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SUPPLEMENT

Where Is Organized Labor Going?

BY DONALD R. RICHBERG

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Notes on the Contents

Europe. This number of AMERICAN AFFAIRS is somewhat heavy with the subject of Europe. It could hardly be otherwise, with Europe sitting on the American doorstep and with the whole world now thinking its economic welfare is bound up with the availability of dollars. The first article, "At the World's Bedside," is by the editor. "Why American Dollars Make Europe Sicker" is the most penetrating foreign criticism of the Marshall Plan that has appeared. "On Turning Back from a Sinister Journey," a speech by Lord Milverton to the House of Lords, is an act of repentance that has recently embarrassed the British Labor Party.

Suicide of a Business. This is the story by one of the victims of a successful independent enterprise that was merged out of business, owing to conditions created by the government, all its solicitude for little business notwithstanding. It is written as a challenge to Congress and answers the question: "What happens to little business?" The writer says no post-facto investigation, no decree or edict by a paternal government, "can bring me back to life as a competitive factor in the oil business."

The American Sense of Guilt. Agnes Morley Cleaveland is already well known to readers of AMERICAN AFFAIRS for her pamphlet entitled, "American Primer," which has been very successful. It is now in its fifth printing.

Wolf's Teeth for the Clayton Act. Gilbert H. Montague is more than an eminent authority on antitrust legislation and on the practice and philosophy of American competition. He is also a gadfly to the government. Here he catches the Federal Trade Commission out.

If Business Lets Government Do It. This is the second article by L. C. Walker on the responsibility of business for mass unemployment. Almost alone among industrialists, he is calling attention to the dangerous indifference of industry to this unsolved problem.

American Affairs is a quarterly journal of thought and opinion. In that character it is obliged to touch many subjects that by nature are controversial. Its pages are intentionally open to views and ideas that provoke debate. By printing them the National Industrial Conference Board does not endorse them; it undertakes only to acknowledge the integrity of the contributors and the good faith of their work.

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American Affairs

GARET GARRETT, *Editor*

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Comment

By the Editor

THIS is supposed still to be the one great capitalistic society surviving in a dollar-hungry, anticapitalist world. It goes forth to fight its visible enemy, which is communism, and finds itself everywhere supporting and defending its insidious enemy, which is socialism. The Socialist countries of Europe say, "Give us the dollars and we will be your bulwark against communism." The Socialists at home say, "Give them the dollars, for it is a common cause, democracy against communism." That dollars are used to support socialism in Europe gives the American Government no concern whatever. President Truman says:

"We recognize that each nation has its own political problems and that it uses different political labels and different slogans from those we use at home. In the same way, nations have different business practices and different governmental devices for achieving the same economic ends."

And thus it happens that there is an alliance between capitalism and socialism, and by the logic of absurdity this is an *alliance between capitalism and anticapitalism*. In those moments when it looks at what it is doing this capitalistic society says, "But we are obliged by the fact that neither at home nor in the world are there any other allies against communism." That is fear—fear of Soviet Russia by a capitalistic society that has in its hands one half the potential industrial power of the whole world. Yet it must have allies. And having overcome communism in the world with the help of these allies, what if then it should come home only to find the face of socialism protrud-

ing from the skeleton head of a free economy, like the hag fish that entirely displaces its host by the simple process of devouring it from within? Which now is the greater enemy, socialism or communism? It is impossible to say for sure. Both hate capitalism and mean to destroy it, one by methods of violence and the other by what we have learned to call democratic means. There is at least this difference, that whereas a capitalistic society is conscious of the one that openly threatens its life and reacts to that threat with mechanisms of self-defense, it is at the same time very tolerant of the one that attacks it from inside and comfortably devours its entrails.



A QUEER kind of thinking moves over the world. Its source is in Europe. The premise is that people, in virtue of being people, are entitled to a higher standard of well-being; if they cannot produce it for themselves, nevertheless they are entitled to it, and it must somehow be provided. Leon Blum, the French Socialist, makes a typical statement of it in his newspaper, *Populaire*. He is looking at Great Britain with anxiety because if socialism fails there it may be sunk everywhere. Under a Socialist regime England is consuming more than she produces. Because her costs of production are high she cannot sell her goods in a competitive world. There are only two ways to reduce the costs of production. One is to increase your efficiency, but that takes time; the immediate way is to get more work for a week's wage, but that would mean longer hours, fewer social benefits and a lower standard of living for labor, and labor will not have it. That way is politically impossible. So if it is politically

impossible to reduce the costs of production, does it follow that it is politically necessary for England to go on being a deficit nation, consuming more than she can afford to buy? That is the riddle to which Mr. Blum addresses himself. He says:

“If the excess in British production costs results from an excess in profits and inferiority of technique and specialized labor, then the laws of competition are properly favoring Belgium. In that case Belgium and the United States are right. But if the excess costs in Britain are rather due to the fact that the standard of living of the British worker has been brought to a level superior to that of the Belgian worker, and to the fact that social costs weigh more heavily on British production, and to the fact that there is full employment in Britain and partial unemployment in Belgium, then the laws of ‘liberal’ competition are resulting in the worst form of iniquity. In that case there is no doubt that Britain is in the right.”

Belgium is hateful to Mr. Blum because it accepts a competitive world. The Belgians produce more than they consume and have a surplus to sell. Their difficulty is that Belgium is surrounded by deficit nations who cannot afford to buy her surplus. Now if England is right and Belgium is wrong, what can be done about it? Shall British labor be obliged to meet the competition of Belgian labor or shall the Belgian Government provide a higher state of well-being for its people, add the cost of it to her prices, and then, having priced herself out of the world market, become a deficit nation like England? Ah, says Mr. Blum—

“This question is extremely grave and it is appearing more and more with the development of European and international planning. Can it be admitted that the country that gives its workers the least advantageous conditions and thereby assures itself of the lowest production costs should profit thereby in international competition? That is the question that has developed in the Organization for European Economic Cooperation.”

Mr. Blum’s reasoning seems to be something like this: If competition were abolished the problem of a welfare state would be very simple. Between a balanced budget and a social deficit it need not hesitate. It would put welfare first. It would not ask: “How much welfare can we

afford?” It would say: “We are entitled to a certain degree of well-being and the world must somehow provide it.” This way of thinking has no doubt been encouraged by the manner in which the United States has shared its surplus with the deficit nations of Europe. When they assume that somehow the world will provide them the kind of living to which they are entitled it is the American surplus and the American dollar they think of, as when Mr. Sean MacBride, the Irish Foreign Minister, said at a meeting of the Marshall Plan Council:

“The United States has a surplus of goods which is ever growing. That is the great fact we have to face if we desire to escape the depression that is threatening. We must utilize this surplus or else perish.”



IT is easier to see what has happened to the European mind than to realize that the American mind begins to be beguiled by the same way of thinking. It is the President who now expounds the idea that there are “social deficits that would be more serious than a temporary deficit in the federal budget.” (*Midyear Economic Report of the President, Page 8.*) What are social deficits, according to this idea, and how do they occur? Social deficits occur when from fear of overspending or of running into debt, the government curtails its welfare program and omits to do anything that it ought to do toward promoting prosperity, well-being and human happiness. In his radio speech to the people on the social meaning of the Midyear Economic Report, Mr. Truman said:

“There are men of little vision who say we ought not to go on doing these things. They say they cost too much. They say we are wasting money. The truth is that an investment in the future of America is not a waste of money. The dollars we put into our rivers and our power plants will be repaid to us in fruitful valleys and prosperous communities. Expenditures for the health and education of our children will yield us untold dividends in human happiness.”

That is to say, if the government cannot continue its welfare program and at the same time

keep its budget balanced, so much the worse for the budget. The question is not whether we can afford to increase our expenditures for welfare works. We must ask ourselves only this question: "Shall we advance in welfare?" The President says:

"I do not like to have a government deficit but still less do I want to injure the economic health of the country."

In the greatest boom year the country ever knew the government could not balance its budget because there were so many desirable things to do for the social welfare. Then when the recession comes and revenues begin to fall, it has to give up the idea of balancing the budget, not only because to reduce social expenditures would create social deficits, but because, moreover, it will be bad for the economy. The President said:

"To slash government expenditures now, would add to the downward trend. The people who unwisely urge that government expenditures be slashed are for the most part the very same people who have long been opposing our social programs and our resource-development programs. They have resisted such things as social security, housing, the minimum-wage law, and public power development from the very beginning. They have opposed every improvement in these programs. In the long run, these programs are not only necessary to the welfare of the country—they are necessary if we are to balance the budget."

Then he adds, as an afterthought:

"The fact that public expenditures of federal, state, and local governments are running at a rate of close to \$60 billion a year is itself an element of great stability in the present situation."

This is to say to the people: "It is better for your welfare to let the government spend your money than to do with it what you would." If that is not good European doctrine, what is it? Yet when European Socialists meet socialism returning to them from what they suppose to be a capitalist country, the milk of brotherhood may turn a little sour. Here is the Foreign Minister of Great Britain complaining that the American Government's progress toward the

welfare state is hurting England. How? He tells how:

"This so-called welfare state has developed everywhere. The U.S.A. is as much a welfare state as we are. Only it is a different form. One of our difficulties in maintaining a balance of trade payments today is the fact that the U.S.A., in carrying out its welfare policy, has given basic prices to agriculture. I do not object. I think it is right. But on our side we have not yet worked out basic prices for commodities in the return way."

For Europe to add the cost of socialism to what she sells—that is all right, and the world ought to be happy to pay the price; but when the cost of American socialism is added to the price of what Europe buys that is not so good. If we should stop providing Europe with free dollars, it would be positively bad. Leon Blum's solution no doubt would be a complete Socialist world, with all countries equally insolvent and all resolved to promote the welfare of mankind by deficit spending. All that is left out of this fantasy is a Marshall Plan forever. Who will provide that?



HOW big is big and who will give the dimensions of it? Rationally, this is a silly question, like the Sunday School riddle—"Could God make a stone so big He couldn't lift it?" It belongs to juvenile debate and might be so dismissed if it were not politically important. It is politically important for two reasons—one, that bigness is the demagogue's most useful satan, and, second, that government has undertaken to find the answer. There is no law against bigness. Therefore, you do not attack it directly. The procedure is to associate bigness with monopoly and then attack it as monopoly, which nobody defends. The Judiciary Committee of the House of Representatives has appointed a subcommittee to investigate monopoly. It has the blessing of the Administration. In a letter to the chairman, the President said:

"To a greater extent than ever before, whole industries are dominated by one or a few large

organizations which can restrict production in the interest of higher profits and thus reduce employment and purchasing power."

A few days after having filed his antitrust suit against the du Ponts of Delaware, the Attorney General, Mr. Tom Clark, appeared before the committee as a witness and said:

"Today monopoly power in this nation seldom shows up in the form of one huge business dominating an entire industry. Instead, it is to be found in those industries controlled by a few large companies—the Big Threes or the Big Fours—following policies and practices which avoid any real competition among themselves and which at the same time enable them to maintain their dominant positions."

