to attempt to justify "industrial gangsterism" by playing Robin Hood: "*Let no one,*" says Pius XI, "*try to exempt himself with piddling charitable donations from the great duties imposed by justice.*"

To labor the Church speaks with much confidence. . . . She knows that in workingmen there is a rugged decency upon which she can depend. She and they are old friends and know each other well. Her divine founder was a carpenter. Her first Pope and Bishops were maritime workers, a civil service employee, and a tent maker from Tarsus.

It is true that through the centuries some individual Christians and churchmen have forgotten the

lessons implicit in her foundation. Often there were those who thought to make up the deficiencies of Divine Omnipotence by attaching her welfare to this or that worm-eaten throne. But this fact remains unassailably true: that her divinely guarded and unchangeable doctrine has always proclaimed the workman's dignity and the sacred character of his work as the perfection of his person.

So Therefore Organize

And so to labor, as to an old friend, the Church addresses her message and that message is: "*ORGANIZE!*" She points out to the workingman that organization is his only hope of economic salvation—and indeed of eternal salvation in so far as this has intrinsic dependence upon the former. It is the only way for him to resist the "immense power and despotic economic domination which is concentrated in the hands of a few. . . ."

The Church teaches the worker that his taking a job is no private matter. It is something that affects the entire community. For one thing his wage determines how much he can buy, and the amount of the wage helps to keep workers in other industries either employed or unemployed. The hours of his work help to determine whether or not other workers shall have a job.

Everyone in society—fellow workers, employers, consumers and taxpayers—is concerned with every job. Thus every worker's taking a job is related to the common good.

"Now," as Pius XI has said, "it is of the very essence of social justice to demand from each individual all that is necessary for the common good."

This means that the worker has an obligation to affiliate with the union of his occupation, whether craft or industrial. For lack of organization permits low wages, and low wages result in underbuying. Underbuying in its turn causes unemployment, and unemployment means national prostration. On the other hand, organization brings high wages, and high wages means increased buying. Increased buying means more jobs, and employment means national lishments.

The Nonunion Parasite

And if a nonunion worker in a partially organized industry is receiving a good income, it is quite probably because his nonunion employer, in order "to keep the union out," meets, or nearly meets, the higher wage and hours standards of union establishments.

Clearly such nonunion employees are eating the fruits of others' sacrifices. The workers in the union shops perhaps risked their jobs to get their union recognized, and they pay monthly dues to keep it going. It is a categorical injustice for nonunion employees, enjoying the common benefits, to refuse to carry their share of the common burden.

The Church calls upon workers to organize in order to bridge the vast gap that stands between the individual worker and his employer. She wants that distance removed because it nullifies the equality of brotherhood in society. She sees that collective bargaining, through the freely chosen representatives of both sides, is the only manner in which both parties can come together on a basis approaching equality.

She finds collective bargaining a necessary pre-

liminary to the new social order in which social and economic life will be completely organized, and an indispensable element to its proper functioning after its foundation.

The Church derives these truths, which she pronounces to capital and labor, from her concept of the dignity and worth of the human person. . . . That is why she must resist any attempt to subordinate the human person to the political economy.

The Closed Shop Issue in Three States

IN THE November election the question of the nonunion man's right to work, called also the closed-shop issue, came to a popular vote in three states—California, Arkansas and Florida. In each case the question was presented in the form of a proposed amendment to the state constitution.

CALIFORNIA

The California amendment was entitled, "Right of Employment," and read as follows:

"Every person has the right to work, and to seek, obtain and hold employment, without interference with or impairment or abridgment of said right because he does or does not belong to or pay money to a labor organization.

"Anything done or threatened to be done which interferes with, impairs or abridges, or which is intended to interfere with, impair or abridge said right, is unlawful. Relief against or on account of anything so done or threatened to be done shall be granted in a civil action, legal or equitable, initiated in the Superior Court of any County in which anything so done or threatened to be done shall occur, upon the complaint of any person or upon complaint of the District Attorney of such County.

"The term 'labor organization' means any organization of any kind, or any agency or employee representation, committee or plan, which exists for the purpose, in whole or in part, of dealing with employers concerning grievances, labor disputes, rates of pay, hours of employment or conditions of work."

The contest was bitter. The statement of election expenditures filed with the Secretary of State prior to election day showed that various committees had spent \$101,300 on propaganda for the amendment and that organized labor had spent \$324,543 on propaganda against it. . . . The principal arguments pro and con were printed on the official ballot. The argument for it took the ground that the right to work, with or without a union card, is a vital freedom, and that if the amendment were not adopted "involuntary servitude to the closed shop will be forced upon us" after the war. Organized labor took the line that it was a sneak wartime attack upon unionism, that the amendment would create chaos in labor-management relations and thereby cause widespread postwar unemployment,

and that it was a threat to both freedom of speech and freedom of assembly. Curiously, however, the legal question of freedom of contract was not raised, that is to say, the freedom of employee and employer to make a closed-shop contract. Organized labor won. The vote was as follows: for the amendment, 1,155,176; against it, 1,707,462.

ARKANSAS

The Arkansas amendment read as follows:

"No person shall be denied employment because of membership in or affiliation with or resignation from a labor union, or because of refusal to join or affiliate with a labor union; nor shall any corporation or individual or association of any kind enter into any contract, written or oral, to exclude from employment members of a labor union or persons who refuse to join a labor union, or because of resignation from a labor union; nor shall any person against his will be compelled to pay dues to any labor organization as a prerequisite to or condition of employment."

And that was adopted by the people of Arkansas.

FLORIDA

The Florida amendment was one sentence buried in a paragraph dealing with procedures in criminal cases and read as follows:

"The right of persons to work shall not be denied or abridged on account of membership or nonmembership in any labor union, or labor organization; provided, that this clause shall not be construed to deny or abridge the right of employees by and through a labor organization or labor union to bargain collectively with their employer."

And that was adopted.

Organized labor is expected to contest both the Arkansas and Florida amendments all the way up to the Supreme Court, and in doing so it will undoubtedly argue that they impair the freedom of contract. It is a very interesting point of law. As the practice of collective bargaining has evolved under the National Labor Relations Act, the minority's freedom of contract has been denied. Now the shoe will begin to pinch on the other side if a majority can be denied the right to make a closed-shop contract with the employer, stipulating that union membership shall be a condition of employment.

Resolve by Congress to Overtake Government

THE Congress of the United States is at length resolved to do something about that Model T feeling. Its equipment is old-fashioned and rattles. The model has not changed since 1893, when total appropriations for a year of Federal Government amounted to \$314 million, which anybody could understand, whereas now the Congress finds itself authorizing expenditures rising to \$100 billion a year and is never quite sure of what it is doing. It has, in fact, no way of finding out. It is overwhelmed and intimidated by the superior manners and knowledge of governmental agencies, who seem always to know what they are about and keep coming to Capitol Hill with their insatiable demands armed with information, both defensive and offensive, which no simple lawmaker is prepared to challenge. The Congress created these agencies. It has provided them with miles of experts, economists, analysts, social scientists, research workers, synthesists, lawyers, statisticians, publicity engineers, besides men both skilled and subtle in the art of drafting law—and all this time it has itself lived in the old homestead with fringe on the parlor furniture and a Bible on the center table, watching government go by.

As Representative Monroney said, it has been trying to run the biggest business in the world with hopelessly inadequate tools and organization—allotting funds for a business one hundred times bigger than General Motors, Ford and the United States Steel Corporation all put together; raising \$45 billion a year in taxes, administering an insurance program many hundreds of times bigger than that of any private insurance company and at the same time a banking business that makes Wall Street look like a small-town thoroughfare, and all of this “with a quill pen and one old-fashioned bookkeeper’s ledger.”

He was moving in the House of Representatives a joint resolution of the House and Senate to provide Congress with modern tools and a personnel skilled in the use of them; and he gave it this picture of its ineffective self:

“Of the 3,000,000 officials and employees of the Federal Government who exercise varying degrees of authority over our life and freedom, there are only two men, other than members of the Senate and House, who are elected by vote of the people. The line of democracy wears very thin as it reaches down through the vast federal departments, and I believe that only through improving the strength and ability of Congress to meet this challenge can we hope to bring more effective public interest to bear on the operation and working of the federal machine. . . . But here we sit, a memory of

the gaslight days, without any way of finding out and determining the truth in research data and statistics which come from interested departments downtown and those which come from pressure groups or business organizations that are seeking legislation. . . .

“Take the very important job of writing the laws that we pass. Every member sitting before me today knows that more than 90% of the laws considered by this House are drafted not here on Capitol Hill, not by our own drafting legislative service, but are drafted by men downtown in the departments. The very departments to be regulated and governed by the laws we pass prepare the language of the laws that are to govern them.

“Consider the legislative drafting service in the House. Perhaps it is as efficient a branch of the Congress as we have, and yet they employ five members today in drafting the legislation for the House. In the Senate only three are employed for this important job. Yet downtown we have in the Solicitor’s Office of the Department of Agriculture some 600 employees costing this government \$1,600,000 a year.

“Experts, not only in draftsmanship, but also to advise Congress from a pure and undefiled source of information on the manifold world problems Congress must meet in the next four years, are badly needed on the Hill. . . .

“The Banking and Currency Committee of this House and of the Senate will have a tremendous job dealing not with millions but billions of dollars in trying to restore postwar monetary stability; yet the Congress has one expert employed by the legislative drafting service, our only source of completely unbiased information on world monetary problems. This one expert on banking and currency is employed at a salary of \$2,600 a year.

“Foreign and domestic commerce undoubtedly will be of great importance to all this nation and to the world in the postwar period. Yet the Library of Congress, in the legislative service, has one expert in foreign and domestic commerce on whose judgment and whose advice we can rely for statistics and unbiased information. He drew \$3,200 a year. . . .

“Information gathered by the departments downtown, compiled in vast volume by business interests, and by special economic studies, flows past Capitol Hill almost like the Mississippi River. Yet we cannot ladle out of this vast stream of information even a teaspoonful to be of assistance to the Congress.”

The joint resolution was adopted. It provides for a committee of twelve members, six to be appointed by the Vice President for the Senate and six by the Speaker of the House, to “make a full and complete study of the organization and operation of the Congress of the United States,” and to “recommend improvements . . . with a view toward strengthening the Congress . . . and enabling it better to meet its responsibilities under the Constitution.” But the Model T habit after all is very hard to break. The resolution authorizes the committee to engage experts, consultants, technicians, clerical and stenographic assistants, and then says: “The expenses of the committee shall not exceed \$10,000.”

The United States Abroad

The Bitter Fruits of Teheran

By Isaac Don Levine

Washington, D. C., Dec. 31, 1944

THE year that began under the promising sign of Teheran left behind it a crop of evil and bitter fruit. What did we think had been planted in that garden? The three gardeners said: "*We leave here friends in fact, in spirit and in purpose.*" And what was the harvest like?

Teheran was to establish a second front and to coordinate military operations in the East and in the West against the common enemy in such ways as to finish the war in Europe before the end of the year. But the end of the war has been made to wait.

Teheran was to cement indestructibly the unity of the United Nations. Today that cement is pulverized and the discord in the Allied camp is the chief source of strength for the enemy.