Who are these Big Threes and Big Fours that, according to the Attorney General, destroy competition, and according to the President, destroy purchasing power in order to keep their prices up? In the motor industry the Big Three are General Motors, Chrysler and Ford. But the motor industry was already very big and supposed to be a closed world when Walter Chrysler crashed it with a shoestring and came in a few years to be one of the Big Three where formerly there had been only the Big Two. Anybody can still crash the motor industry, as Mr. Kaiser did recently; and anybody who can make a better car for the same money will succeed, for anything the Big Three can do about it. But who is free to crash the labor monopolies, such as the one conducted by Mr. Lewis, who decrees a three-day work week (40% unemployment) in the soft coal mines to restrict production in order that higher prices and higher wages may be maintained?

BIGNESS is born in the American gristle. If that were not so this would not be a big country. There is a difference between a large country and a big country. A very large country like China may be full of littleness but no aggregate of littleness makes bigness like the bigness of a big country. This is something no European can comprehend. Some German engineers passing the Statue of Liberty and

looking for the first time at the New York skyline said, "Well, since you were going to make it so high why didn't you make it higher?" In a few years Europe began to have tall buildings, too, having seen them here, but by that time the New York skyline was much higher, and not for any economic reason. If a farmer makes a killing with ten acres of spinach he will plant the next year fifty and begin to think of shipping spinach by the trainload. If a man is successful with one grocery store he wants two, and when he has two he wants a chain. A man with one truck wants ten, each one bigger, and when he has ten he dreams of a transcontinental fleet that will worry the railroads. Not so many years ago the railroads represented the only bigness the people feared. Laws were passed to limit their power; then laws to keep them from growing bigger by a process of accretion. In the Northern Securities case the Supreme Court decided that one big system must dissolve itself, not because it had done anything wrong but because it was too big and possessed too much power for evil if it should ever become evil minded. But what happened to the railroads was nothing the law could do, but two new unforeseen forms of competitive transportation, namely, the motor vehicle and aviation.

BUT see how it works if you let it work. When the old wagon freighter saw the first railroad he must have said to himself, provided he had the imagination to believe it: "Well, that's the end of me. No teamster can compete with a locomotive." He was right. No teamster could. What became of him is not remembered; in fact, it was not noticed at the time because, for one reason, there was no welfare state to worry about him. He disappeared without trace. For nearly 100 years transportation was big business, and not for the individual. Then came the motor car industry, the sudden bigness of which made it possible for any individual to borrow money to buy a truck and compete with the most powerful railroad system. Thus bigness of another kind broke

transportation down again into the hands of the individual, needing no more capital to start with than the old wagon freighter who vanished. When, nearly fifty years ago, the United States Steel Corporation was formed, it was the biggest thing of its kind in the world, a new image of bigness. Everybody said of course that was the end of the little steelmaker. Then a man named Weir bought an old tin plate mill in West Virginia, tied it together with baling wire, and began to compete. He had to buy his steel from the United States Steel Corporation, which annoyed him, so he began to roll his own steel. Now the Weirton Steel Company is one of the big independents; and among the independent steel makers the Attorney General may find the Big Three or Big Four, notwithstanding the fact that the United States Steel Corporation has all the time been getting bigger too. So what is wrong with bigness in a big country, where every little thing wants to be big and every big thing wants to be bigger still? Nothing. At least nothing until now. And if what has been true until now is no longer true it is not the fault of bigness. Nor is it the fault of bigness if it is true, as many believe, that the road now is harder for little things than for big things—harder for little things to flourish and to grow larger, even to live. For the explanation of that you might look at the fact that wage differentials in favor of the little man have been largely abolished by industry-wide wage structures imposed by the labor monopoly, and at the fact that it is no longer possible for a little man to plow back his profits into the property. Whereas once he could put them all back, now he has to divide them with big government. Hitherto in business and industry, in one climate, in all weather, under one sun, big and little things have lived together as in nature; competing together, yes, and yet maintaining somehow a symbiotic relationship. The small merchant has not been destroyed by the department store, by the chain or by the mail order house, but merchandising has been greatly improved. There never was a time when the United States Steel Corporation did not wish for more little steelmakers to take over the business of mak-

ing small bundles of special shapes because that kind of business got in the way of making steel rails, standard structural forms and basic materials. Nature experimented with gigantic forms and gave most of them up, finding at last an optimum range from big to little. For business and industry there is probably an optimum limit of bigness, and it will find itself, but it will be relative, not fixed, so long as this continues to be a big country, notwithstanding the opinion of Mr. Justice Douglas in a recent anti-trust case that—

“Size should be jealously watched. In the final analysis, size is the measure of the power of a handful of men over our economy. That power can be utilized with lightning speed. It can be benign or it can be dangerous. The philosophy of the Sherman Act is that it should not exist. . . .”

The subcommittee of the House Judiciary Committee took pains to get that into its record. But what is size?



At the Toll Gate

THE way to Heights Unknown is dangerous. It is for those who are strong and young, with a spirit of high adventure, to whom the air of freedom is wine and who find joy in overcoming great obstacles. Where are they going? They haven't time to tell you.

At a very rough spot there is a road bearing to the left. The sign there reads: “To *Security*. Delightful coasting—idyllic scenery.”

People who take the left road find it lovely for awhile. The leader who persuaded them to it calls back from the driver's seat: “Isn't this better?” There is a chorus saying yes. The road is still smooth and all downhill, but as the speed increases some begin to call for brakes. The driver says: “There is nothing to fear but fear. That sensation of speed is owing to the winds of reaction rushing by.” Someone asks: “What was that?” It was a sign nobody could read. Then comes a sign saying: “Toll gate ahead.”

At the toll gate the collector says: “Your freedoms, please.” When they begin to protest

he says: "Only your unnecessary freedoms. When you arrive at Security you won't need them any more."

Some say: "Let's go back."

The collector says: "You passed a sign you did not read. Everybody does that. The sign says, '*You are now passing the point of no return.*'"

Some say: "But we are still free. We can go back if we will."

The collector says: "The sign doesn't mean you can't. It means that you won't."

They wonder at this and ask why not.

He says: "Those who leave the hard and dangerous way never find it again, and if they did they would not know it, because the spell is broken. It is a long way back to where you think it is, all uphill, and then it isn't there. Talk it over."

They talk it over. The rugged minority still wants to go back, only it cannot go back alone. The majority decides to go on. It is easier to go on than to go back.

So the British have discovered. Ever since the rise of the Socialists to power the Conservative Party has been bitterly denouncing the nationalization of industry, the strangulation of private enterprise, the prodigal expenditures for social welfare and the fallacy of the guaranteed minimum life. Now, expecting an election in the near future, the Conservative Party announces the platform on which it will go to the people. The platform does not say, "Let us go back." It says that if the Conservative Party is elected it will—

1. Restore free enterprise, *only where it is practicable.*

2. Let industries that are already socialized stay socialized, because any other course would cause too much discord.

3. Continue foreign exchange and import controls so long as may be necessary.

4. Safeguard the economy against internal fluctuations by fiscal policy and control of investments.

5. Restore freedom of choice to consumers and producers, *within the limits of basic public interest.*

6. Consider state trading not as an evil but on its merits—does it help or hinder the economy?

7. Permit commodity markets to be open and to operate, *within the limits of existing foreign exchange controls.*

8. Give the farmer guaranteed prices and guaranteed markets and provide subsidies to improve farm living.

9. Continue rationing and price control until the prime necessities of life are within everyone's reach.

10. Encourage private enterprise to meet *part of the need* for houses to rent, with local government continuing to provide housing at subsidized rents.

11. Continue rent control so long as there is a scarcity of housing.

12. Maintain the scope, the range and the rates of benefit of all the social security services. It pledges itself to do them no injury.

"The Conservative Party," says *The Times* (London), "accepts the welfare state with all its implications. It will try to keep wages at their present level and to maintain—or even to increase—social services."

The Shorter Catechism once had it that "I am a child of sin and the heir of Hell." The new catechism asserts that I am a child of the government and the heir of my neighbor's industry and prudence. This is the deadly epidemic sweeping through the land today, beside which the drought and the dust storms are but trifling episodes.—*Dr. Isaiah Bowman.*

Winds of Opinion

Serving the national interest through international aid has become one of the biggest operations of the United States economy.—*Department of State Bulletin.*

Every Soviet soldier who can buy a watch in Europe has to be watched on his return to Russia against the possibility of rebellion and insurrection.—*Monsignor Fulton J. Sheen.*

I think we are still in the pioneering stage as far as our American system is concerned. There is just no comparison, just no second, and yet I think it is only the beginning.—*Charles E. Wilson, President of General Electric.*

We dare not flutter between convenient paths when the world is following our footsteps. Our steps must be better measured than ever before in our history. They must be taken with knowledge of their risks, their benefits, their costs—the power they will require if we are to move sturdily and progressively forward. Vacillation is not conducive to a leading role in world affairs. For when we appeal throughout the world to men of good faith to stand bravely and at our side, we are asking them to risk their lives on the good faith of our pronouncements.—*General Omar N. Bradley.*

Communists are Socialists who take Socialism seriously.—*From "Pax Britannica," by I. A. Voigt.*

Indeed, this country is better off with than without a national debt. Consider what would happen to banks, insurance companies and the supply of money should the debt suddenly evaporate.—*Professor Seymour E. Harris, expounding the New Economics.*

The program of the present American administration parallels the program of the British Labor party in almost every detail, with only this difference. The American administration attempts to hide the truth about subsidies under carefully formed phrases, and to disguise the fact that its program is the creation of national socialism by the same kind of figures of speech the Russians use when they call a collectiv-

ized state a "people's democracy." It is a bitter experience to admit that an American administration will not treat its people with the same honesty with which the British administration faces its people. Because of this, it becomes necessary for the opposition groups among the American people to proclaim the truth which the Administration will not state—that the payment of subsidies is the foundation of the welfare state, and that the welfare state is the foundation of socialism.—*The Reverend Russell J. Clinchy, Hartford, Connecticut.*

Overspending, overtaxing and overdependence on the state—these are the great democratic weaknesses. They can do a lot more to pave the way for a Communist triumph than all the Red conspirators can do to us. And the tragedy is that we do these things to ourselves.—*E. T. Leech in the New York World Telegram.*

The plain and stark truth is that if we, at a time of high prosperity, deliberately embark on a program of deficit spending, it is doubtful—very doubtful—that the budget of the United States Government will ever be balanced until our fiscal system is destroyed and we undergo the terrific hardships of the reestablishment of a solvent currency.—*Senator Harry F. Byrd.*

We have hypnotized ourselves into believing that the very fact we have many schools, including many good schools and many free schools, and that we are graduating numerous young people into commerce, trades, technology, and home life with a so-called education, necessarily means we have a better world, or at least better people in the same old world. I ask you to consider a few very simple facts, like the one that in the period between 1910 and 1950 the world built the largest number of colleges and turned out the largest number of graduates, but had the two worst wars in world history and the worst depression.—*Leo A. Lerner.*