Teheran was to lay the foundations of a lasting peace. Today the specter of an approaching civil war waged by forces trained in the underground and led by men sworn to the cause of Communist revolution is haunting Europe from Greece to Holland and from Finland to Sicily.

Finally, Teheran was to confirm the promise of Secretary Hull upon his return from Moscow that "there will no longer be need for spheres of influence, for alliances, for balance of power." Today the entire eastern half of Western Europe, roughly marked by a line running from Stettin on the Baltic to Trieste on the Adriatic, an area comprising a prewar population of 90,000,000, has been staked out by Moscow for Soviet domination or complete sovietization.

Beginning of the Greek Tragedy

The whirlwind of recent events has ripped the veil off Teheran and exposed the fatal character of the main decisions taken there. These decisions were primarily concerned with the question of the second front or fronts. It was on the surface a military question, but we now see that it went to the roots of the fate of Europe.

The British had long favored the opening of a front in the Balkans, not only to safeguard their Mediterranean lifeline from traditional Russian encroachments but also to keep the southeastern flank of Europe from becoming a base for Soviet domination of Germany. To Stalin, a balkanized area of Europe, centering around the dismembered Austro-Hungarian Empire, offered the most fertile field for the extension of the new Soviet order with the aid of Slavic "national liberation" movements. Since

1939, when Britain and Germany bid for the Soviet hand, which then was won by Hitler, the grandiose aims entertained by Stalin in the strategic zone stretching from the Black Sea to the Adriatic had been no secret to Churchill.

The rivalry between Churchill and Stalin had developed long before Teheran. To both leaders it was obvious that there could be no permanent vacuum in the center of Europe once Germany had been crushed, and that he who dominated Germany would eventually dominate the Continent. The question of the second front thus became identified with the question: What kind of Europe shall it be?

Churchill's Council of Europe

Eight months before Teheran, in his world broadcast of March 21, 1943, Churchill projected his answer to that cardinal question. He suggested the setting up of a Council of Europe and a Council of Asia in harmony with the "high permanent interests of Britain, the United States and Russia." The Council of Europe was to be a "really effective League" of Western European unity as distinct from the Soviet Union, although the Council "must eventually embrace the whole of Europe."

Elaborating upon his proposed basis for world organization, Churchill declared in his address at Harvard University on September 6, 1943, that "nothing will work soundly or for long without the united effort of the British and American peoples. If we are together nothing is impossible. If we are divided all will fail."

To Stalin, these were ominous trends. Anglo-American unity spelled an inferior global position for the Soviet Union. Western European unity spelled a barrier against Communist infiltration. British hegemony over Germany spelled a mighty capitalist dike against proletarian dictatorships. A healthy and restored continent brought about by a system under which, in the words of Churchill, "the glory of Europe will rise again," spelled the ultimate decline of Communist revolutionary doctrine and power.

The Hand of Stalin

Stalin began early to checkmate Churchill. He broke diplomatic relations with the Polish government with which he had recently concluded a solemn alliance, and set up an embryonic puppet regime for Poland. This was a warning that the Kremlin would build its own bridge to Germany across a vassal Polish state. He set up a Free Ger-

many Committee as another counter-balance to Churchill's scheme of Western European unity. He wooed the government of Czechoslovakia headed by Benes away from the arms of London, and after a tug of war which lasted many months won over Czechoslovakia to the Soviet side and made Czechoslovakia the spearhead of a successful drive against any federation in Eastern or Southeastern Europe. Stalin remembered Bismarck's warning that to control Prague is to dominate the gateway to Europe.

At Teheran, the head-on collision between Churchill and Stalin came on the issue of the opening of another front in the Balkans. Stalin's strenuous objections to the proposed Allied invasion of the Balkans were altogether political and ideological in character, since the British had already proved their readiness to make territorial concessions to Soviet Russia from the Baltic to the Black Sea.

The President Persuaded

But Stalin was able to convince President Roosevelt, by citing the formal dissolution of the Communist International and the introduction of reforms permitting religious worship in Russia, that the Soviet policy had long since abandoned international Communism and world revolution. Stalin went out of the way to "prove" to the President that the purge of 1936-37 had been conducted by him against the Trotskyite internationalists. Ideologically, Mr. Roosevelt came already conditioned to accept Stalin's assurances at their face value. The Soviet experiment in the eyes of the President had been assuming more and more the aspect of a Russian home-made New Deal. Hence, it seemed to him that Churchill's fears were in reality grounded in British imperialism solely, as they were fears for a lifeline which was in no wise threatened by Stalin, whose concern was national reconstruction above all.

Mr. Roosevelt joined Stalin against the idea of a Balkan front. That moment was Churchill's diplomatic Waterloo. Right there and then Stalin achieved the isolation of the United States from her British ally. Churchill and the permanent policy makers in the Foreign Office realized that the Red Army would reach the Balkans first, enabling Stalin to build his own dominion between the Mediterranean and the southern frontiers of Germany. Churchill had to scrap his ideas of a Council of Europe and to yield to that British imperial school of thought which ever since the rise of Hitler had played with the grand scheme of a division of Europe into two spheres of influence.

The British Foreign Office had never accepted Churchill's scheme for European federations, which was essentially a democratic solution. The permanent policy makers prided themselves upon their realism. They who had favored a deal with Hitler for the partitioning of Europe before the war now favored a similar deal with Stalin for the same rea-

sons. France was knocked out. Germany would be out for a long time. The two remaining great powers on the frontiers of Europe must of necessity get together and divide the Old World into their respective spheres.

Oriental Trading

Teheran now deteriorated into an Oriental trading post. Stalin had the advantage of Mr. Roosevelt's break with Churchill. Stalin also had the advantage of geographic proximity which had enabled him to sink an anchorage in Czechoslovakia for his great design and to ride roughshod over Poland to achieve the ultimate encirclement of Germany. Churchill tried to save as much as he could for the direct protection of the British defenses in the Mediterranean, and was compelled in his haggling with Stalin to make sacrifices at the expense of Poland and in other zones in return for British retention of vital positions along the sea routes of the Empire.

Here then were the seeds of Teheran. Mr. Roosevelt appeased Stalin ideologically and Churchill appeased him with a division of spoils. Stalin emerged from Teheran enormously strengthened both in the field of Russian expansion and in that of world Communism.

The fruits of Teheran began to ripen in the late summer, after Eisenhower's armies had broken through France and Belgium, and seemed to be racing to Berlin. From the Kremlin's point of view an early rendezvous of the Soviet forces with Anglo-American forces in Germany was most undesirable. For Stalin to meet Roosevelt and Churchill in Berlin, at a moment when the entire southeastern basin of Europe still remained outside of Soviet control, would have meant a showdown on the paramount question of Germany and would have forced Moscow to follow the lead of the United States and Great Britain on the organization of Europe.

Playing for Time

The Big Three had an agreement for a tripartite occupation of Germany and for joint control of Berlin. But if the Red Army met the Anglo-American armies in the vicinity of the capital of the Reich, Stalin would face a European settlement drafted in the shadow of triumphant Western arms and be obliged to assist in laying the foundations of a Western European peace not at all in harmony with his designs. Stalin plainly needed time to exploit the gains of Teheran.

An early termination of the war in Europe would have redounded to the glory of the Western Allies and to their diplomatic prestige, checking the Soviet diplomatic offensive in its initial stages. Stalin's political strategy called, first, for Soviet control of the balkanized areas of Europe, and, second, for the

balkanization of Germany as a base for the future sovietization of Western Europe. Both operations required time. Both were in danger of being defeated by a lightning-like conquest of Germany.

Just when Anglo-American forces were pounding at the demoralized western defenses of Germany and it looked as if a race for Berlin was on from the West and the East, Stalin withdrew his armies from the Eastern side. The plans of Teheran had provided for just such a nutcracker squeeze of Hitler's fortress. It was the height of summer when the Soviet forces reached the suburbs of Warsaw; the rivers were at their lowest and the dry plains of Poland marked the shortest route to Berlin on all the military maps. Stalin's horde rested on the Vistula, in the center of the eastern front, and then streamed in an unexpected direction, southward, striking towards Czechoslovakia, Rumania, Yugoslavia, Bulgaria, Hungary and Austria.

The Ten Fateful Events

There followed a succession of events which in the course of a little more than three months at first baffled and confused the Allied world and then well-nigh splintered the camp of the United Nations.

FIRST

Late in August came the capitulation of Rumania in the form of an armistice agreement signed by Soviet Marshal Malinovsky, to which the United States and Great Britain gave their belated assent, and which embodied a permanent territorial settlement. The crucial point in this settlement, which figured as a somewhat muddled issue in the Presidential campaign, was the Soviet unilateral transfer of Transylvania from Hungary to Rumania. Although the United States did make that transfer subject to "confirmation" at the general peace conference, Great Britain appended no such reservations, for the reason that she had secretly recognized Rumania as within the Soviet sphere of influence. What did Transylvania represent in Stalin's post-war design? London knew it only too well. Transylvania is the strategic northern pillar of that great Southeastern European domain which Stalin had carved out for himself. The other pillar was Bohemia, which Stalin had secured after Teheran through a treaty of alliance with Czechoslovakia. He now had in the heart of Europe the two key bastions of his projected great dominion.

SECOND

The Bulgarian armistice provided the next major shock. The United States and Great Britain had been at war with Bulgaria. Soviet Russia had all along been at peace with Bulgaria. The Bulgars had sent emissaries to Cairo to negotiate an armistice. The Western Allies were playing here

in reverse the role Russia had performed in the negotiations with Finland, which had remained at peace with America. The Western Allies drafted the terms of a Bulgarian armistice to which the Soviet Government was to become a co-signatory. Then something happened. The Soviet Government suddenly declared war on Bulgaria. The Kremlin had notified the British and American ambassadors in Moscow of this move—two hours before it was made public. The Cairo negotiations exploded. Stalin took over the sponsorship of the armistice. He dictated new terms which made Bulgaria formally an ally, but actually a ward, of the Soviet Union.

THIRD

The Churchill-Roosevelt meeting at Quebec last September was a hurried attempt on the part of London to check the Soviet flood towards the Mediterranean. With Bulgaria in Soviet hands, the great port of Salonika lay within the grasp of the Red Army. And Salonika dominated the Aegean Sea and the European defenses of Turkey, an ally and protégé of Great Britain. Moreover, Yugoslavia and Greece were exposed to occupation by Stalin's forces. Indeed, the Partisan leader Tito, who had been coddled by the British in the naive belief that he could be wooed away from Moscow's arms, suddenly began to display an "independence" which was downright shocking. He treated his chief of state, the London-sponsored Premier of Yugoslavia, Ivan Subasitch, with unconcealed disdain. Tito even hinted at setting up a Balkan federation allied to Soviet Russia and extending it to the Dardanelles in the East and Trieste in the West. Churchill rushed to Quebec to enlist Roosevelt's support and to arrange another meeting of the Big Three. He also endeavored to bring about, with American aid, an early settlement of the Polish crisis so as to be in a stronger bargaining position in Balkan affairs when dealing with Stalin. In the end, Churchill proceeded to Moscow on his own, bringing the Polish Premier Mikolajczyk as the sacrificial goat to the altar of Stalin.