If over the next ten years we can maintain the degree of stability and the rate of economic growth which our resources and our know-how entitle us to, our total national income over the decade measured in uniform dollars will be about 400 billion dollars higher than if we should level off at the current rate of production. It will be about 800 billion dollars

higher than if we should go through the traditional pattern of boom and bust and slow recovery which characterized the years from 1929 to 1939.—*Leon H. Keyserling, Vice Chairman of the President's Council of Economic Advisers.*

With every new assumption of responsibility by the State, it becomes more difficult to conceal the fact that trade unionism and economic planning pull different ways. If once the conviction grows that there is permanent opposition between the trade union movement and the State, between the workers' prospects of exacting advantages from the community and the government's policy of general planning in the interests of the community as a whole, the "natural" identification of the working class majority with the Socialist Labor Party is likely to wear very thin.—*The Economist, London.*

The Labor Member of Parliament who recently complained that neither the miner nor the railway worker had any more control now over the running of the mines or of the railways than he had before these industries were nationalized obviously contemplates a state of affairs in which any industry would be run not for the benefit of the community at large but simply to suit the convenience of the worker engaged in it.—*The London Statist.*

For talent and effectiveness in getting their causes favorably publicized, the current "left" groups far surpass advocates of the "moderate" viewpoint, reversing the situation that long prevailed in this country before 1934. The left groups, especially labor unions, are recruiting subtle, clever young people from what seems to be a bumper collegiate crop steadily produced by professors with a radical bias. Book and other critical reviewing, letters-to-the-editor, as well as syndicated Washington press and radio comment, reflect this aspect of the era.—*Arthur Krock, in The New York Times.*

Both political parties are bankrupt as far as high and proper standards of leadership are concerned. Both are busy day and night seeking to please self-serving pressure groups, with the consequence that the people of the United States are being sold down the river to the slavery of socialism. It seems reasonably clear that the only hope to save our people from socialism and obtain a sound currency again lies in the creation of a nation-wide organization to

which people of understanding and integrity can repair.—*Dr. Walter E. Spahr.*

Stated simply, the problem is that in this country a college education costs more than it can be sold for. If we lump together all private American colleges and universities, the average income from tuitions and receipts is about two thirds of the cost of a sheepskin.—*Fordham University Alumni Association.*

Suppose you did not have these billions of dollars to put up, then what would you do? Suppose that you were busted like every other country in the world, what would you do? You would get along without the billions just like they do.—*Representative Crawford of Michigan.*

I think it fair to make the generality that the unions come into their negotiations better prepared with statistics than the employers.—*Cyrus S. Ching, Director of the Federal Mediation and Conciliation Service.*

We are about the only nation in the world today which can have a decent depression. I visited China, India, Siam, Burma, Indonesia, and others, and went into the small houses of the inhabitants, saw how they lived, and how they worked in their little workshops, where, with their hands, they whittle things out of ivory and various other materials they are able to get. Their situation is pitiful. They are on the ground economically already; they could not have a depression. If the 145,000,000 American people agree to divide their wealth with the world, and the 2,000,000,000 people in the remainder of the world agree to share their poverty with us, the standard of living of the average American citizen could be one sixth of what it is today when the final leveling takes place.—*Senator Malone.*

I am amazed that so many men in the Christian ministry do not see the ultimate immorality of the welfare state. It is finally and politically based on this question: "What is my fair share of what you have earned?" The pulpit condemns a candidate who gives his own money for a vote. That is bribery. But when the candidate asks for the vote of A on the ground that he will take money from B to give to A, he is acclaimed a great humanitarian. Thus the wants of rogues become the rights of man!—*Samuel B. Pettengill.*

In every country in the world are millions of people who have been led to believe that the United States is pledged to solve all their problems and wash away their worries.—*Bruce Barton.*

The Marxian Sign in American Banking

*By W. Randolph Burgess

Chairman of the Executive Committee of the
National City Bank

AFTER nearly thirty-five years of operation, the Federal Reserve System is threatened with danger. It is threatened by the kind of thinking that created totalitarianism in Germany and Russia and socialism in England, by the reasoning that efficiency calls for concentrating power in bureaus in Washington.

This is a danger not for banking alone but for the whole country. It was the principle of Karl Marx that if a group of men could get control of the credit resources of the country, they could control the whole country.

The seemingly logical move to solve our money problems by greater concentration of power over credit in Washington and in political hands is sub-

* Conclusion of a lecture at the Graduate School of Banking, Rutgers University.

versive of the principles of our democracy. If the bankers of the country do not defend the System from this danger, no one else can or will.

It would be easy to leave this statement as a negative plea, opposing all controls. The positive side of it is a reaffirmation of the need for vigorous monetary management as the most powerful and best instrument government possesses for moderating business fluctuations. Its effective use depends on the time-honored powers to influence the cost and volume of credit rather than on detailed control.

The use of these powers in turn depends on a revitalized Federal Reserve System with growing independence of Treasury policies as the war recedes into the past. The effectiveness of credit policies also will be greatly enhanced as they become cooperative national policies rather than surprise moves imposed by a Washington agency. In bringing this about, bankers have themselves an equal responsibility with the Reserve System.

Vesting Day

By Permission of *Punch*

TODAY I was fully nationalized. They came to my garden gate,
They said that my life was once my own, but now it belonged to the State.

It seems I had once a body and soul, though the latter had owned its Lord,
But now they were mine no longer; they had vested me in a Board.

I asked them who was the master now of my body and my soul,
And they said that the Board had granted me a measure of self-control;
But the Minister's eye was on me. He would surely have me sacked
If I did not live in conformity with the Clauses of the Act.

I asked them to read the Act to me, and then I would do my best.
They stared in extreme astonishment, they laughed like men possessed.
They patted me on the shoulder, they said that I must not fret;
The Act was passed in entirety, but it was not drafted yet.

They had made one great concession (they said in a kindly tone):
My income had been nationalized, but my debts were still my own.

My debts were my private property, they must all be fully paid,
But I must not beg nor borrow nor steal, nor make a profit in Trade.

O Sirs, I said, you are very kind to a sinner such as I,
But how can I hope to pay my debts if I cannot sell and buy?
They said I misunderstood them (and they sounded a trifle cross);
I might buy and sell as much as I liked, as long as I made a loss.

I said I should go and find a job, for I never was one to shirk;
But they said I must join a union before I could start to work.
And then, of course (as I should have known if I weren't such a blinking snob),
I couldn't belong to a union until I was in a job.

I was not allowed to go abroad, though I knew no useful trade,
For only the skilled could emigrate, and only the useless stayed.
I could draw my unemployment pay, and sit all day in the sun,
For now I was fully nationalized, and Justice Had Been Done.

R. P. LISTER

At The World's Bedside

*The Disease Is Not Dollar Shortage • Some
Facts People Have Not Yet Faced • Overthrow
of Europe's Ancient Supremacy*

By Gareth Garrett

SINCE the end of World War II the European mind has had but one diagnosis of the world's economic sickness. The disease is Dollar Shortage. Three cures have been proposed, namely, (1) dollars, (2) dollars enough, (3) more dollars.

This country has accepted both the diagnosis and the role of dollar physician. If dollars could do it, that was our part.

First, there was a profound meeting of political and economic minds at Bretton Woods. It brought forth two charters. One was a charter for the International Monetary Fund, which was to stabilize the currencies of the world and make them freely exchangeable one for another. The other charter created the International Bank for Reconstruction and Development, called also the World Bank, which was to create one great pool of capital resources (principally, of course, dollars) and distribute them all over the world, agreeably to the needs, good faith and solvency of the borrowers. To these two institutions the American Government's subscription was nearly \$6 billion.

Did it work?

From the International Monetary Fund, which was to have stabilized the currencies of the world, has resulted the worst monetary chaos in the long story of man's folly with money; and international trade for that reason has been terribly handicapped in a world crying for trade. Each member of the International Monetary Fund was permitted to fix the value of its own currency in terms of the dollar, as,

for example, the British saying the pound sterling should be worth four dollars; and since they were all thinking of dollars as curative magic, whether they were going to trade for them, borrow them or get them for nothing, they all with one accord valued their own currencies too high in terms of the dollar, so that never afterward was there a true international price for any money except in the black markets. And as for the International Bank for Reconstruction and Development, which was to have made the pooled resources of the world available in an equitable manner to all borrowers, its activities have been hardly worth reporting, because borrowing nations with good collateral have not needed its offices and to nations without good collateral the door was closed. Moreover, why should a borrower go to the World Bank to borrow at interest when, if it waited, it could get the money from the American government for nothing?

SECONDLY, the ink was still wet on these Bretton Woods treaties when it appeared that something special would have to be done to provide Great Britain with dollars. So then the Anglo-American Loan Agreement, under which Great Britain got a clear loan of \$3¾ billion, together with concessions and surplus property that brought the total up to \$4.4 billion. She said that was enough to put her on her feet and make her self-supporting in five years. Moreover, she would make dollars and

pounds sterling interchangeable in a free way, instead of draining all the dollars out of the sterling area and keeping them for herself, as she had been doing. (The *sterling area* is all that part of the world where Great Britain can buy with her own money—and, as the National City Bank says: “an association of countries within which, generally speaking, the pound sterling arising from current trade and service transactions is freely convertible. At the present time the sterling area consists of the British Commonwealth countries, Canada excepted, together with Eire, Iraq, Iceland, and Burma.”)

Did that work?

A credit that was to be drawn gradually over a period of five years was exhausted in the second year, the attempt to make dollars and pounds sterling interchangeable had disastrously broken down, because everybody with a pound sterling wanted four dollars for it and nobody with four dollars would give them for one pound sterling—and Great Britain was worse off than before.

The British then said the loan was too small—the dollars were not enough—and that came somehow to be the Americans' fault. In fact, the Europeans' naming of the disease as Dollar Shortage gave all the time the inflection that the primary cause of the world's trouble was the American government's niggardly behavior. The London *Economist* said:

“. . . the fault for the present crisis—if fault there must be—is far more America's than Britain's. The loan was far too small when it was made, as the British pointed out. . . . Contributory negligence there has certainly been on the British side, but it has been of smaller importance.”

Nevertheless, only eighteen months before, Lord Keynes himself, who had negotiated the loan in Washington and afterward reported it to the House of Lords, said it was enough and would bring the British through if they were careful of it; and he added that it was perhaps better to have just enough than too much, because if they had more than enough they would not be as self-helpful as they ought to be.

In any case, there was the dollar crisis still, stark and real, and more acute than ever. Europe

kept asking: “Are you going to let us down for want of dollars?” England kept asking: “Will you see the great British Commonwealth fall to save your dollars? It will be worse for you if you do. As a Socialist Government we now stand as your principal bulwark against communism in Europe. Where will you find another ally like this one, and one that you can save with dollars?”