FOURTH

At the Moscow conference held in the middle of last October Churchill was forced to gamble away the sovereignty of Poland in return for what looked at the moment like a *modus vivendi* on the Balkan issues. Greece was to remain in the British sphere of influence. Yugoslavia was to be administered under a joint policy of the two powers providing for a union of the Tito leadership with that of the Royal Yugoslav Government. Churchill purchased these concessions by his unqualified support of Stalin's designs upon Poland. These included not only the cession of the areas lying east of the famous Curzon Line and of the Galician areas, comprising the great city of Lwow and the only Polish oil fields, but also the annexation by Soviet Russia of the industrial

triangle of East Prussia centering around Koenigsberg. Poland was to receive as compensation Prussian zones stretching almost to Berlin, a gift which the Poles did not seek and did not wish to accept. The Poland thus projected by Stalin was to be headed by Premier Mikolajczyk, who was to include twelve ministers drawn from the Lublin puppet regime in a cabinet of sixteen, making it a Soviet vassal. Churchill is known to have stormed and raged at Premier Mikolajczyk in Moscow when the latter declared himself without authority to sign such a capitulation. Nevertheless, Churchill left Moscow in the belief that he and Anthony Eden would be able to deliver Poland to Stalin from London.

FIFTH

When the Polish government-in-exile, with the full backing of its underground leaders in the homeland, decided rather to be slaughtered in the open than to commit suicide in the dark, and defied Churchill, strange things began to happen in the Balkans. Marshal Tito took a plane to Soviet headquarters to plead for the fraternal aid of the Red Army. True, there had been an agreement between Stalin and Churchill for joint control of Yugoslavia. But how could the Kremlin turn a deaf ear to the pleas of the southern Slavs for help? The Red Army marched into Yugoslavia. Portraits of Stalin appeared everywhere in the liberated countries. In neighboring Macedonia and Greece and Albania the resistance forces suddenly emerged wearing badges of the hammer and sickle. In Trieste there were reported "popular" demonstrations for union with Yugoslavia. Marshal Tito had now undergone a complete metamorphosis and was speaking the brusque language of a Soviet commissar to his former protectors. A storm was brewing for Britain in the Mediterranean.

SIXTH

At the same time a new area of Soviet pressure developed in October on the other side of Britain's ally, Turkey. Moscow demanded from the Iran government of Saed the immediate granting of oil concessions in North Iran which has been under complete Soviet occupation since 1942. Although the Teheran declaration officially described Iran as an ally, Moscow caused the downfall of Saed's government when it had refused the demand for oil grants. The attempt of the United States to intervene in a friendly capacity in behalf of Iran led to Moscow's sharp denunciation of America's presence in Iran without consent, although its presence had been dictated by the need to help the Soviet war effort with millions of tons of vital supplies. Simultaneously there developed a "spontaneous" movement in adjoining Turkish Armenia for fusion with the Soviet Union, another warning to Turkey as well as to Britain of things to come.

SEVENTH

The Red Army continued to penetrate South-eastern Europe while the Allied armies in the West were preparing for another direct assault upon Germany. The Warsaw front remained inactive. The main Soviet thrusts were directed at Hungary and later at Austria. Behind Stalin's victorious armies there appeared Free Hungary and Free Austria committees, precursors of Soviet puppet regimes. Halted at the gates of Budapest, the Red forces swung on towards Vienna, extending the new Soviet dominion in Central Europe.

EIGHTH

To stem the spreading Soviet tide, the British decided to land troops in Greece, Salonika and on the Dalmatian coast of Yugoslavia. Did not London have an accord with Moscow for a joint policy in Yugoslavia and had not the Soviet Government broken its pledge by sending troops there without consulting its partner? The landing of the British detachments on the Dalmatian shores was announced to the world in November as designed to help the partisans clear their country of the enemy. But Tito's men gave the advance British landing party a most unexpected reception. The British troops were disarmed and threatened with internment. Confronted with the problem of fighting his way into the country, the British commander asked London for instructions and received orders to withdraw. The disarmed British units were allowed to reembark and sail away with the rest of the expedition from the shores of the land which they had helped to "liberate."

NINTH

Marshal Tito now found his Premier Subasitch so tractable that the latter was soon on the way to Moscow, where he was received openly with great warmth. In Moscow, the Yugoslav Premier kept completely away from the American and British embassies. London recognized that its former protégé was now an interloper in Stalin's camp, but it was anxious for some face-saving formula. Churchill sent a personal message to Stalin requesting that any agreement reached in the Kremlin between Tito and Subasitch be withheld from publication until the return of Subasitch to London where it could be released simultaneously with Moscow in accordance with their understanding on joint policy. Two days later Moscow alone announced officially Marshal Stalin's approval of an accord between Tito and Subasitch, making Tito the premier of a "democratic" Yugoslav federation and Subasitch one of its ministers. At this time Stalin also took the occasion to make a startling public declaration to a delegation of pro-Soviet Poles. Beholding the framework of the grand edifice he was building with the help of the Slavs scattered from the Vistula to the shores of Trieste, Stalin proclaimed:

"The alliance of the Slav peoples is not the tactics of a great sovereign Pan-Slavonia. It is the union of the various Slav nations. The Soviet Union stands guard over such a union."

TENTH

Now that the lines of the new Soviet empire in middle Europe over which Stalin had declared himself guardian appeared in clear outline, the strategic relationship of Greece to it became self-evident from a glance at the map. The "sphere of influence" which Stalin demands is a wide belt running from the Baltic, between Stettin and Riga southward, and tapering down to the Mediterranean in the form of Greece, which strategically dominates the ingress to both the Aegean and the Adriatic. In this situation, with Stalin's known impatience to secure his war booty before the general peace settlement, it was to be expected that Greece would become the first theater of open civil war in liberated Europe. Moscow kept officially aloof from the developments in Greece. As far as the world was concerned, the Greek resistance movement simply "took matters into its own hands." In his speech before Parliament, Churchill suggested "a well-organized plot" on the part of the Communist-led ELAS "to march down to Athens and seize it by armed force." What would prevent a Communist-controlled Greece from repeating Tito's experiment for joining hands with the Soviet Union? So far as Churchill could see,

there was no choice for Britain but to use force to prevent the rounding out of Stalin's great dominion through an eventual union with Greece in the heart of the Mediterranean.

Churchill's Terrifying Vision

The fruits of Teheran are far from full ripening. But already the blackout of news has engulfed all countries "liberated" or occupied by the Soviet forces. From Finland and the Baltic nations to Rumania and Hungary, a great part of Europe has already been placed outside the pale of Western civilization. Already the coming balkanization of Germany as a base for its future "national liberation" by Moscow is indicated for those who can read the handwriting on the wall. Already the lines are formed across Western Europe for a full-scale civil war to follow the present conflict. And there is no indication that Stalin has forgotten or renounced Lenin's dictum to turn the imperialist war into a civil war. Of this impending cataclysm Churchill imparted a terrifying vision in these words on December 15:

"Another great war, especially an ideological war, fought as it would be not only on frontiers but in the heart of every land with weapons far more destructive than men have yet wielded, will spell doom perhaps for many centuries of such civilization as we have been able to erect since history began to be written."

A Critical Report on Bretton Woods

By the Research Staff of the United States Senate Minority

FROM its own experts, the Conference of the Minority of the United States Senate has received a report on the international monetary agreements signed at Bretton Woods. Beyond its merits as a peace of analytical criticism, the report is important in another way—that is, it may be expected to influence the attitude that will be adopted by a strong minority of the Senate when the agreements are presented to Congress for approval.

The conclusion is that the proposed International Monetary Fund, commonly referred to as the stabilization fund, should be rejected as a whole, on the ground, mainly, that it aims at "something very close to international lending by a monetary inflation device," and that it "would put the United States at a disadvantage on occasion after occasion."

The International Bank for Reconversion and Development, on the other hand, is said to be a sound idea and should be approved, provided its structure is simplified, and provided further that its world shall be more definitely defined and lim-

ited, "so as to preserve the field where private international investment can function better than government agencies can."

The report concerns itself primarily with the International Monetary Fund, calling it simply the Fund, with a capital F. It says:

"The Fund consists of gold and national currencies, but may also include member securities, nonnegotiable, noninterest-bearing, and payable on demand. Members contribute only 25% gold, or 10% of their net gold holdings and United States dollars, whichever is smaller; but even this provision may be waived in favor of currencies or securities. These provisions, combined with those which allow a member to borrow other currencies at least as high as 200% of its quota (100% over quotas is the effective amount), mean that the amount of gold is likely to be very small compared to the volume of member paper.

"The size of the quota not only determines what a nation puts into the Fund, but, more important, what it may take out in the form of international purchasing power. Members have the right to purchase (bor-

row) other currencies with their own. This makes the Fund a lending agency with considerable possibilities of expansion."

This explains, of course, why at Bretton Woods every nation, the United States alone excepted, was anxious to get the highest possible quota. The higher a nation's quota, the more it could borrow.

And what would be the position of the United States in these circumstances? The report continues:

"The United States would take very little out of the Fund simply because there would be no occasion for it. The United States has large gold stocks; it would have a large export volume. These, and other items in the United States balance, would enable the United States to pay for all its own imports and other needs without recourse to the Fund.

"The effect is to make the United States an international lender through the Fund to the extent of its quota and beyond its quota in some cases. What is more, by the mechanics of the plan, the United States agrees in advance to lend to forty or more countries a fixed amount of dollars with precarious possibilities of repayment. . . .

"Two explanations are most frequently given in answer to this feature of the plan. One is that the plan is intended to add a new means of international payment to the stock of gold and to all normally acceptable means of payment. An important feature of the plan is its expansionist provisions, which are held to be necessary if economic progress (capacity production, full employment and increased foreign trade) is to be made. In other words, this is the thesis that if the United States wishes to have prosperity at home, it must be prepared to lend abroad, or to open its doors to much larger imports. The second explanation is that loans to debtor countries are intended to be temporary."

Creating Purchasing Power

The chief feature of the Fund, says the report, appears to be its provisions for making international purchasing power available to the members. For example:

"When countries run low in their balances of payments (owe on balance more than they have available credits to discharge) or find themselves in exchange difficulties, they may purchase (in effect borrow) the currency of any other nation with their own currency or securities.

"Does this power to borrow, together with discretion in the Fund under Article V, Section 4, to waive borrowing limits, give a debtor country unlimited credit? Can a member, as has been charged, just put in enough gold to cover service charges, and then extend its debits indefinitely?"

Certain limitations are imposed; but, says the report:

"How effective these provisions will be depends to a large extent on the amount of gold and convertible foreign currencies a heavy debtor to the Fund may acquire in transactions outside the Fund. But how, if the

Fund is to correct a *debit* position of a country arising from that country's transactions outside the Fund, can that country have any *credit* resources with which to redeem its excess currencies in the Fund? This is not made clear.

"It is the intention of the Fund, of course, not to permit debtor countries to borrow indefinitely; and creditor countries will be persuaded to alter such economic conditions as may be responsible for the excessive demand for their currencies."

The Guilty Creditor

The report unfortunately does not explain the doctrine that underlies the clause last quoted—"creditor countries will be persuaded to alter such economic conditions as may be responsible for the excessive demand for their currencies." This is from the Keynesian thesis that *creditor* nations even more than *debtor* nations are responsible for "international disequilibrium." If a *creditor* nation's currency is scarce, that is the *creditor* nation's fault as much as it is the fault of the *debtor* nation, and the *creditor* nation's responsibility is greater because it can do something about it, whereas the *debtor* is helpless.

What can the *creditor* nation do about it? Well, suppose this scarce currency is dollars—and the scarce currency will be dollars. Why will dollars be scarce? Only because other nations have bought from the United States more than they could afford to buy or have borrowed from the United States more than they can afford to repay. Dollars cannot be scarce for any other reason.

And so then, what can the United States do about it, according to the Bretton-Woods plan? It can do one or all of these three things :

- (1) it can increase its loans on more favorable terms to the debtor nations;
- (2) it can buy more goods from the debtor nations; or
- (3) as a last resort it can cheapen the dollar by devaluation in order to make it easier for the debtor to pay.

And that is what is meant by the words, "to alter such economic conditions as may be responsible for the excessive demand for their currencies."

The United States Must

The power of the *debtor* country to borrow the currency of a *creditor* nation to whom it owes money is the most controversial feature of the plan.

The report notes the principal objections and marks the answers:

"Objection is made that this turns the Fund away from its stabilizing function and makes it another lending institution.

"In answer it is declared that the lending is temporary only; that it is controlled; and that it is for stabilizing purposes. Moreover, it is said that the United

States will give credit to importing countries anyway. If it does not, its export markets will be limited to the value of its imports. Export industries will be disorganized, commercial export houses will be affected, and the effort toward full employment at home will be endangered. Importing countries, on the other hand, will seek credits, or else will resort to internal deflation, currency depreciation, and trade controls. Such measures will once more confuse and restrict foreign trade to the disadvantage of all nations.

"The United States, runs another objection, will supply gold, goods, and dollars, and in return accumulate irredeemable paper. This could happen to the extent of the United States quota obligations. In certain circumstances the United States might provide credits considerably beyond its quota.

"It is pointed out that the Fund increases the probability that repayments of credit will be made because the United States has resort to a pool created by many governments. The United States could increase its imports from any part of the world and would not have to look to one debtor country alone. *To benefit by this, however, it would seem that the United States would have to enter upon a very large import trade (and greatly increase its other debit items in the balance) because its normal transactions furnish a heavy creditor balance wholly aside from the Fund.* In other words, the United States would have to increase its imports sufficiently to offset its regular exports and its quota position in the Fund."

Dollars in the Hat

The emphasis on the problem of "scarce currencies" is by no means an academic feature of the plan. The assumption underlying it throughout is that dollars are going to be scarce because the United States will be the great surplus nation, with nearly every other nation in the world looking to it for goods and loans. The report reviews the powers of the proposed International Monetary Fund to deal with this scarce currency situation, meaning specifically a situation in which dollars are scarce, and asks:

"What position will the United States be in here? It is quite probable that shortly after the Fund is in operation, United States currency will become a scarce currency. The reason is that the dollar will be one of the principal means of international payment, owing to American resources and gold holdings. The large demand for American goods will also work toward the direct exhaustion of dollars in the Fund.

"In such circumstances, the United States would be under several disadvantages. It might have to sell more of its currency to the Fund for gold. This would channel gold into the United States where it is not needed or wanted while useful resources and produced goods would continue to flow out of the country. Otherwise, the United States would have to accept restrictions on trading in dollar exchange. This would sacrifice American foreign markets, cut down the volume of foreign trade, and result in unemployment in the export industries.

"In cases of scarce currency, the Fund has the power

to ration the supply. This may easily put it in the power of an outside agency to decide what *particular* foreign markets the United States should have.

"To avoid such difficulties the United States might either have to sell dollars for gold without benefit as above described or lend dollars to the Fund in hopes of working off the excess credits over longer periods of time. If no methods were discovered for doing this, the United States would again be in the position of a creditor who cannot collect. This was the case with reparations, with American loans to Germany, with many American loans to Latin America, and will be the real effect with a great part of the lend-lease transactions."

Does Not Stabilize

Perhaps the most devastating criticism of all is that the proposed \$10 billion stabilization scheme does not in fact guarantee stabilization. It regards with horror the old evil of devaluing money as a way to restore a temporary equilibrium of international exchange, and yet at the same time it provides for changes to be made in the par value of a debtor nation's currency to correct a "fundamental disequilibrium." These provisions are restricted, it is true, and yet as the report says:

"There is enough in these provisions to give a member considerable leeway in setting its own exchange values on an arbitrary basis. When taken against the background of the plan as a whole, these provisions point toward periodic exchange depreciation. . . . What is . . . likely to happen is that the Fund will increasingly lose dollars and other strong currencies and acquire weak currencies. Its assets may progressively deteriorate. Drastic controls may have to be set up in order to appreciate the weak currencies. Failing that, the Fund must then either accept the insolvency of its collection of weak currencies, or permit periodic currency depreciation. This would place the creditor countries in the position of lenders who periodically permit partial cancellation of the debt."

So What Is Foreign Trade?

The answer to this, so far as it may be an answer, is one that makes of international trade an irrational necessity, beyond any law of solvency. The report quotes it thus:

"The chief counter-argument to this is that by such a device creditors are able to keep export industries flourishing as one means of maintaining full employment at home. No export (creditor) country would persistently and frankly give away the goods produced by its people; but it may be persuaded to do the same thing if a psychologically acceptable mechanism like the Fund is used for that purpose."

"The only other solution for the United States," says the report, "is to increase greatly the distribution of goods at home, among its own people, and then work toward methods that will balance its exportable surplus by imports or other credits beneficial to the American people."

Notes on the Foreign Trade Complex

Planning Pamphlet No. 37, a Nostalgic Voice from the American Tariff League, an Important Letter and Other Matter

WANTING wings with which to soar in the new atmospheres of expansionist policy, American protectionism is nevertheless a doughty worm, with still a lot of wiggle in it, witness the attack upon the National Planning Association by the American Tariff League; witness also the fate of the Anglo-American Oil Treaty which was last seen among the pigeon-holed papers of the Foreign Relations Committee of the Senate.

What brought the wrath of the American Tariff League down upon the head of the National Planning Association was Planning Pamphlet No. 37, entitled, "America's New Opportunities in World Trade." It begins with a restatement of the famous enigma that the American people are unable to consume what they are able to produce. Therefore, in order to keep themselves fully employed they must get wages from abroad, that is to say, they must sell their surplus product to other countries. But since other countries are all relatively poor, the question arises: how shall they pay the high American wages? With what will they buy the American surplus?

In answer to this the National Planning Association lays down the proposition that there is no limit to the continued expansion of American exports provided only that we put buying power in the hands of our foreign customers. It says: "The crux of the United States foreign policy is this: how can other nations be provided with dollar exchange to buy American goods and to pay for American capital invested abroad?" It adds: "The problem is one of tremendous scale. It is unprecedented in the history of the world."

How to Provide Dollars

In only two ways is it possible to provide our customers with buying power. The first is to lend them the money. Therefore, the National Planning Association, to begin with, proposes very large investments abroad—somewhat of the order of \$10 billion a year in the first postwar decade. Clearly, however, we cannot go on forever simply lending our customers the money with which to buy American goods. A time comes when they must pay. What will they pay with?

You come then to the second and only other way in which it will be possible to provide the foreign customer with buying power. We must buy their goods with dollars, thereby creating "dollar exchange," and this is necessary because they must have

dollars with which to go on buying American goods. We must enormously increase our imports, even though we may not actually need the foreign goods, because unless we increase our imports, (1) our foreign customers cannot pay us for the goods they have already bought; (2) they cannot continue to buy; and (3) we cannot continue to increase the export of that surplus which we have to sell.

The National Planning Association says: "We must deliberately and systematically increase our imports of foreign products over and above those which have been customary, and above the minimum required for the operation of the national economy."

Barriers, Lie Down!

These imports cannot be lifted over a high tariff wall because that would make it too difficult for the foreigner to pay. It would make his dollars too dear. Therefore, we must systematically reduce our tariff barriers. As we do this some of our own industries may be destroyed and some of our own labor may be hurt. That is admitted. Nevertheless, the industries that are destroyed will be the least profitable industries; the labor that will be hurt will be low-wage labor, and it will be forced upward into better employment with the more efficient high-wage industries.

The National Planning Association says: "Tariff reductions would expand the nation's over-all employment and business and volume, and would set up pressures to transfer the productive facilities of substandard industries to more profitable uses. Reductions would mean some adjustments in the productive structure, but would create additional business and employment opportunities."

So, having as a temporary solution loaned our foreign customers the money with which to buy the surplus we are able to produce but cannot consume, a time comes when: "If we wish to be paid for our exports and for the capital we have lent and will lend, we must plan to import in a volume greater than our exports, so as to create a margin—an import surplus—out of which interest, dividends and amortization on foreign loans and investments can be paid to us."

Thus, ultimately, the problem of our export surplus is solved by an import surplus.

The old protectionist boggles at this logic. He has not that kind of imagination. A long habit of balancing foreign trade with red and black ink in a book

of profit and loss—and a cross mark against bad debtors—disinclines him to think of it as a business in which the creditor country becomes responsible for the debtor country and the debtor country is responsible to nobody. If the debtor country doesn't pay back the money it has borrowed, or pay for the goods it has bought, that is the creditor's fault because the creditor hereafter must see to it that the debtor has means of payment.

The Keynes Doctrine

This is the new doctrine. The National Planning Association did not invent it. Lord Keynes, the British logician of debtor economics, invented it in behalf of debtor nations; but the National Planning Association states it perfectly as follows:

"In the past it was usually assumed that borrowing countries should be solely responsible for their external debt and service obligations, and that failure to meet such obligations meant either bad faith or that the borrowing country had not 'set its house in order.' Policies traditionally prescribed for a debtor country's foreign exchange troubles stressed deflation, interest rise and wage reduction, and the forcing of exports—regardless of the state of the world markets into which they were thrown. Experience has repeatedly demonstrated that the chief result of such measures is further slackening of productive activity at home and deeper trade depression abroad. In actual fact, the solution of repayment problems between nations acting in good faith is primarily the responsibility of the industrial and creditor nations, because they alone can control the dynamic and income-releasing elements of world economy which will affect the debtor's ability to pay."

By the American Tariff League

The retort general from the American Tariff League is by Frederick W. Barbour, its president, who also has the distinction of being an industrialist. He says:

"Industrialists, confronted with the task of meeting a payroll, will certainly challenge some of the conclusions reached by the National Planning Association. These industrialists also are indignant that men who have no right or competence to speak for industry attempt to do so nevertheless.

"The association's spokesmen believe, apparently, that American industry no longer needs the tariff protection under which it grew great. . . . It is not true that unit production costs are generally lower in America than abroad. Lines in which they are lower here are the exception, not the rule. American producers have been confronted, and will continue to be confronted, with a marked increase in production costs. This is not apparent now, but will become apparent after the war.