THE use of these sayings was to move the Americans, and they were moved, but much more by their emotions than by any understanding. Such terms as *dollar crisis*, *dollar gap* and *Europe's imbalance of payments* caused them to think of the situation as if they were dealing with monetary phenomena, and that was very confusing because the nature of the dollar crisis was not monetary. The explanation of it was simple.

Europe was consuming more than she was able to produce for herself and looking to America to make up the difference. Great Britain, with her new Socialist Government, was resolved to have a Welfare State—complete social security for everyone, a higher standard of living for the poor, food subsidies for the consumer, subsidized housing, free medicine, the socialization of her principal industries for labor's benefit—whether she could afford it or not.

So it was that when Europe asked the United States to take care of her *dollar deficit* or the *disequilibrium* of her trade with the Western Hemisphere or her *imbalance of payments*, what she really was saying all the time to this country was: “You are the great surplus country in the world. You have more than you need for yourself. To save Europe from chaos you must share your wealth with us.” And to make it seem a little less bald she added: “For your own sake you are obliged to do this, for if you cannot dispose of your surplus abroad it will drive you into depression. If we cannot afford to buy it from you it will be necessary for you to give it to us, and for anything we know to the contrary, this dollar shortage may be permanent.”

The one sure way to have cured the world's

dollar crisis at any time in the past four years would have been to tow the United States into the middle of the Pacific and sink it without trace. What would have happened then? Well, then Europe would have had to live on what she could produce for herself. British labor, for example, might have had to take a lower wage, or the same wage for more work, and accept a standard of living not higher than that to which it had been accustomed before. Certainly Europe would not have perished. In some ways she might have been better off. The nightmare of American competition would have vanished. Great Britain might have been able to sell her high-priced goods all over the world and the pound sterling would have been once more the paramount money of international exchange.

The Communists might have overrun Europe, but even as to that, if Europe's political predictions are no better founded than her economic foresight, one may think it doubtful. In any case, that is not a monetary problem.

But in no event were we going to let Europe down for want of dollars. Maybe they were right. Maybe we had underestimated the job. And so, thirdly, came the Marshall Plan.

IF now we think the principal justification of the Marshall Plan to be that it has stopped communism in Europe—if it has—that means only that it has turned upside down, for that certainly is not what it was for in the beginning. It had at first no political or ideological significance whatever. If you doubt this, read again what the Secretary of State said it meant, in that famous Sunday evening speech at Harvard. He said:

“Our policy is directed, not against any country or doctrine, but against hunger, poverty, desperation, and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist. Such assistance must not be on a piecemeal basis. Any assistance that this government may render in the future should provide a cure rather than a mere palliative.”

The representation of it as a plan to “con-

tain” communism came later, after Russia had refused to cooperate.

If the success of the Marshall Plan be judged by reference to the first intention, the story becomes very sad. In announcing the Marshall Plan the American Government said to Europe, in effect, this: “We cannot go on doing it bit by bit. We have tried that and it doesn't work. Now all of you get together, estimate your dollar deficits for a period of years and send us the figures, and if they are reasonable we will undertake to provide you with the dollars, until you can get on your feet and become self-supporting again.”

That they did at a conference in Paris, where a council of *all* European countries was called to construct the figures the American Government wanted and to agree on how to divide up the dollars. Russia came with her satellites and then walked out. That left the following sixteen Marshall Plan countries: Great Britain, France, Austria, Italy, Luxemburg, Belgium, Holland, Switzerland, Sweden, Denmark, Norway, Ireland, Iceland, Greece, Portugal and Turkey.

The intention of the Marshall Plan was to make them all self-supporting by 1952, “through a miracle of economic recovery.” This would require them, with American capital, to increase their industrial production, to make for themselves more of the things they had been buying in the United States, to make greater use of their own resources, to trade much more freely with one another, to make their currencies interchangeable, and above all to help themselves much more. And while this European Recovery Program was being moved through Congress it was added as a strong selling point that by helping Europe thus to help herself we should be saving ourselves a large military bill in the future, because if Europe were economically strong she could defend herself against Russia. And for this total grand purpose we proposed to provide \$17 billion during four years.

Did it work?

IN less than a year the Marshall Plan countries wrote a report saying they had made a mistake. In 1952, when the aid was to cease,

there would still be a large dollar deficit. Again, not enough dollars. That was in the first year.

In the second year the dollar crisis, for Great Britain at least, was more acute than ever. Sir Stafford Cripps had upset the Marshall Plan Council in Europe by demanding for England a much larger share in the second year's money and the London *Times* said:

"It can indeed be argued that the scale of American assistance was never sufficient to meet the real needs, and that the size of the prospective dollar deficit is the real measure of the gravity of those needs. There are some who think that this should be impressed upon American opinion. But there is another consideration. American public opinion has been led to expect that the four years of the Marshall Plan would see Europe able to dispense with dollar aid by the middle of 1952. It was on that basis that the plan was accepted with enthusiasm. And the risk of disillusionment must not be lightly weighed."

The London *Economist* said:

"The truth is that the crisis which the British did not expect until 1952—and hoped to be prepared for by then—is already upon them. It has always been recognized that by 1952 the stream of external assistance—whether by loans or Marshall aid—which has gone on uninterruptedly since 1945, would have come to an end and the British by then would have to live on what they earned in a competitive world. In the long run, nobody owes the British people a living and the point must come when they enjoy only that standard of living for which they are prepared to work. What had not been expected was that Britain's difficulties in paying its way would remain so dire that even with Marshall aid, the books would not be balanced and the eating up of the reserve would continue unchecked, or might even be accelerated."

And after a conference in England in July between the American Secretary of the Treasury and the British Chancellor of the Exchequer, the dismal failure of the Marshall Plan to do what it was expected to do was proclaimed in an official statement issued at Chequers:

"It was agreed that the general approach to existing problems must be based upon full recognition of their profound and long-term character. The difficulties of the past few months were no more than aggravation of deep-seated maladjustments. All agreed that remedies other than finan-

cial assistance such as that provided by the United States and Canada must be explored."

That was to say simply that the Marshall Plan was all right so far as it went, only that it did not go far enough.

In September the British Foreign Minister and the Chancellor of the Exchequer were in Washington discussing with the American government measures beyond the Marshall Plan to save Great Britain. And as for the idea that the Marshall Plan, by enabling Europe to defend itself, was going to save the United States from an enormous new military expenditure, there had just been ratified the Atlantic Pact, which calls for a Military Assistance Program, based entirely on the ground that without arms, ammunition and other military assistance from the United States, beyond the Marshall Plan, Europe would be unable to defend herself against Russia.

IN less than five years—through (a) the International Monetary Fund to stabilize the world's currency; (b) the International Bank for Reconstruction and Development which was to provide the world with all the capital it needed; (c) the loan to Great Britain which was to save the British Empire and restore the freedom of world trade; and (d) the Marshall Plan, which was to make Europe self-supporting by 1952—the United States has committed itself to provide, for Europe alone, approximately \$27 billion, *and still it is not enough.*

The present state of the world is—

That the natural function of money has broken down nearly everywhere;

That, instead of having been stabilized and made freely convertible with one another, the currencies of the world have been frozen in artificial exchange tables;

That, owing to the chaos of money, international trade has been largely reduced to a system of primitive barter, conducted between nations, in the Nazi manner;

That there is hardly anywhere in the world such a thing as a free price competitively arrived at;

That the principal beneficiaries of capitalistic dollar aid are anticapitalistic;

That free enterprise has been driven to take refuge in black markets;

That only governments, that is to say, only the American Government, can afford to lend capital abroad in the world, because for private capital the risk is too great; and

That only now is it beginning to be dimly realized that dollars cannot cure the global malaise; that they can serve only to poultice the symptoms of a disease that has not yet been defined.

ALL the people of the world cannot have been stupid. Indeed it is rational to doubt that stupidity alone could have produced this continuous chain of disillusionment. Certainly free enterprise, with its unplanned world, was never so consistently wrong. How could governments have been so wrong? How can one account for the dire disparity between what they intended and what took place in spite of them?

Even Socialists know arithmetic. How could the British Exchequer be so confused in the rules of addition and subtraction as to mistake minus for plus?

It seems necessary to suppose, not that the world has been stupid, not that it has been insincere, but only that it has been deceiving itself—only that there has been a great black-out of facts that people were unwilling and unable to face, such as—

The fact that the sudden overthrow of Europe's supremacy in the world is the most revolutionary event of the past 2,000 years and was bound to have strange and irrational consequences;

The fact that international trade as it was conducted during the nineteenth century is a bankrupt enterprise and cannot be restored in that pattern;

The fact that the aims of socialism, with such imperatives as the welfare state and the planned economy, are irreconcilable with the assumptions of a capitalistic society, believing in a free economy, free prices and competition; and that no solution is acceptable to both;

The fact that when roughly one half the industrial power of the world lies in the hands of one people—the American people—there is a physical imbalance in the global scheme to which as yet no rational answer has been proposed. (Sir Stafford Cripps, the British Chancellor of the Exchequer, says: "There is a balance of production in the United States of some \$12 to \$13 billion a year which must somehow be transferred to the rest of the world or the rest of the world must go without it");

The fact that a country like Great Britain, having ruled the world for nearly 200 years, will not surrender its prestige with good grace nor without a terrific struggle;

The fact that for the first time in history the paramount political and physical power of the world belongs to a country that never wanted it, is isolationist at heart, and abhors imperialism, so that her behavior is misunderstood; and

The fact that there are fatal contradictions in the Marshall Plan.

TO understand what has happened to dollar aid it is necessary to look at what has happened to Europe. In the Age of Discovery Europe discovered the world and asserted unlimited proprietorship in it. Although she quarreled incessantly over how it should be divided, it never once occurred to her that it was not her world to divide. Spain and Portugal were the first contestants, by right of priority of discovery, and referred their claims to the Pope, who, to the best of his geography, drew a line through the whole world and divided it equally between them. Portugal, who knew Africa better than she knew South America, said his line ran too close to Africa, whereupon His Holiness moved it a little to the right, with the effect of adding the great bulge of South America to Portugal's half, which was not intended; and that is why Portuguese is to this day the tongue of Brazil. Later came Holland, France and England fighting for their share of the world; then Belgium, Italy and Germany. And so on the maps you had Spanish America, French America and British America. New York was once Dutch. Elsewhere you had

British India, British Malaya, British Burma, British Hong Kong, the Dutch East Indies, French Indo-China, British South Africa, the Belgian Congo, French Morocco, and everywhere "spheres of influence" marked with European names.