"The statement is made that United States tariffs are among the highest in the world. This is a myth that has been given wide currency as part of the widespread campaign for further reduction of tariffs—United States tariffs.

"As a matter of fact, our tariffs, far from being high,

are among the lowest of those of the great trading nations. The United States, a recent survey disclosed, ranked seventh from the bottom among the nineteen nations in relative tariff height. We were, in fact, surpassed also by Germany, Spain, Argentina, Mexico, Turkey, Great Britain, Switzerland, Italy, Greece, Hungary, Egypt and Brazil.

"As long as differences in production costs between the United States and other nations continue to exist, there will be a need for some such equalizing device as the tariff. . . .

"The association sees a traditional fear of imports as the 'stumbling block' to expanding foreign trade. This is sheer nonsense. There is no traditional fear of imports in this country. With the exception of Great Britain, which lives by its trade and must import most of its ordinary wants, the United States has the largest import trade in the world.

"It is a fact that—yesterday, today, and for many tomorrows—the world is indeed one. I do not think anyone will deny that the United States must put its shoulder to the wheel as a most influential member in the community of nations. The extent of our cooperation in international economic affairs however will depend upon the maintenance of a sound and prosperous internal economy. The keystone of a sound domestic economy is jobs. We cannot afford to sacrifice a single industry which will help provide jobs.

"If we permit low-wage imports to displace American-made goods here at home, we are in fact sacrificing jobs. We are transferring work to other countries."

The Rebus

Any exchange of wealth involves both purchase and sale, and this is true whether it be an exchange of goods for goods, money for goods or goods for money. When you buy goods with money you may say also that you are selling money, and the other party to the transaction may say either that he is selling goods for money or buying money with goods. It may seem therefore absurd to argue whether one buys in order to sell or sells in order to buy. Nevertheless that argument does take place, with a curious transposition of emphasis. For example, it is continually affirmed as a thing difficult to comprehend that the United States must buy in order to sell—that is, it must enormously increase its imports in order to increase its exports. But in Great Britain the statement is reversed. The British must sell in order to buy—that is to say, they must increase their exports in order to increase their imports.

The proper thing to do with this rebus is to look at it upside down. If you do not find the face in the foliage of the tree, no matter. It isn't there. Whether they know it or not, those who put words in that rotary motion are really talking about something else—not about foreign trade as a free exchange of wealth based upon a voluntary division of international labor, but about political allocations of foreign trade and priorities of advantage in it according to ideas of national economic necessity.

Recently *The New York Times* printed an editorial on "The Importance of Imports," in which it said that "the basic advantage of our foreign trade consists in our imports rather than exports." This called forth a letter to the editor from Michael A. Heilperin, Associate Professor of Economics at Hamilton College, which is well worth quoting. Professor Heilperin said:

"The phrase that appears several times, parenthetically, in your editorial—namely, 'from the standpoint of the nation as a whole'—has a very great significance from the point of view of your argument. It is quite true that, in national terms, imports are the essential thing and exports are the *quid pro quo* with which these imports are paid off.

"This broad generalization might, however, be misleading and even dangerous were we to lose sight of two considerations: one, that in our economic and social system imports and exports both are carried out by individual traders, each pursuing the most advantageous line of business; second, that in a system in which there is an international division of labor the productive capacity of a country specializing in certain products becomes geared to the world market rather than to the national market alone.

"It follows that for the individual enterprise the export market represents as much of an outlet as the domestic market; an expansion of both of them assures a more profitable business and, incidentally, lower costs and a lower price to the consumer. It further follows that under a system of expanding international trade and of regional specialization the quest for a world market is not merely a matter of 'disposing of surpluses' but is as much a problem of market capacity as that which we encounter when selling in the domestic market products which do not enter international trade at all.

"Exports are necessary for the national welfare whenever they allow the reduction of costs incident to large-scale organization of production. The maintenance of exports is necessary to prevent the collapse of a market needed to keep a profitable industry in operation. As a nation, it may be said that we export in order to pay for our imports; individually, we export as a part of a business program aiming at greater efficiency and higher profits and, at the same time, assuring a gradual reduction of cost to the consumer.

"It is certainly very useful to look, from time to time, at economic problems from a national rather than from an individual point of view. That approach, however, should always be combined with an individualistic one if we are to avoid undesirable overstatements. It is only in a totalitarian economy that the whole business is conducted as if the nation were one big corporation and in which the principal criterion of worthwhileness is the decision that happens to be taken by those in charge of the affairs of the 'Nation, Inc.'

"In a free-enterprise economy national economic balance remains an important consideration; each individual enterprise, however, must be conducted with a view to securing a black-ink entry at the end of the profit-and-loss account. And in many branches of production it is the availability of export markets which decides whether the ink used will be black or red."

—A. M. P.

Farmers and Bankers in the Same Boat

By W. Randolph Burgess

Vice Chairman of the National City Bank of New York

THE postwar problems will be complex. We are already committed in advance to many controls. Certain of the inflation price controls, and certain types of rationing, will continue at least for a time. National and international controls over the prices and production of some basic commodities are planned. We are pretty well committed to the control of interest rates at low levels. Rises in interest rates used to be one of the natural checks to over-expansion of credit. If rates are fixed by government, and that seems hard to avoid in view of the size of the debt, there are likely to be other controls such as the continuance of control over consumer credit, and over security and other loans. We shall thus have increased regimentation of credit.

Thus the fundamental problem which both farmer and banker face in the postwar period is the kind of government and country we want. The danger is that both farmers and bankers unconsciously and by the force of circumstances will be influenced to accept the kind of government we don't really want.

The banker is already to a considerable extent in the hands of the government. More than half of his assets are in government securities. Other assets are guaranteed by the government such as are V and VT loans, CCC loans, and FHA mortgages. Our deposits are guaranteed by a government insurance corporation. Still more proposals are before us for a guarantee of commercial loans and for a guarantee of veterans' loans.

These forms of guaranteed credit are attractive because they remove the risk from banking and it would be easy for each of us to sit back and become a kind of glorified slot machine. This is well on the road to socialized credit. It moves in the opposite direction from democracy and enterprise. It is a kind of opiate that dulls initiative.

The farmer is in exactly the same fix. Guaranteed farm prices inevitably mean government control over production. If the government is to guarantee the price, it will tell the farmer what and how much he may plant and how much he may harvest. Since this price and production will be determined by political rather than economic reasons, the long-term results are usually unfortunate. I call to witness simply the loss of a large part of America's markets for export cotton.

So today the farmer is moving rapidly away from private enterprise into a controlled economy. Farmer and banker are in the same boat. What are we going to do about it?

Books

The World That Might Have Been

LUDWIG VON MISES writes tragedy in the language of political economy. There is in man the very principle of frustration. Once, and perhaps for the first time, he did find the right way. Beginning with the optimistic social philosophy of eighteenth century liberalism he discovered the solutions of the free market, free competition, free private enterprise—that is to say, capitalism—and how at the same time to put government in its place. After that he had only to go in a straight line toward a world of peace and unlimited plenty. For a while he did go in a straight line and there was the nineteenth century, in which political freedom and material well-being advanced together, inseparably and wonderfully. But the government, which he had put in its place, began to overtake him, offering to do him good and to help him on his way. Little by little he accepted its friendly offices, thinking as he did so that government was something he imposed upon himself and therefore controlled, whereas he was to learn all over again that government is a natural and living thing, like an organism, with powers of self-extension. Offering only to help him on his way to a new free world of unlimited well-being it was really all the time hostile to anything he was doing for himself, because the more successfully he managed his own affairs, especially his economic affairs, the worse it was for the prestige of government. Von Mises says:

“Governments have always looked askance at private property. Governments are never liberal from inclination. It is in the nature of the men handling the apparatus of compulsion and coercion to overrate its power to work, and to strive at subduing all spheres of human life to its immediate influence. Etatism is the occupational disease of rulers, warriors, and civil servants. Governments become liberal only when forced to by the citizens. From time immemorial governments have been eager to interfere with the working of the market mechanism. Their endeavors have never attained the ends sought.”

The beginning of modern evil was when governments began again to intervene in the economic sphere. Every act of intervention turned man from his true purpose, and von Mises explains why:

“Prices, wages, and interest rates are the result of the interplay of demand and supply. There are forces operating in the market which tend to restore this—natural—state if it is disturbed. Government decrees, instead of achieving the particular ends they seek, tend only to derange the working of the market and imperil the satisfaction of the needs of the consumers.

“In defiance of economic science the very popular doc-

trine of modern interventionism asserts that there is a system of economic cooperation, feasible as a permanent form of economic organization, which is neither capitalism nor socialism. This third system is conceived as an order based on private ownership of the means of production in which, however, the government intervenes, by orders and prohibitions, in the exercise of ownership rights. It is claimed that this system of interventionism is as far from socialism as it is from capitalism; that it offers a third solution of the problem of social organization; that it stands midway between socialism and capitalism; and that while retaining the advantages of both it escapes the disadvantages inherent in each of them. Such are the pretensions of interventionism as advocated by the older German school of etatism, by the American Institutionalists, and by many groups in other countries. Interventionism is practiced—except for socialist countries like Russia and Nazi Germany—by every contemporary government. The outstanding examples of interventionist policies are the *Sozialpolitik* of imperial Germany and the New Deal policy of present-day America.

But the tragedy was that when the government's intervention in the modern case had gone rather far man embraced it, and there arose in the world the great cult of what von Mises calls etatism, a word he prefers over *statism*, both meaning simply the all-powerful and worshipful state. He says:

“A new type of superstition has got hold of people's minds, the worship of the state. People demand the exercise of the methods of coercion and compulsion, of violence and threat. Woe to anybody who does not bend his knee to the fashionable idols!

“The case is obvious with present-day Russia and Germany. One cannot dispose of this fact by calling the Russians and the Germans barbarians and saying that such things cannot and will not happen with the more civilized nations of the West. There are only a few friends of tolerance left in the West. The parties of the Left and of the Right are everywhere highly suspicious of freedom of thought. It is very characteristic that in these years of the desperate struggle against the Nazi aggression a distinguished British pro-Soviet author has the boldness to champion the cause of inquisition. ‘Inquisition,’ says T. G. Crowther, ‘is beneficial to science when it protects a rising class.’ For ‘the danger or value of an inquisition depends on whether it is used on behalf of a reactionary or a progressive governing class.’ But who is ‘progressive,’ and who is ‘reactionary’? There is a remarkable difference with regard to this issue between Harold Laski and Alfred Rosenberg.

“It is true that outside of Russia and Germany dissenters do not yet risk the firing squad or slow death in a concentration camp. But few are any longer ready to pay serious attention to dissenting views. If a man tries to question the doctrines of etatism or nationalism, hardly anyone ventures to weigh his arguments. The heretic is ridiculed, called names, ignored. It has come to be regarded as insolent or outrageous to criticize the views of powerful pressure groups or political parties, or to doubt the beneficial effects of state omnipotence. Public opinion has espoused a set of dogmas

which there is less and less freedom to attack. In the name of progress and freedom both progress and freedom are being outlawed."

He agrees with Hayek when he says: "While fighting the German aggressors, Great Britain and the United States are, step by step, adopting the German pattern of socialism."

Such is the theme of **"Omnipotent Government."* Since the eclipse of the classical economists no writer has more powerfully or with fewer misgivings defended free private capitalism, not only as the system that works and contains within itself the mechanisms of self-correction, but as a social philosophy. He says:

"The essential teaching of liberalism is that social cooperation and the division of labor can be achieved only in a system of private ownership of the means of production, *i. e.*, within a market society, or capitalism. All the other principles of liberalism—democracy, personal freedom of the individual, freedom of speech and of the press, religious tolerance, peace among the nations—are consequences of this basic postulate. They can be realized only within a society based on private property."

And this involves also the fate of peace, for, as he says: "The fateful error that frustrated all the endeavors to safeguard peace was precisely that people did not grasp the fact that only within a world of pure, perfect, and unhampered capitalism are there no incentives for aggression and conquest."

Some of the notable passages in the book are analytical, touching the technics and consequences of the government's intervention in the economic affair, as, for example, when it fixes a price ceiling for milk with the laudable purpose of making it possible for the poor to buy more milk for their children. What happens? First, the marginal or high-cost producers of milk stop producing it, so there is less for everybody. To cure this situation the government must fix the price of all the factors necessary to produce milk. But at those prices other people stop producing the factors that are necessary to the production of milk. They begin to go out of business because there is no profit in it. Whereupon, the government, to cure that further situation, must go on "to fix prices for the factors of production necessary for the production of those factors of production which are needed for the production of milk,"—and so on and on back, from the cost of everything the milk farmer uses to the cost of everything it takes to make what he uses and the cost of everything it takes to make everything it takes to make what the milk farmer uses, even to his suspenders.

In his analysis of unemployment he regards unions as a vital part of the state apparatus of compulsion and coercion:

**"Omnipotent Government"* by Ludwig von Mises. Yale University Press.

"The labor unions succeed in forcing the entrepreneurs to grant higher wages. But the result of their endeavors is not what people usually ascribe to them. The artificially elevated wage rates cause permanent unemployment of a considerable part of the potential labor force. At these higher rates the marginal employments for labor are no longer profitable. The entrepreneurs are forced to restrict output, and the demand on the labor market drops. The unions seldom bother about this inevitable result of their activities; they are not concerned with the fate of those who are not members of their brotherhood.

"These dismal effects of minimum wages have become more and more apparent the more trade unionism has prevailed. As long as only one part of labor, mostly skilled workers, was unionized, the wage rise achieved by the unions did not lead to unemployment but to an increased supply of labor in those branches of business where there were no efficient unions or no unions at all. The workers who lost their jobs as a consequence of union policy entered the market of the free branches and caused wages to drop in those branches. The corollary of the rise in wages for organized workers was a drop in wages for unorganized workers. But with the spread of unionism conditions have changed. Workers now losing their jobs in one branch of industry find it harder to get employment in other lines. They are victimized."

So one may come to the end of the book, or to almost the end, with a sense of nostalgia for the optimism of the eighteenth century liberals and a certain hopefulness. If it was once there it must be there still—the right way to a free world of relative peace and yet greater well-being. But, alas! his conclusion is that the old liberals were after all wrong. Their economic theories were right, almost too right, but they believed in the perfectability of man; they believed mankind "was on the eve of lasting prosperity and eternal peace" and that reason would henceforth be supreme. Therein they were tragically wrong. They left out of consideration the principle of frustration. He says:

"The realization of the liberal plan is impossible because—at least for our time—people lack the mental ability to absorb the principles of sound economics. Most men are too dull to follow complicated chains of reasoning. Liberalism failed because the intellectual capacities of the immense majority were insufficient for the task of comprehension. It is hopeless to expect a change in the near future."

The last words are:

"The prosperity of the last centuries was conditioned by the steady and rapid progress of capital accumulation. Many countries of Europe are already on the way back to capital consumption and capital erosion. Other countries will follow. Disintegration and pauperization will result. Since the decline of the Roman Empire the West has not experienced the consequences of a regression in the division of labor or of a reduction of capital available. All our imagination is unequal to the task of picturing things to come."

Such a book could not have had a happy ending.

After "Omnipotent Government" von Mises brought out **"Bureaucracy,"* a smaller book with a kind of missile power. Bureaucracy is not in itself the evil. You cannot have government at all without it. Only the intent matters. It is puerile, therefore, for people as individuals to complain of it because it happens to touch them in a disagreeable way while at the same time, by groups and classes, they support the doctrine of intervention by government when they happen to be the beneficiaries. Who after all is to blame? He answers that question ironically:

"It is a fact that the policy of the New Deal has been supported by the voters. Nor is there any doubt that this policy will be entirely abandoned if the voters withdraw their favor from it. The United States is still a democracy. The Constitution is still intact. Elections are still free. The voters do not cast their ballot under duress. It is therefore not correct to say that the bureaucratic system carried its victory by unconstitutional and undemocratic methods. The lawyers may be right in questioning legality of some minor points. But as a whole the New Deal was backed by Congress. Congress made the laws and appropriated the money.

Once intervention by government in the economic sphere begins the parliamentary principle must decline, for the obvious reason that:

"Parliamentary procedures are an adequate method for dealing with the framing of laws needed by a community based on private ownership of the means of production, free enterprise, and consumers' sovereignty. They are essentially inappropriate for the conduct of affairs under government omnipotence. The makers of the Constitution never dreamed of a system of government under which the authorities would have to determine the prices of pepper and of oranges, of photographic cameras and of razor blades, of neckties and of paper napkins. But if such a contingency had occurred to them, they surely would have considered as insignificant the question whether such regulations should be issued by Congress or by a bureaucratic agency. They would have easily understood that government control of business is ultimately incompatible with any form of constitutional and democratic government."

It is true that bureaucrats are free to decide questions of vital importance in the individual's life; it is true that the unelected bureaucrats are no longer "the servants of the citizenry but irresponsible and arbitrary masters"; it is true, furthermore, that "bureaucracy is imbued with an implacable hatred of business and free enterprise." But none of this is the fault of bureaucracy primarily. It is the outcome of "that system of government which restricts the individual's freedom to manage his own affairs and assigns more and more tasks to the government." Bureaucracy, therefore, is not itself the disease. It

**"Bureaucracy"* by Ludwig von Mises. Yale University Press.

is a cancerous phenomenon and betokens the fact that one kind of tissue has got out of control and is growing wild at the expense of other tissue. Von Mises says:

"The main issue in present-day political struggles is whether society should be organized on the basis of private ownership of the means of production (capitalism, the market system) or on the basis of public control of the means of production (socialism, communism, planned economy). Capitalism means free enterprise, sovereignty of the consumers in economic matters, and sovereignty of the voters in political matters. Socialism means full government control of every sphere of the individual's life and the unrestricted supremacy of the government in its capacity as central board of production management. There is no compromise possible between these two systems. Contrary to a popular fallacy there is no middle way, no third system possible as a pattern of a permanent social order. The citizens must choose between capitalism and socialism or, as many Americans say, between the American and the Russian way of life."

When he comes to the remedy his pessimism reappears. Against those who now call themselves liberals and are resolved nevertheless to abolish liberty, against those who call themselves democrats and yearn for dictatorship, against those who call themselves revolutionaries and want to make government omnipotent—against all of these there is but one weapon, and the name of it is reason. But how can it be supposed that by reason alone man can cure in himself this political disease when by reason alone he was unable to prevent it?

Apothegms from "The Road to Serfdom"

*The Book of that Title, by F. A. Hayek, Was
Reviewed in the Autumn Number.*

IT IS one of the saddest spectacles of our time to see a great democratic movement support a policy which must lead to the destruction of democracy and which meanwhile can benefit only a minority of the masses who support it. . . . The labor leaders who now proclaim so loudly that they have "done once and for all with the mad competitive system" are proclaiming the doom of the freedom of the individual.

* * *

The "substitution of political for economic power," now so often demanded, means necessarily the substitution of power from which there is no escape for a power which is always limited. What is called economic power, while it can be an instrument of coercion, is in the hands of private individuals never exclusive or complete power, never power over the whole life of a person. But centralized as an instru-

ment of political power it creates a degree of dependence scarcely distinguishable from slavery.

* * *

It may sound noble to say, damn economics, let us built up a decent world—but it is in fact merely irresponsible. Our only chance of building a decent world is that we can continue to improve the general level of wealth.

* * *

Because in modern society it is through the limitations of our money incomes that we are made to feel the limitations which our relative poverty still imposes upon us, many have come to hate money as the symbol of these restrictions. It would be much truer to say that money is one of the greatest instruments of freedom ever invented by man.

* * *

It is not any contempt for material welfare or even any diminished desire for it, but on the contrary, a refusal to recognize any obstacle, any conflict with other aims which might impede the fulfillment of their own desires, which distinguishes our generation.

* * *

While to the great individualist social philosophers of the nineteenth century . . . power itself has always appeared the arch-evil, to the strict collectivist it is a goal in itself. It is not only . . . that the desire to organize social life according to a unitary plan itself springs largely from a desire for power. It is even more the outcome of the fact that in order to achieve their end, collectivists must create power—power over men, wielded by other men—of a magnitude never before known, and that their success will depend on the extent to which they achieve such power.

* * *

The myth is deliberately cultivated that we are embarking on the new course not out of free will, but because competition is spontaneously eliminated by technological changes which we neither can reverse nor should wish to prevent.

* * *

The intellectual history of the last sixty or eighty years is indeed a perfect illustration of the truth that in social evolution nothing is inevitable but thinking makes it so.

* * *

That democratic socialism, the great utopia of the last few generations, is not only unachievable, but that to strive for it produces something so utterly different that few of those who now wish it would be prepared to meet the consequences, many will not believe till the connection has been laid bare in all its aspects.

* * *

We shall not rebuild civilization on the large scale. It is no accident that on the whole there was more

beauty and decency to be found in the life of the small peoples, and that among the large ones there was more happiness and content in proportion as they had avoided the deadly blight of centralization.

* * *

If all rewards, instead of being offered in money, were offered in the form of public distinctions or privileges, positions of power over other men, or better housing or better food, opportunities of travel or education, this would merely mean that the recipient would no longer be allowed to choose, and that whoever fixed the reward determined not only its size, but also the particular form in which it should be enjoyed.

* * *

The argument for freedom is precisely that we ought to leave room for the unforeseeable free growth.

* * *

Socialism began increasingly to make use of the promise of "a new freedom." . . . The subtle change in meaning to which the word freedom was subjected in order that this argument should sound plausible is important. . . . The demand for the new freedom was only another name for the old demand for an equal distribution of wealth.

* * *

We have progressively abandoned that freedom in economic affairs without which personal and political freedom has never existed in the past.

* * *

Wherever liberty as we understand it has been destroyed, this has almost always been done in the name of some new freedom promised to the people.