BRIEFLY, Europe owned the world, and for a long time her right to rule and plunder it was unchallenged. Her fighters were fierce in conquest and carried terrible weapons. One army of a few thousand Europeans could hold millions of natives in subjection. Then it took only a few European officers over "native armies"—a plan by which natives were obliged to keep themselves in subjection. Europe's colonial system was based at first upon competitive plunder and exploitation, under license. A flood of gold and silver caused prices to rise in Europe. The British capture of one Spanish treasure ship returning from America might cause a little war, but it would put the British exchequer in velvet for a year. The weakness of piracy is that it preys upon capital, and the capital will not reproduce itself. Therefore, in time, piracy was succeeded by trade, which lives upon profit and may be durable. Then appeared navies, i.e., fighting ships to protect merchant ships. Colonial trade was profitable because Europe named the terms. Even so, when it came to be charged with the wars it entailed, thoughtful people began to wonder whether it was worth the cost, especially after the American Revolution had deprived Great Britain of her most industrious colonies, and the system might have broken down of its own weight but for the advent of the Industrial Revolution.

Great Britain was the first to embrace machine craft. For nearly 100 years it was her monopoly, and for that reason she led the Industrial Revolution. France followed, and then Germany in a very aggressive manner, but this meant only that whereas at first machine craft was a British monopoly it became a European monopoly. American industry, which was destined to exceed all of them, was not founded until after the Civil War, and was for a long time

after that devoted to the aim of making the United States industrially independent, leaving all of the rest of the world to Europe.

Between Europe and the rest of the world the pattern of international trade that developed during the nineteenth century was essentially the exchange of skilled for unskilled labor. Natives were no longer just natives; they were the producers of primary commodities, such as food and raw materials, according to a new division of labor in the world. Europe bought the raw materials, fed them to her machines and exported the manufactured product. The profits were wonderful because the terms of exchange were set by Europe. In food and raw materials she had a buyers' market because she was the principal buyer. For her manufactured goods she had a sellers' market because she was the principal seller.

THE profit from this exchange was the principal cause of Europe's enormous rise in wealth during the nineteenth century. A great deal of it was left abroad to be invested in the sources of raw materials, such, for example, as the British and Dutch rubber plantations of the Far East, which gave Europe a monopoly of natural rubber, or the tin mines of the Straits Settlements, and oil anywhere in the world where there was oil; it was invested also in works like the British-owned railways of South America, in port facilities, in processing factories, in banks and trading houses, or in the British façade of Hong Kong. These capital assets represented her famous "overseas investments," from which dividends and interest continued to be called tribute even to the end—tribute paid by the world to Europe.

Meanwhile, because it was so much cheaper to buy food from abroad than to produce it, Europe forgot how to feed herself and became dependent upon the world in this curious way—that to feed her growing population she had first to buy raw materials to feed her machines in order to make the manufactured products she exchanged for the food she no longer produced for herself. That is what the saying meant: "We must export or perish."

It was a dangerous way to live, and yet it

might have gone on much longer but for the sudden rise first of American and then Japanese competition. After that, Europe's share in the business of supplying the world with machines and machine products began to fall, but for a while it did not seem to matter, since she could live on her capital and was complacent about it. If year after year she bought more than she sold, she could make up the difference with the income from her overseas investments. It never occurred to her that a time would come when again she would have to live on what she currently produced, or to ask if she could.

Then suddenly all that beautiful design for European living was ruined. World War II finished what World War I began. In less than one generation Europe's overseas investments were largely lost or liquidated and, more than that, she became a debtor, not only to the Americans, who perhaps would never have to be paid off, but to people who would demand their money back. Great Britain was, of all, the worst hurt, and her most embarrassing debt was owing to India.

WHAT malice of history inhabits this story of Europe! From having owned the whole world she comes to be its principal object of charity, soliciting grace and generosity even from those who have cause to remember that she exploited them when she could. More than grace and generosity, she needs now American military aid because at last she is unable to *defend her own civilization against an Asiatic power*. And at the same time she must find the answer to that question which for so long she was unwilling to face.

In 1942, the London Chamber of Commerce said:

"It is evident that after the war this country will be no longer entitled to that large tribute of foodstuffs which, in the past, has come each year by way of interest on loans."

The question is this: Without that large annual income from overseas investments with which formerly she made good her trade deficit, will Europe be able to live on what she can currently produce? She has not done it for half a century. Can she do it now?

What this question involves is not a problem of postwar recovery. To regard it as primarily a problem of recovery has been the fatal weakness of every solution so far proposed. The International Monetary Fund and the World Bank were agencies of recovery. Great Britain was thinking only of recovery when she borrowed \$4.4 billion from the United States Treasury—recovery in five years. Both Europe and this country treated the Marshall Plan as the complete means to recovery—recovery by 1952. The common name for it naturally was the European Recovery Program.

The idea of recovery rests upon the assumption that the old pattern of international trade can be restored. If it could be restored, dollars might do it; but the *Economist*, London, is closer to the truth when it says:

"The change in the relationship between the old industrial nations of Europe and the new industrial giants of the New World has been on the way for the last thirty years. Now in 1949 the underlying maladjustment between Europe and America is emerging like a reef hidden for a time under a Spring tide."

When that was written in August, the British Government was already proposing to the American Government to explore "a pattern of world trade in which the dollar and the non-dollar countries can operate together within one simple multilateral system. All parties concerned must be prepared to review their fallacies with this object in view."

These obscure phrases are official. They occur in the statement issued last July at Chequers after a conference between the American Secretary of the Treasury and the British Chancellor of the Exchequer; and what they mean is that the declining economic power of Great Britain shall be saved by joining it to the ascending economic power of the United States, that the pound sterling and the dollar shall be made interchangeable in a kind of economic union, and that American markets shall be thrown wide open to British goods.

Well, that will not work either. Even if the Americans were willing to level down their standard of living in order to sustain the present British standard, or perhaps improve it, still it wouldn't work for the reason that a

union between a socialist economy and a capitalist economy would be political miscegenation.

THE fact is that Europe has lost her place in the world. By her own exertions she cannot regain it, nor will dollars do it. And this is true for the reason that the pattern of international trade by which she lived and flourished is ruined and can never be restored.

What has happened to it is irreversible.

In the first place, it was "bonanza," and had the character of discovery, the thing discovered having the name of the Industrial Revolution.

In the second place, it rested on monopoly, the European monopoly of machine craft. That can never be repeated. Now every civilized country wants industry of its own. Industry is today nearly as common in the world as agriculture, and the only people who have any advantage in it are the Americans.

Thirdly, it required that hundreds of millions of non-European people should accept a low standard of living, and these were the producers of primary commodities, who fed Europe with cheap food and supplied her machines with cheap raw materials. Now those primary producers are no longer docile. They have become politically conscious and demand a higher standard of living for themselves, which means that the food and raw materials that Europe buys will perhaps never again be as cheap as they were when the terms of exchange were greatly in her favor because she made them herself.

Lastly, industrial capacity is increasing as never before, everywhere in the world. A great deal of the increase is from political and nationalistic motives, and could not be otherwise justified, as when, for example, the Marshall Plan countries of Europe use Marshall Plan money to build steel mills at a rate that will presently cause a surplus of steel in Europe. There is already a potential surplus of American steel. Germany's contribution will go on rising. Europe's former customers are increasing their own production as fast as they can. Steel is the basic instance.

The signs are that the world now enters upon an era of industrial competition more intense than anything of the kind it has hitherto experienced. And whereas once Europe had the natural advantage in world trade, her position now is inferior. She cannot accept American competition. For one thing, she doesn't believe in free competition; secondly, she fears it.

In a recent debate in the House of Commons on the economic situation, Mr. Boothby said:

"It is folly to suppose that a solution of our economic problem can ever be achieved by a return to promiscuous, cutthroat competitive international trade. If it is to compete in free world markets against the vast flexible free economy of the United States we cannot do it on level terms. They know it and we know it. Why not face up to it?"

His own mind, which is one of the most brilliant in Great Britain, turns to a system of preferential trade within the sterling area, excluding American competition.

In the same debate Mr. Edelman used the tractor industry to illustrate the duplication of industrial capacity now taking place in Europe. He said:

"We in this country have a tractor industry which is more than capable of supplying both our needs and a substantial quantity for export. The French under their four-year plan are laying down tractor plants and engaging in a heavy capital investment in agricultural machinery. The result is that the total capacity of both countries for the production of tractors is far higher than either we or the French or any of the countries in western Europe at present require, either in the home market or for export. . . . The conflict which exists in a typical industry like the tractor industry is present in many other industries, one of the principal of which is the engineering industry. . . . We are trying to compete in markets where we are seeking to undercut each other in price, where we are duplicating the products we are trying to sell, where we have to meet the major fact of American competition and where our potential customers have considerably diminished."

Leaving it unsaid that this country can out-produce all other countries in tractors, and that the American industry alone would undertake to supply all the tractors the world can afford to buy. Nevertheless, Great Britain's tractor

industry has recently been shipping tractors to this market, with only the idea that since this is the greatest tractor market in the world it might be able to sell a few here; and if you could think of anything more economically absurd it would be the fact that this country at the same time was shipping Marshall Plan tractors to Europe.

WHEN the British begin to explore with Americans the idea of an Anglo-American economic union they say: "You see that we have already been obliged to cut down our imports from you. If we cannot afford to buy your surplus, what will you do with it?"

There are problems peculiar to surplus, as we know, but they are nothing like British problems; and even as they try to intimidate us with our own surplus, the British know that ultimately, whatever else happens, the surplus of the most efficient country will sweep the markets of the world under conditions of intensely competitive trade.

It was a weakness of the Marshall Plan, nevertheless, that it ignored the problems it was bound to create, and one of them was surplus. It was a problem that could be too easily postponed because the immediate effect of the Marshall Plan was to stimulate American exports artificially. What would happen afterward? Well, afterward, if the Marshall Plan worked, there would be a strong, sound, self-supporting Europe with better equipment than ever before, able to compete again in the world's market, and the world's market by that time would be much bigger and everybody would be better off. To Europe, as it seems now, that was like a 200-pound champion offering beefsteaks to an old lightweight in order that he might grow strong enough to come back and fight.

The naive idea of the Marshall Plan was to cure the Dollar Shortage. The visible cause of the Dollar Shortage was the fact that Europe bought much more in the United States than she sold here. To make her less dependent upon the United States, therefore, these things were necessary: (1) to increase her industrial power so that she could make for herself many of the

things she had been buying here; (2) to develop substitute sources of food and raw materials in countries where she could buy without dollars; and (3) to increase American imports of European goods, even goods that we are well able to make for ourselves.

So Marshall Plan money was used to build steel mills, textile mills, clock works, tractor plants and oil refineries in Europe; it was used to promote sales of European goods in the American market; it was used to develop substitutes for American sources of food and raw materials—all with two purposes in view, namely, that Europe should buy less from us in the future and that she should be girded to go forth in the world and sell European goods in competition with American goods.

STRANGE things bring themselves to pass with the greatest of ease, and perhaps even this is not strange, but certainly never before has it happened that a rich people deliberately employed their wealth to nurse, promote and subsidize competition against themselves.

And yet at the same time we were deceiving ourselves. It wouldn't work and we knew it.