* * *

Are not the things which we are more and more frequently taught to regard as "nineteenth century illusions" all moral values—liberty and independence, truth and intellectual honesty, peace and democracy, and the respect for the individual man, instead of merely as the member of an organized group?

* * *

The welfare of a people, like the happiness of a man, depends on a great many things that can be provided in an infinite variety of combinations. It cannot be adequately expressed as a single end, but only as a hierarchy of ends, a comprehensive scale of values in which every need of every person is given place.

* * *

The principle that the end justifies the means is in individual ethics regarded as the denial of all morals. In collective ethics it becomes necessarily the supreme rule; there is literally nothing which the consistent collectivist must not be prepared to do if it serves "the good of the whole."

The great opportunity we shall have at the end of the war is that the great victorious powers, by themselves first submitting to a system of rules which they have the power to enforce, may at the same time acquire the moral right to impose the same rules upon others.

* * *

Though we neither can wish, nor possess the power, to go back to the reality of the nineteenth century, we have the opportunity to realize its ideals—and they were not mean.

* * *

Sometimes, it seems, the very fact that those violent instincts which the individual knows he must curb within the group can be given free range in the collective action toward an outsider becomes a further inducement for merging personality in that of the group.

* * *

Nothing distinguishes more clearly conditions in a free country from those in a country under arbitrary government than the observance in the former of the great principles known as the Rule of Law.

* * *

As planning becomes more and more extensive, it becomes regularly necessary to qualify legal provisions increasingly by reference to what is "fair" or "reasonable." This means that it becomes necessary to leave the decision of the concrete case more and more to the discretion of the judge or the authority in question.

* * *

The passion for the "collective satisfaction of our needs," with which our socialists have so well prepared the way for totalitarianism, and which wants us to take our pleasures as well as our necessities at the appointed time and in the prescribed form, is, of course, partly intended as a means of political education. But it is also the result of the exigencies of planning, which consists essentially in depriving us of choice, in order to give us what fits best into the plan, and that at a time determined by the plan.

* * *

The close interdependence of all economic phenomena makes it difficult to stop planning just where we wish, and once the free working of the market is impeded beyond a certain degree, the planner will be forced to extent his controls till they become all-comprehensive.

* * *

Planning and competition can be combined only by planning for competition, but not by planning against competition.

* * *

On the questions which an international planning authority would have to decide, the interests and opinions of the working classes of the different peo-

ples would inevitably be as much in conflict, and there will be even less of a commonly accepted basis for an equitable settlement than there is with respect to different classes in any one country.

* * *

In any society freedom of thought will probably be of direct significance only for a small minority. But that does not mean that anyone is competent, or ought to have power, to select those to whom the freedom is to be reserved.

* * *

An interventional authority which effectively limits the power of the state over the individual will be one of the best safeguards of peace.

Emotional Experiences of James P. Warburg

JAMES P. WARBURG is the flowering of an international banker family that came too late in the world to found a dynasty. His mind turned him from finance to politics. By a path round about he has just returned to the spot where he cut himself off from the New Deal with two shrieks of pain, one a pamphlet entitled, "Hell Bent for Election," and the other a book entitled, "Still Hell Bent." That was in 1936, before the second election of Mr. Roosevelt; and some who witnessed the act doubted the heroism of it, not because they were cynical but because they knew their "Jimmy" and how he would probably behave in the agonies of a false apostasy. Eight years have elapsed. And now he writes another book entitled, "Foreign Policy Begins at Home," and those who understood the first two understand also this one, although not perhaps as Mr. Warburg would expect.

In 1936, having severed himself from the original New Deal brain trust, he denounced the President with a sad and personal bitterness, saying he was shockingly superficial, vain, devious by habit and preference, and dangerous; and the New Deal he denounced on the ground not only that it was unsound in principle, tending to devour our Constitution liberties, but on the ground specifically that it was socialistic. Mr. Roosevelt's dishonesty, he said, was proved by the fact that he substituted the Socialist Party platform for that of the Democratic Party. The New Deal record, he said, was "a record of fulfilment, not of the promises made by Mr. Roosevelt . . . but a record of fulfilment of the promises made by the Socialist candidate, Norman Thomas." Even the recognition of Russia "was a plank in the Socialist platform," and nobody knew it would be "one of the first acts of the New Dealers when they came into power."

Now he writes: "In the whole first three years of
* "Foreign Policy Begins at Home," by James P. Warburg. Harcourt, Brace.

the New Deal the United States undertook only one constructive act in the field of foreign policy. This was the recognition of the Soviet Union in the summer of 1933. By breaking with the policy of his predecessors early in his first term, the President won the friendship of the Soviet Government and of the Russian people—a friendship which was to be of vital importance in the years to come.”

In 1936 he said it was absurd to blame either the capitalistic system, free private enterprise or the Republican Party, for the great depression, and equally absurd to believe that the New Deal or any one man had got the country out of it, or could. “The depression,” he said, “would have come upon us under any management—Republican, Democratic or New Deal Socialistic. . . . Because under a free enterprise system we ate green apples, got sick and had to take castor oil, we associate these unpleasant experiences with a free enterprise system.” And of unemployment he said: “As to finding a way for reducing or eliminating unemployment, I, for one, am convinced that a free enterprise order in which fair competition ensures the continuous production of more goods at lower prices offers far greater promise of a better distribution of purchasing power—and consequently of opportunity and happiness—than any scheme of government-directed economy that has been or can be devised.”

Now when he writes of free enterprise he puts it in quotation marks, as if it were only something so called. Depression and unemployment, he says, are from evils inherent in capitalism, such as “economic cannibalism,” its tendency to overconcentrate wealth, to become rigid, to deny change, and to freeze an “inequitable *status quo*,” and especially its failure to “provide consumer purchasing power equivalent to its productive capacity,” wherefore, “in periods of expansion the workers do not fully share in the prosperity—except that more of them are employed—whereas in periods of depressions they are threatened with complete loss of their means of gaining a livelihood.” This leads, he says, to mass discontent tending to become revolutionary. “In this country,” he continues, “we reached the maximum point of revolutionary danger in this sense in 1932. . . . The danger was averted for the time being by the swift and courageous action of the first administration of Franklin D. Roosevelt.”

This is the complete and perfect New Deal thesis which in 1936 he rejected with tearful conviction.

Our problem, he now says, will never be solved “unless we regulate free enterprise as a whole in the public interest, and then plan our foreign trade policies to achieve domestic balance between industry and agriculture.” We must proceed to organize our system with ideals of justice, equal opportunity and the interests of society as a whole always before our eyes. Then we may march “in step with all the peoples of the world.” We cannot overnight,

he says, dissolve the class conflict; we cannot all at once remove the injustices that cause them, emancipate ourselves from selfish thinking and prejudice. But we can get started at once in the right direction. Then he says: “We did get started with Theodore Roosevelt’s Square Deal, and again with Woodrow Wilson’s New Freedom, and again more recently under the New Deal of Franklin D. Roosevelt. But unhappily the preoccupation of war coincided with the swing of the pendulum and combined to make us lose our momentum.”

In 1936 he wrote: “What is it that you want for the future? A state in which reliance for the preservation of freedom, opportunity, prosperity and happiness is placed upon such wisdom as may be concentrated in a small group of men in Washington—a state in which the government is responsible for the welfare of the people, and in which, because it is responsible, the government must regulate and control the lives of the people? Or a state in which reliance for the preservation of freedom, opportunity, prosperity and happiness is placed by the people upon their own ability to utilize with energy and intelligence the resources which Providence has placed at their disposal, using their government as a servant toward the attainment of this end? The one is what Mr. Roosevelt is ‘trying’ to create. The other is what our forefathers actually created.”

Now he writes: “Much confusion is created by the fact that often no distinction is drawn between a so-called ‘managed economy’ and a ‘planned economy.’ The assumption is made that planning and management necessarily go together, whereas it is perfectly possible—and in fact necessary—to conceive of an economy which is ‘planned’ by the state in the interests of society as a whole, but not ‘managed’ by the state. As I see it, true democracy requires an economy ‘planned’ by society as a whole for the equal benefit of all its members, but ‘managed’ by individual initiative.”

In 1936 he wrote: “I am against Socialism, and even more against its two misbegotten offsprings, Communism and Fascism.”

Now he writes: “Communism springs from the idea that all men are equal and are entitled to equal opportunity. This also is the basic idea of Democracy. It is as old as Plato’s *Republic*.”

Mr. Warburg’s book is not in itself important. As an example of the current literature that is displayed in bookshop windows and sells and is called “at once liberal and realistic,” it deserves notice beyond its merits. No economic or social principle has changed in Mr. Warburg’s lifetime. Can he imagine the American motor-car industry to have been “planned by the state in the interest of society as a whole,” and only to have been “managed” by the individuals who did create it out of nothing but imagination and a doggedness of spirit through failure?

—G. G.

Enterprise in Soviet Russia

In the Globe and Mail, of Toronto, Wellington Jeffers, the financial editor, reports an interview with Dr. Boris Stanfield, Ph.D., an American citizen who came to this country from Russia in 1931, not as a refugee but as a professor of political economy. He lectured at Columbia University on the development of economic theory and practice under Soviet, Nazi and Fascist regimes. Mr. Jeffers says: "Dr. Stanfield impresses me as a man whose mind ranges impartially above the industrial conflict he studies and as one who is seeking the best answers to the problems raised with the detachment of a mathematician." The subject under discussion is the Soviet economy in contrast with the American and Canadian systems, and the picture of Soviet economy that appears is precise and vivid.

The Interview

"PRIVATE enterprise exists in Russia," said Dr. Stanfield in answer to questions. "It is confined to such a negligible section of the total economy that it may be practically disregarded for the time being in discussing the Soviet economy. No individual can hire labor in Russia. You will find in Russia tailors, shoemakers, jewelers, plumbers, carpenters, but only on a microscopic scale because none of these can hire others. Each can only do what business he can handle personally.

"You asked about the extent to which the profit motive is allowed to have a sway in Soviet economy. It has a negligible place in the fields I have described but it does have a very definite place when one begins to study the ambitions of the numerous state enterprises that dominate Soviet Russia and the motives of the individual workers.

Utopia By-passed

"To understand the Soviet system one must first realize that he is 20 years behind the times if he tries to appraise the Soviet economy in terms of the initial Utopian aspirations of Lenin and his associates. For instance, I was present personally at a financial conference in Moscow in 1918 when Commissar of Finance Sokolnikoff (who was purged 20 years later) made the following statement characteristic of the period of revolutionary romanticism: 'Comrades, I have to apologize for my appearance at the meeting in the capacity of Commissar for Finance. We do not need any finance. We are moving toward a moneyless economy.'

"They have changed completely from that attitude. Money is just as indispensable in the Soviet economy as it is here. Now propaganda for a moneyless economy in Russia would be considered a dangerous counter-revolutionary heritage. If any one were to dare to advocate it he would suffer the penalties prepared for all counter-revolutionary activities.

"Nor have they neglected the profit motive. The manager of a Soviet state enterprise must try his best to show

a profit at the end of his annual operation just as managers do in Canada. He will be judged by his success. He must provide for the needed working capital, he must make the same reserves as here against depreciation and he must try to make enough for the future growth of the enterprise just as a manager would do here. The main difference is that the surplus profits here can go to the shareholders, and in Russia they go to the government which distributes the money on its own expenses and enterprises.