Merely to increase the production of Europe in this competitive world was not the solution. If it were, the weather would already be clearing, because the average industrial production of the Marshall Plan countries in the first quarter of this year was 15% above prewar production. In Great Britain alone it was 25% higher; and Great Britain's exports during the first half of 1949 were 50% above her exports for the corresponding half of 1938. Mr. Hoffman, administrator of the European Recovery Plan now says: "Production is only the beginning."

As Europe's production increased what happened was that the wonderful sellers' market in which you could sell anything at any price suddenly vanished and in place of it came a buyers' market in which buyers were the choosers and began to complain of high prices. Europe's problem then was not how to produce more but how to sell at a profit what she was able to produce, and to sell it in competition with cheaper American goods.

On one of his appearances before a Senate Committee, Mr. Hoffman, Administrator of the European Recovery Program, was saying that American business must accommodate itself to whatever was necessary to cure the Dollar Shortage and that it wasn't going to be much hurt anyway, when Senator George interrupted him to say that as he built up foreign competition with Marshall Plan money he was going to revive protectionist sentiment in the country. Mr. Hoffman replied:

"Sir, I cannot tell you how little I am concerned about European competition. If any manufacturer in this country is not in a position to manufacture at a sufficiently low cost, as a result, as I say, of perhaps lying awake nights figuring things out, we should not worry too much about him."

There it was. By all means let us build up Europe, but no matter how much we build her up, still in world competition we shall be able to beat her.

Within the idea of bringing recovery to Europe was the idea of promoting freedom of trade, in the whole world ultimately but in Europe *first* and *urgently*—and it was supposed that Marshall Plan dollars could do that. Why first and urgently in Europe? Because, owing to nationalistic barriers, exchange restrictions and monetary chaos, and owing especially to Great Britain's habit of demanding that any country with a credit in Great Britain shall spend the money there for dear British goods instead of converting its pounds sterling into other money and spending it anywhere else—for all of these reasons there was no longer freedom of trade in Europe. Actually, Marshall Plan countries were found spending their dollars in the United States for things they could produce enough of for themselves, if only they could find a way to exchange them with one another.

For hundreds of years there was freedom of trade in Europe. There were boundaries, of course, and tariff barriers to cross, but no region in the world had a finer web of exchange and the flow of goods from one part to another was ceaseless like the tides. You could buy British goods with a check on your British

banker or French goods with a check on your British banker, and no questions asked. All the banker did was to convert one kind of money into another for a small fee; every European currency was instantly convertible into any other kind, and the values of exchange, made in free exchange markets, were published hourly.

WHAT happened to that freedom? War happened to it, of course; but what war did to it might have been undone in peace, as many times before. What really happened to it was not war but government. Intra-European trade now is conducted by the governments of Europe, not by merchants and bankers. It is government that controls exports and imports. It is government that fixes the exchange values of currency, by edict. It is government that says what prices shall be charged and how capital shall be employed. It is government that says Marshall Plan money shall be used to buy in the United States things which are already produced in Europe and could be bought there if the old freedom of trade were restored, such things even as coal, machinery, railroad equipment and agricultural implements.

Seeing this, the administrators of the European Recovery Program said to the Marshall Plan countries: "You must trade with one another more. You must do more to help yourselves. We expect you to utilize the resources of Europe to the utmost, instead of relying upon us."

And when the governments of the Marshall Plan countries said they couldn't do it until their currencies were freely interchangeable and that to revalue their currencies might be disastrous in the period of transition, for see what had happened to England when she tried to make the dollar and the pound sterling interchangeable—when they said that, the administrators of the European Recovery Program set up an intra-European payments pool, to which each Marshall Plan country would contribute its own currency and to which then the United States would equally contribute dollars. Through this pool the Marshall Plan countries would be able to clear their

debits and credits, and then they could afford to trade freely with one another. Theoretically it was a good scheme. In fact it never worked very well because the Marshall Plan countries were always in dispute over their respective rights in the pool and their responsibilities toward it.

THE administrators of the European Recovery Program were frustrated both by Europe's attitude and by law.

In the first place, they had to deliver the dollars to European governments, not to industrialists, not to industries, not to bankers and merchants, who might have had very different notions of how to use it.

Unlike an industrialist or a banker, a government does not ask: "Will a steel mill pay here?" or "Will an investment in hydroelectric power be a proper use to make of new capital, all circumstances considered?" No. A government's notion of how to use windfall capital will be political and nationalistic. It will say: "We want to make our own steel instead of buying it," or "On this beautiful site we want to develop hydroelectric power," whether it will pay or not, or whether the economy of Europe as a whole would be better served by letting some other country have the steel mill or the dam.

Each country naturally wanted industry of its own, not selective industry, but *industry*, because each one was resolved to improve its own economy. Each one wanted to reduce its imports and increase its exports. Each one wanted a favorable balance of trade.

In the second place, the European Recovery Program was frustrated by the fact that it was left to the Marshall Plan countries themselves to divide up the Marshall Plan dollars. In this the Americans were naive. They wanted to prove how indiscriminating they were and how little they wished to intervene directly in the economic affairs of Europe. Recovery was Europe's business; the Americans' part was only to provide the money.

The result was that when the Marshall Plan countries had divided the dollars among themselves, then each one came separately before

the European Recovery Administration with its projects. All the European Recovery Administration could say was yes or no. If the project was one that might help that particular Marshall Plan country to improve its dollar position, the answer was yes. But what that meant was that the Marshall Plan countries were using the money to improve themselves selfishly, each one thinking only of itself and not of Europe, and that for Europe as a whole there was no plan at all. Nor could the European Recovery Administration impose one.

LAST July Senator Fulbright made a brilliant speech in the Senate on the necessity for the unification of Europe, both politically and economically. Unless that could be achieved he could not imagine that Europe would ever become "a strong and viable community." The fact was that Europe had used Marshall Plan money to develop itself "in nationalistic and separate compartments," each country trying to "achieve economic self-sufficiency on the national level," and the question in his mind was whether the Marshall Plan was promoting or hindering European integration.

The same question had been worrying the European Recovery Administration for some time. It had been using almost Senator Fulbright's own words to the Europeans. It had been urging them to think of Europe as a whole, to develop it as a whole and to avoid wasteful duplications of industry for nationalistic reasons only. But it was frustrated again by what the Europeans said.

They replied with wicked logic: "At one moment you hold out to us the evangel of the free economy and competition and condemn our preference for the planned economy under government control as socialism. But the next moment you ask us to create one planned economy for all western Europe, which would have the effect, first, of abating competition among us, and, secondly, of putting government deeper and deeper into the economic affair. Do you believe in one thing for yourselves and another thing for us? What do Americans believe?"

And that, it appears, is a terrible question. It causes the fact to stand nakedly forth that Americans have not administered the Marshall Plan, nor any of their dollar aid to Europe, as if they believed the principles of American capitalism to be entirely true. They have condoned the use of dollars in Europe to support the enemy principles of socialism. They have been utterly deaf to warnings from British conservatives like Mr. Churchill that free dollars have done Great Britain more harm than good.

AMERICAN dollars have assisted Great Britain to create a socialist welfare state such as we could not afford for ourselves, and which Great Britain cannot afford at all, because one of the effects has been to increase the cost of British goods to a point at which the world is unwilling to buy them. Moreover, these costs now are so high that the British cannot afford to buy their own goods. The London *Economist* says:

“British costs of production are too high not merely for the dollar market, or for overseas markets in general; they are too high for the British market itself. To give a simple illustration of this, an attempt has been made to estimate roughly how many weeks the average British wage-earner would have to work for his wages (after tax) to equal the price of five standard British-made objects, before the war and now.

	Prewar Weeks	Now Weeks
Standard council house	112	213
Cheapest British car	39	55
Cheapest motorcycle	11½	17½
Cheapest man’s suit	5	7
Cheapest radio set	3½	4½

“These figures can be used to show that the standard of living has fallen. But that is merely the inverse way of saying that the real cost of production—the number of weeks’ work necessary to produce something—has risen. This is a real and fundamental ratio. Until it is put right, no amount of juggling with prices and exchange rates will enable the British people to earn as good a living as they did before the war. If the British people cannot afford to buy their own goods, how can they expect foreigners to do so?”

For a solution of this dilemma the socialist

government of Great Britain now comes to the capitalist government of the United States. From the British point of view, the ideal solution would be, first, more interim dollars, and then an American welfare state with a cost of production as high as Great Britain’s. Thus prices would be both equalized and stabilized, and the world, at least for a while, would have to pay them.

The only other solution may be for Great Britain’s welfare state to fall of its own weight. Certainly dollars will not save it.

At the Anglo-American-Canadian conference on the dollar crisis held in Washington during September some ameliorations were agreed to. The British will have a little more freedom to spend Marshall Plan dollars as they like; they will be permitted to discriminate against American goods in more cases. The United States, on the other side, agreed to review its stock-piling program to see if it could buy more tin and rubber.

During the conference the British Chancellor of the Exchequer confidentially informed the American government that the pound sterling would be devalued. On Sunday, September 18, he announced it in London. Whereas before the international value of the pound sterling has been arbitrarily fixed at \$4.03, it now will be arbitrarily fixed at \$2.80.

All countries in the sterling area were obliged to devalue their currencies accordingly. Within twenty-four hours, devaluation of money was a world-wide movement, with only the dollar standing still.

What immediately followed everywhere was a rush of speculators to acquire dollars, gold and commodities. The effect intended by the British was to make British goods cheaper in competition with American goods in the markets of the world.

The British Chancellor of the Exchequer said: “Dollar countries must help us to earn more dollars.” The American government accepts that point of view under a general policy of providing Europe with more dollars.

Why American Dollars Make Europe Sicker

By Dr. Wilhelm Roepke, *Geneva Economist*

(From a paper entitled "The Marshall Plan—Errors and Possibilities" in the Neue Zürcher Zeitung. Reprinted by courtesy of Monetary Notes, published by the Economists' National Committee on Monetary Policy.)

IT can no longer be denied that the execution of the Marshall Plan is afflicted with a number of basic mistakes which go back to its very inception. . . . Today we can see the bitter results that . . . [the] conditions for successful therapy were not met then and are still waiting to be met. *To call the slogan "dollar shortage" a serious diagnosis is about as good as calling a coated tongue an actual illness.* . . . The first mistake consisted of starting out without proper orientation. The second one was that between two available roads, the wrong one was chosen.

* * *

It is a bit of irony that the Marshall Plan, which should have pulled western Europe *out of the muck of collectivistic nationalistic economic policy, has threatened to create a new supercollectivism on a superstate level.* More than that: it runs the danger of becoming an economic planning machinery which will provide a powerful incentive to the various national collectivistic systems, either by strengthening the existing dyed-in-the-wool collectivistic government, or by forcing other governments which are either ready to give up bureaucratic planning or so far have been able to resist it, to accept a collectivistically controlled economy. Indeed, as a result of the American Marshall Plan an international planning bureaucracy is about to be created which is the most valuable help for the national planning bureaucrats. How, through this means, the European economies can be freed from the collectivistic paralysis and disorders is a secret which seems to defy solution. . . . The way things are today, everything seems to indicate that the Marshall Plan will achieve the exact opposite of what most of its American creators and clear-seeing Europeans have originally expected.

* * *

As long as the Marshall Plan follows the present path, it will never achieve its goal of self-liquidation within a few years. As long as it does not do away with the cause of the European crisis which lies in its collectivism, in fact, even strengthens it, the Marshall Plan will not be self-liquidating, but self-

perpetuating. There are many people who are not frightened by this possibility.

* * *

In blessed ignorance of the real meaning of the balance of payment, the responsible leadership has clung to the unholy thought that dollar shortage, instead of being a symptom, is an illness itself, and therefore that it had to be attended to directly. As a result of this erroneous diagnosis the criterion of the beginning recovery is the hope to forcibly reduce the demand for dollars through measures which bring memories of the worst national socialist autocracy and expansionist policies.

* * *

Interferences with the international balance of payment will stay in existence as long as its cause remains, which means as long as we have government control of international payment, artificial rates of exchange and all of those things which belong to it.

* * *

European collaboration is impossible until, within each national economy, the system of national collectivism is replaced by a system of free market economy. If this is the case, then the European collaboration will come by itself, without "movements, congresses, revolutions, charters or government commissions."

* * *

Only when America helps to reestablish the bases of a free-market economy, nationally and internationally, can it hope to achieve the goal of restoring a world-wide economy. . . . Any attempt to bring order into the world as a whole with one step and at the same time meet all the special interests and special ideas must end in an absurdity, as can be clearly seen in the International Trade Charter.

* * *

Each country in Europe must feel encouraged to get rid of the shackles of the national collectivism. Each must be clearly put before the alternative, either to give up this system, especially the control over foreign exchange, with its fictitious value, or to give up the American help.

Language Difficulties

For the use of the Anglo-American monetary conference, John W. Snyder, Secretary of the Treasury, proposed to issue a glossary of terms in the interest of clarity. The Treasury prepared and sent it to the State Department for additions, but there it bogged down. The State Department philologists felt it would be undignified and unnecessary.—*From the News.*

On Turning Back from a Sinister Journey

By Lord Milverton
From (*Hansard*) *Parliamentary Debates*

This is the speech to the House of Lords in which Lord Milverton read himself out of the British Labor Party. The last straw for him was the bill to nationalize the steel industry.—Editor.

MY Lords, I cannot claim to any expert knowledge of the iron and steel industry and in the circumstances it might be asked why in that case I cannot maintain silence—especially since, as I say, I have no special knowledge to contribute. My reason is that a great deal more than iron and steel is destined for this particular furnace. I have for some time felt, with growing apprehension, that for lovers of freedom this bill marks the parting of the ways. For the first time the state is to take over a key productive and competitive industry. There are principles involved which make it impossible for an honest dissident to remain silent. I was born free, and I have spent the bulk of my life in teaching what freedom means to somewhat reluctant pupils in backward countries. I am very loath at my time of life to reverse this process and to help in selling the advantages of slavery to people who were once free.

Perhaps it is because my own experience in administration has shown me how unrestricted bureaucracy can strangle enterprise that I feel some doubts about the widening circles of government controls. I have learned much during recent months about the lack of administrative foresight and the destructive defects in administration of the National Health Scheme and other nationalization measures whose principles and purposes I accepted. There is, it seems to me, a wider gap than the dollar gap which threatens our national stability, and that is the gap between principles and performance in these schemes.

We have here, naked and unashamed, the time-dishonored principle that they should take who have the power. The craving to be able to say "*L'Etat, c'est moi*" springs to life again whenever the desert soul of man is watered by power. I suppose that is why the price of liberty is said to be eternal vigilance. And it is because I feel that even the present control over the whole of our national life, which is at present legally in the hands of

government, has reached dangerous proportions, especially if that government itself is ever controlled by irresponsible, malicious or revolutionary persons—and, after all, the possibility of that looms only twelve months ahead.

My Lords, like the ghost in *Hamlet* this bill comes in such a questionable shape that it excites misgivings about its real cause. I have been told that I knew the Labor program when I joined the Labor Party. That is true. I knew it in outline; but I did not, in joining, sign away my right to think; nor did I anesthetize my conscience or my principles; nor, I hope, did I lose the power to learn.

I had certain aims and ideals, and I thought that the Labor Party could, in vulgar parlance, "deliver the goods." I am now appalled at the type of goods which are being delivered under a false trade label—the national interest. I thought I was participating in a crusade, and I found myself a camp follower in a "rake's progress." I am one of a large number of people of independent minds who saw the merit of the Labor Party program of social justice, but who are now beginning to feel uneasy about the lengths to which the rest of that program is taking them.

In resigning from the Labor Party, I feel it my duty to make my protest in public, especially as I know there are many others of the Party who share my views. The road on which we are traveling leads to a precipice, at the foot of which clearly emerges the totalitarian State. We have heard at Blackpool a prominent Cabinet Minister bewailing the fact that the moral stature of the people has not proved equal to carrying out the measures introduced by this government—in simple words, that human nature has not seen fit to change itself at his behest. It is at least permissible to ask in reverse whether the moral stature of the Cabinet has proved worthy of the principles they proclaim. I suggest that the Iron and Steel Bill provides a ready answer in the negative.

The Minister of Health, in his new role as the moral leader of the Labor Party, has two aspects. I cannot regard either the intemperate and provocative language of the politician or the emotional appeal of the synthetic evangelist as a suitable substitute for the clear thinking and the calm judgment which the national interest demands.

I have no morbid desire to be a martyr and I find it extremely difficult having to make a public confession that one has made a mistake, but I am unwilling to be a silent passenger on this sinister journey and I will certainly not betray the principles of freedom which have made this country great, nor will I help to forge a weapon which, in later and less worthy hands, may strike those principles dead. I therefore declare my opposition to this bill and my resignation from the Party which supports it.

Bifocal Economics

THE Economist, London, has been embarrassed by the fact that when it prints the bitter truth for the British people the Americans read it, and Great Britain's critics make too much of it, whereas when it lectures the Americans in their stupidities and contradictions of policy its British readers stop blaming themselves for their own troubles. The editor of any publication with an international circulation knows what that difficulty is. He is like a writer in a foreign land whose words, if they are candid, will be taken down against his own country.

The editor of The Economist now seizes this problem by the forelock. For once he says exactly what he wants to say to the Americans in one column, and then what he wants to say to the British people in a parallel column, and asks for no cross reading.—Editor.

The Politics of the Crisis

From *The Economist*, August 27, 1949

For American Readers

Not to be read in Britain

1. It is a gross oversimplification to say that Britain's present difficulties are solely due to mistakes in British policy. They are an expression of volcanic upheavals in the economy of the whole world.

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2. In particular, it is wrong to associate the socialist program of the present government and the shortage of dollars as cause and effect. It is very difficult to trace any connection between the nationalization schemes and the balance of payments.

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3. Much the largest cause of the present situation is to be found in the dislocation produced by two wars. Not only was Britain (apart from Germany) the only country that fought right through both wars; it was also, from its commercial position, the one most liable to suffer from any disturbance of the delicate mechanism of world trade.

4. In so far as deliberate policies of the British Government have contributed to the present crisis, it is not the socialist policies of the Labor Party that are to blame, but the policies to which all parties have contributed. If there is in Britain today no healthy competition and wholly insufficient incentives to efficiency, the major blame cannot fairly be fixed on one party but must be laid upon the cast of mind of a whole generation.

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For British Readers

Not to be read in America

1. For a generation past the British people have been paying far too little attention to their competitive position in the world. It is true that the causes of most of the changes lie in external events. But there has been a tendency to suffer them passively rather than to react vigorously. Now the bitter fruits of a generation's indifference to the ratio between imports and exports have ripened.

2. In general, the doctrines of the Left, with their teaching that the ordinary man can make less effort to produce and yet consume more, have, in the hands of both parties, contributed to a situation in which Britain imports too much and exports too little.

3. No other country is going to recognize any obligation to provide the British people with a living, no matter what their services and sacrifices in the common cause.

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4. Though the policies of social security and full employment were agreed upon by the whole nation, the Labor Government, as the bearers of responsibility, are very much to blame for their stubbornness in refusing to remit anything of their plans even when it became quite clear that the assumptions about the economic climate of the postwar years on which they were based were very seriously wrong. It is not enough for a self-respecting government merely to say that its opponents would have been no better.

5. The "welfare state" is not a heresy to be derided; it embodies the healthy aspirations of free democracies all over the world. All that is wrong with the British welfare state is that it chose a singularly inappropriate moment to take several very large steps forward.

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6. It is quite wrong to suppose that a change in the party in power would, by itself, have any decisive effect on economic policy. What has first to be done is to bring the British people as a whole to an appreciation of reality. Until that has been done, no party could advance very far. When it has been accomplished, either party will be in a position to do what is necessary. Indeed, in many ways, the Labor Party, if it would make up its mind to face the facts, would be in a stronger position to serve the country.

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7. Nothing could well be more disastrous than that America should take sides, or appear to take sides, in the British general election. It would create, what does not exist at present, an active anti-American party in Britain, and might well help it to a Parliamentary majority.

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8. Americans should realize that the British people are spiritually exhausted after what they have been through in the last ten years. To accuse them of being unwilling to make efforts to save themselves is insulting. They have made greater efforts than any other people and deserve credit for so doing.

9. There is nothing more difficult for a democracy to accomplish than deliberately to lower its standard of living. American politicians are hardly notorious for the eagerness with which they impose sacrifices on the voters. They should not expect British politicians to do the impossible overnight; it will take a little time.

5. There is no magic in the actions of the state that can guarantee the ordinary man an income larger than he earns, or that can promise full employment without exacting the price for it. A community can easily have more welfare than it can afford, in the sense that insistence on providing the welfare may impede the earning of the national income on which it depends. When that time comes, it is necessary to *reculer pour mieux sauter*.

6. Whatever may be true in other countries, in Britain courage pays political dividends. Those politicians who refuse to prolong the rosy illusions of the postwar inflation and tell the people soberly what needs to be done would be surprised at the response they would evoke. This would require from the Labor Party a greater effort than from the Tories. But their need to make the effort is the greater, for without it, there is a risk that the British public (or enough of them to be decisive) will conclude that Labor, after all, has too little realism and courage to be capable of governing.

7. The British public should try to be less touchy about what is *said* in America. The real test is what is *done*, and by that test the United States Government has leaned over backwards to avoid anything that could be construed as interference in British internal concerns. The advice that America gives may be gratuitous; but so are its dollars.

8. No efforts and no sacrifices are too great if they restore the pride and independence of Britain. No efforts and no sacrifices, however heavy, are great enough if they leave Britain dependent on the generosity of others.

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9. The inescapable condition of escape from the crisis is that there should be a sharp change in the ratio between the efforts that the British people put into their economic activity and the rewards that they expect to get out of it—either an increase in economic efficiency or else a reduction in the standard of living.