"As for individual workers I said that the profit motive is lacking, but the gain motive is not. Every Soviet worker has a very strong desire to earn more money because, just as here, goods and services are not available to him except through the medium of money.

"The differences between Canada and Russia are not as great as many assume. They need capital to expand enterprises as you do here. Conditions are not uniform throughout Russia. It is a mixed economy. For example, you have from 250,000 to 300,000 agricultural cooperatives and these, after paying a certain percentage of gross earnings to the government, are allowed to retain the remainder. You have in Canada some government and public enterprises and cooperatives on the one hand and much private enterprise. It is a question of degree. In Russia the government enterprise predominates. What is the exception here becomes the rule there."

The Hard Law of Efficiency

"Are the rules making for efficient operation and success the same in the public enterprises in Russia and the private enterprises here?"

"They are the same. The problems of how to get greater efficiency in order to get higher productivity are just as vital there as here. Under Stalin's leadership very substantial deviations from the original Marxist program have been made in order to get greater efficiency of the economic mechanism."

"Are the principles common to both systems likely to operate more successfully under present Soviet methods than under those developed on the Continent?" I asked him.

"Let's wait and see. Personally I prefer the democratic ideals of freedom of expression and assembly and enterprise but, in economics, flexibility of the economic mechanism will be very important as an element in future efficiency. At one time the Russian bureaucracy was heading their economy into the bog and there was lots of purging under the suspicion that much of it was due to sabotage and deliberate act. That was not true and under Stalin more and more freedom has been given to managements.

Soviet Management

"In one respect managements are freer in Russia than here. They have no interference from trade unions. The trade unions in Russia are much like the company union on this continent if you will think of Russia's industry as under one great company and Stalin and his commissars as a great board of directors. For example, there is more difference between the remuneration of individual workers there than here. Here organized labor has fought against piece rates, time studies; there labor has definitely accepted the idea that their share of production is definitely related to their work. It is not uncommon to find two workers

side by side, one getting 200 roubles a month and another 1,500 roubles, according to the work each does.

"In fact, Soviet Russia may be said to have adopted the principle that inequality of payment (considered as between individuals) is essential to the incentives needed for efficiency.

Drag Weights

"You see why I will not give a definite answer. On this continent you have some very decided drags on efficiency and therefore on production and therefore on employment. Organized labor unfortunately has shown little originality in its attempts to find solutions for the new problems of our times. So far they have been mostly copying business practices and not the best of these.

"For instance, organized labor has not yet learned that the rigidity of our wage structures may be just as much of a handicap for the successful development of our system as the rigid price system frequently attempted by large business concerns or business combinations. Labor has been too much concerned with the dollars and cents earnings rather than with the total takings of an enterprise. If organized labor and managements would try to replace the perpetual dogfights with attempts to find a scientific and fair system of remuneration for labor, our economy would be in a much better position to face the grave problems of postwar dislocation.

Two Questions

"Will organized labor try to understand the prerequisites of a successful functioning of private enterprise? My impression is that neither labor nor management has grasped the magnitude of the changes that have taken place in the last fifteen or twenty years on this continent. The answer to getting better conditions under our system than can be obtained elsewhere lies in the answer to these questions:

"Will organized labor help to obtain conditions that will not discourage capital from expansion of present facilities or from new ventures and investment?

"Will business continue its record of bold investments while it has to share some of its time-honored powers partly with labor, partly with government?

"The trades unions in Russia are cooperating fully with the entrepreneur (in their case, the government) in promoting the success of enterprises. In 1940 the Soviet Union Trade Congress endorsed lengthening the work day program from seven to eight hours, and they have given unreserved support to piece work. In other words, they favor the speed-up. Will labor give industry the same advantages here?"

Aid and Comfort

The FHA serves as a distinct aid to the maintenance of private enterprise by making it possible for privately owned capital to assume risks otherwise hardly justifiable. FHA, in other words, has aided the marshalling of private capital for a most worthy social purpose. Payments to the insurance funds create reserves to meet estimated losses, and the government assumes the unpredictable risk. What better formula yet has been devised to aid the continuation of capitalistic and democratic freedom of enterprise? *From a speech by L. Douglas Meredith, Vice President of the National Life Insurance Company.*

The Unresisted Shackle

By William E. Russell

SOCIAL SECURITY was not discovered by the "New Dealers." It is an instinct planted in man by Deity and has been practiced by mankind from time immemorial. All are in favor of it and none oppose. The problem is: "What is the best method to obtain the greatest measure of social security for the greatest number of our people?" Shall it be a private and individual system or one established and conducted by government? The discussion should revolve around the method to be used. Unfortunately, we have been led to believe that social security is attainable only through the agency of government. Let us examine this bit of political hokum.

Germany was the first great nation to promise universal old-age security for its people. Under Bismarck, compulsory deductions were required from the wages of all workers for the purpose of providing old-age pensions. These wage deductions were accumulated in a central fund, somewhat in the same manner as is authorized in our present federal social security act. The German worker was assured that his old-age needs were guaranteed—he would not have to worry about his wants in his declining years.

The German fund continued to grow for several decades. In 1921 the German Government began to experiment with currency devaluation. There was no intention of destroying the monetary unit the reichmark. It was thought that a little price inflation resulting from devaluation of the currency would stimulate business and stop the grumbling of the people. The whole world knows what a debacle then ensued. Prices rose faster than wages and this required more devaluation—more paper currency. Finally, in 1923, the reichmark became worthless—it was not even good wallpaper. All the savings of the German people were wiped out and this included the old-age pension fund. The workers discovered that the aggregate deductions from his wages for a lifetime would not pay for a streetcar ride, much less provide him food, clothing and shelter in his old age. Thus another "noble experiment" by government came a cropper.

It Could Happen Anywhere

To those who say that it cannot happen here, it is suggested that they study their history books a little more closely. When men in charge of the agency of government lack the courage to tell the people that "work and more work," "self-denial and more self-denial" are the only sure methods to overcome hard times, the same thing could happen in any country.

The sponsors of the present social security law have estimated that the central fund will amount to forty-seven billions of dollars by 1980. The truth is that the money collected from the workers and their employers for the old-age pension fund is being spent as fast as it is collected. In place of the money, government "I. O. U.s" (bonds) are being substituted. These bonds must be paid off in later years by taxes levied in part upon the children of the workers who contributed one-half of the money represented by the government "I.O.U.s." Such being the case, it would not seem that a great social advance has been made, as has been claimed by the New Deal.

There might be some excuse for the law if the funds

collected under its provisions were required to be reinvested in legal corporate bonds. In this way the money would remain fertile—it would be invested in productive enterprise and would create scores of thousands of jobs. As it is, the fund becomes sterile immediate upon its collection and “investment” in government bonds.

The existing social security measure is only an income tax in disguise and a vicious one at that for it imposes a similar tax upon the employers. The workers have been led to believe that their money is being saved for their old-age pensions—such is not the case.

Deeper Objections

The foregoing discussion of the law has been confined to defects in the act. There are basic objections to the law which apparently have not been given any consideration. The act is not democratic and has no place in a free country. In a democratic country, the government is the servant of the people, the latter are the masters. It is not customary for a servant to support his master.

Millions of our people are being taught by the social security act to look to their government for support in old age. They lean on their servant for food, shelter and clothing in their declining years. They are being taught that they have no personal responsibility, that they need not practice thrift and self-denial and that it is no longer right that children should take care of aged and needy parents—that a benevolent government is going to assume all of these God-imposed obligations of the human race.

The act is a reflection upon the worker—in effect it accuses him of a lack of understanding of his own responsibilities and an inability to take care of himself and family. This is “bureaucracy run riot.” The implication is that we haven’t the sense to take care of ourselves, that our children won’t do it if we fail to, and that we need the vast horde of bureaucrats to take care of the money which we couldn’t handle ourselves.

Ruin of Thrift

A further basic objection to the law is that, in the course of time, it will destroy the thrift motive of millions of our people. We practice thrift because we obey an instinct planted in us by Deity, not because we enjoy self-denial. Our own sense of responsibility, our fear of old age, sickness or unemployment cause us to save some part of our earnings, buy life insurance, securities or a home. We may say that the thrift motive is bottomed on fear—fear of the future. We are told that “freedom from fear” is to be a part of the new charter of life. If that could be accomplished by human hands, progress would stop.

Our Master probably knew what He was doing when He planted fear in the human race. It is “fear of the future” that has caused forty millions of rivulets of savings to flow through savings and commercial banks, building loan associations, life-insurance companies and other investment channels into the mighty reservoir of capital, to which business repairs when it wants funds to expand an existing industry or to build a new one.

Once the forty millions of workers who create these rivulets of savings are convinced that government will provide

for them in the exigencies of sickness, unemployment and old age, it is inevitable that they will cease to save and the mighty reservoir of capital will dry up. Business will then be compelled to go to the government for new capital. When that happens, democracy will have come to an end and a totalitarian state will have emerged. Do we want this in America?

If We Believe

If we believe in liberty we must admit that an individual has the right to be a spendthrift if he so desires. We may deplore his lack of judgment but we should concede his right. It is not consistent with our professed love of liberty to impose compulsory savings upon any man. We have just as much right to tell him how he shall spend his wages as we have to take from him a part thereof as an enforced contribution to his own old-age security.

We have had a private system of “social security” since the first settlers landed on our shores. The “fund” has been growing from year to year throughout the life of our republic. It has grown because our ancestors, as well as ourselves, practiced thrift and put something by for a rainy day. It is invested in productive enterprise as well as in government bonds. It probably amounts to four hundred and fifty billions of dollars at the present time and is owned by ninety per cent or more of our people. It is represented by thirty-two billions of dollars in the savings banks, seventy-five billions in commercial banks, one hundred billions in stocks and corporate bonds, sixty billions in homes, thirty-five billions in life-insurance assets, thirty billions in farms, one hundred billions in government and municipal bonds, and other billions in tangible personal property such as automobiles, radios, etc. These vast funds represent the real and true social security of our people. This “private system” dwarfs the federal system. It is now almost ten times as large as the federal fund will be in 1980. The federal system is not needed. It endangers the “private system” for the reasons above given.

The Ninety and the Ten

The question will be asked as to the ten per cent of our people who fail to make provision for old age in one form of savings or another. Some, by reason of mental or physical handicaps, are unable to save. Others fail to save because they are unwilling to restrain their desires to buy things which prudence dictates they should refrain from buying. They represent a part of the problem. No one will advocate that they be allowed to suffer starvation or to lack shelter.

The ten per cent have always been the wards of the other 90 per cent of our people. We are enjoined by Holy Writ to be our brother’s keeper. That these obligations and duties have been nobly performed is amply attested to by the establishment of homes for the aged, the indigent, the orphaned, the incompetent and the helpless in every state and in almost every city and town in the country by private charity aided by municipal grants. Do we want to destroy the impulse of private charity by having the government act as the agency for taking care of the helpless? We must think this problem through logically—we must not let emotionalism becloud our reason.

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