The Economics of the Crisis

From *The Economist*, August 27, 1949

For American Readers

Not to be read in Britain

1. American generosity, great as it is, is not the only, or the main, contribution that the United States can make to the solution of the crisis in world trade. The chronic deficit in all other countries' balances of payments is a reflection of the chronic surplus in the American balance. Equilibrium cannot be restored until America buys more from the rest of the world, and this is not a problem that can be solved solely by non-American efforts.

For British Readers

Not to be read in America

1. British policy is still a very long way from being willing to do anything for dollars. There is still, for example, a refusal to grant "unfair" advantages—either in taxation or in allocation of materials or in other ways—to those who earn additional dollars. Until these sacrifices of policy are made, it cannot be claimed that everything possible is being done.

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2. If America were to buy less from the outside world, either through trade depression or for any other reason, the results would be disastrous.

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3. Much of the gap in the British balance of payments is simply the result of the adverse movement in the terms of trade. This, in its turn, has been due to the long extension into the postwar period of wartime inflation, mainly sustained by the tidal wave of American demand.

4. To have devalued sterling in a sellers' market would have made Britain's position worse, not better. On a strictly economic calculation, the time may not yet have arrived when devaluation will show a clear balance of advantage. In any case, it is only a small contribution to the general problem.

5. The object of any depreciation of sterling will be to flood America with cheap British goods; there must, therefore, be no complaints if that is the result.

6. Economic unity in western Europe is an imperative long-term project. But the economies of western Europe are much more competitive than complementary, and there are no important gains to be secured quickly from closer economic union. The only quick solution to Europe's problem would be a large increase in American purchases of European goods. It would be a great pity if the inevitable gradualness of the approach to economic unity in Europe came to be regarded in America as an alibi for failure to tackle this real problem.

7. So long as dollars are a hard currency, some degree of discrimination in trade is inevitable. To insist on complete nondiscrimination is, in these circumstances, to insist that all commercial exchanges shall proceed at the pace of the slowest.

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8. So long as the dollars available to the world are below its needs, the world will have no option but to cut its dollar purchases and cut them again. Britain cannot fairly be blamed for refusing to spend dollars it has not got.

9. The British economic position is by no means as bad as it looks at the moment. The balance-of-payments problem is not the only one; but it is the only one that is immediately dangerous.

2. The American "recession," as experienced to date, is a quite minor affair. Unless an economy is to be absolutely rigid, it would be difficult to experience a milder "recession" than this. Those who blame it for the British crisis should take a course in economic history.

3. It is foolish simply to sit down and wait for the prewar relationship between British and overseas prices to return. Though the sellers' market cannot go on for ever, the buyer of food and raw materials may never recapture the dominant position he held in the 1930's.

4. As soon as the world made up its mind that sterling should be devalued, devaluation became inevitable. This point was reached months ago and action should have been taken then. Every day's delay costs £1,000,000 of the sterling area's ultimate reserves.

5. Cheapness by itself will not sell enough British goods. But it will provide the opportunity for a real merchandising effort.

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6. It is impossible for Britain to buy unessential goods from Europe and pay for them in convertible sterling. But there is suspicion that this argument is being used as an excuse for doing nothing in cases where something could be done. The recent proposals for the grant of open general licenses for a wide range of goods from a number of European countries will provide a test of sincerity. It is essential that the British offer, when the blanks come to be filled in, should be found to have real substance.

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7. Britain can never hope to do a sufficient volume of trade except in the widest possible market. This means that British exports must be able to hold their own in competition with any others in the world. There is no possibility whatever of solving the British problem by bilateral dealings in an ever-narrowing circle of high-cost economies.

8. Import cuts are no long-term solution. Austerity will be as suicidal in the long run as it is necessary in the short. The aim of policy should be to get into a position where British imports can be increased.

9. Every other object of economic policy must, if necessary, be subordinated to the problem of the balance of payments—if only for the reason that, if it is not solved, no other object of economic policy will be attainable.

It is the common fate of the indolent to see their rights become a prey to the active. The condition upon which God hath given liberty to man is eternal vigilance, which condition, if he break, servitude is at once the consequence of his crime and the punishment of his guilt.—*John Philpot Curran.*

A Canadian View of Britain's Crisis

From *The Financial Post*, Toronto

JENNIE LEE, member of the British Parliament and wife of Health Minister Aneurin Bevan, did the rest of us, if not her country, an unintentional service last week. She made a revealing speech on the exchange crisis.

This 44-year-old woman, long an outspoken Socialist left-winger, provided us with a vivid picture of the Socialist mentality.

According to Miss Lee, or Mrs. Bevan, the cause of Britain's present trouble is the United States. It was the absence of a welfare state in America that was creating the difficulty. If United States wages were higher, and social services were broader, the crisis wouldn't have happened.

This same sort of thing is being trumpeted by the *New Statesman and Nation* which recently declared:

"The difficulties in which we (the British) find ourselves are primarily due to the willfulness of Congress. It is its abject failure to counter the American slump which is the prime cause of our export difficulties and the drain on our gold reserves. . . . Congress solemnly pledged itself not to adopt policies which lead to unemployment. This pledge has been violated time after time. . . . Now by seeking to cut allocations for foreign spending and by economizing on the stockpiling of raw materials, it is exporting the American slump to Europe."

We can't imagine that this tune from Jennie Lee or the *New Statesman and Nation* is likely to help Britain's cause in America, where the taxpayers are getting pretty tired of "aid to Europe" and where isolationist sentiment is heard more and more frequently.

To us, both Miss Lee and the *New Statesman and Nation* talk like the zanier characters of Alice in Wonderland. Their view of the crisis sounds as if it came from people who habitually stand on their heads.

That this sort of stuff should be the best that prominent spokesmen for British Socialism have to offer in the present emergency is just appalling. Miss Lee is merely expressing a view widely held in Britain. That's one reason why the recent Commonwealth talks were so discouraging.

The sickness of mind which believes there is a bottomless pool of wealth from which all can draw while they do less work and get more pay is Britain's curse.

The welfare of our free world, and of Canada especially, is very dependent on British recovery.

But helping Britain would be more pleasant if we

saw signs that the British masses were determined to help themselves.

What a dreadful awakening awaits them when the time comes, as it inevitably will, that they can no longer avoid facing up to realities and pretending that they don't exist.

Fate of Enterprise in Great Britain

A LETTER to his Congressman by Robert W. Johnson, chairman of Johnson & Johnson, formerly vice chairman of the War Production Board, and author of "Or Forfeit Freedom":

JOHNSON & JOHNSON,
New Brunswick, N. J., August 18, 1949.

HON. JAMES C. AUCHINCLOSS,
House Office Building, Washington, D. C.

MY DEAR JIM: Recently I visited our several industrial installations in England. It was my purpose to examine carefully actual operations, and to meet almost exclusively workmen, group leaders, foremen, superintendents, executives, and directors. My studies led me to conclude that the present government in England is spending more than its income and that its income cannot be increased.

It is clear that the present level of taxes has partially destroyed—and if continued will largely destroy—enterprise. The cost of most English products is prohibitive primarily because the cost of government has been added to the cost of production. Many English operations are efficient and many are inefficient, but even those that are efficient have difficulty in meeting international competition.

The purpose of this note is to recommend that we carefully scrutinize further aid to England. I doubt that we are benefiting either England or ourselves through these subsidies.

Sincerely,
ROBERT W. JOHNSON

Whose Crisis, After All?

From the *Montreal Gazette*

If the British people are facing a crisis, so are the people of the United States. Since the end of the war Washington has spent 23 billion dollars for foreign aid, and the war has been ended only four years. Under the terms and intentions of the Atlantic Pact the United States has also committed itself to defend about three fifths of the earth's land surface and about one third of its people.

If the supply of American dollars is running out for Great Britain, the supply of American dollars is also running out for the United States. For a nation handing out more dollars than it has is moving toward a crisis quite as inevitably as a nation that is borrowing more dollars than it can ever repay.

Perpetual Boom

Notes on the Expansion Act of 1949

Washington Correspondence

Washington, D. C.

WHEN the government acts on the economy, to plan it, to control it, or merely to stabilize it, there must be of course a theory; and during the life of the theory it must have the authority of an official doctrine. All economists who work for the government must believe it and propagate it. If they cannot believe it they must either retire or be silent. This is imperative, not because disagreement is heresy but because it would create confusion.

Fifteen years ago the official theory was that we had arrived at a mature economy. No more ecstasy of growth. Never again should we burst out at the seams. It behooved us, therefore, to cut our garment down to a standard size. All excess capacity should be destroyed. Production should be limited to what we were sure we could consume at fair prices, and competition should be restrained, even if to restrain it we should have to revise the antitrust laws.

The persuasive exponent of this theory was President Franklin Delano Roosevelt. He did not invent it. He got it from his New Deal economists, who proved it to themselves, to him and to the Congress by a series of charts, graphs, logarithmic curves and flat statistical projections. In his book, "On Our Way," printed in 1934, President Roosevelt said:

"Well-considered measures will be proposed to encourage each industry to prevent overproduction.

"The so-called antitrust laws were intended to prevent the creation of monopolies and forbid unreasonable profits. That purpose of the antitrust laws will be continued. But these laws were never intended to create the kind of unfair competition that results in long hours, starvation wages and overproduction.

"I do not want people to believe that because of unjustified optimism we can resume the ruinous practice of increasing our crop output and our

factory output in the hope that a kind of Providence will find buyers at high prices. Such a course may bring us immediate and false prosperity, but it will be the kind of prosperity that will lead us into another tailspin.

"We found ourselves faced with more agricultural production than we could possibly consume ourselves, and surpluses which other nations did not have the cash to buy from us, except at prices ruinously low. We have found our factories able to turn out more goods than we could possibly consume and at the same time we were faced with a falling export demand. We found ourselves with more facilities to transport goods and crops than there were goods and crops to be transported. And all of this has been caused in large part by a complete lack of planning.

"We would save useful mechanical inventions, machine production, industrial efficiency, modern means of communication, broad education. . . . But the unnecessary expansion of industrial plants, the waste of natural resources, the accumulation of stagnant surpluses—we must make sure that as we reconstruct our life there will be no soil in which such weeds can grow again."

That was economic orthodoxy in Washington at the bottom of the worst depression we ever knew. The idea was to stabilize the economy there; not to produce more but only to divide in a more equitable manner what we were already able to produce.

Since then the increase in the national income has been approximately fourfold. The consumption of food, industrial products, transportation, luxuries, of everything that satisfies human wants, has increased not exactly fourfold, but enormously. Precise statistical comparisons involve too many explanations. Take it simply that at the top of the greatest boom we ever knew the new official economic doctrine is expansionist. It calls for more and more production, and more and more agricultural and industrial capacity, even if the government itself has to create it, more inten-

sive exploitation of natural resources, and so on—all with the idea that we have just begun to grow. We have seen nothing yet. The possibilities are practically infinite. If the national income is \$200 billion, let the goal be \$300 billion. When the national income is \$300 billion, the goal shall be \$400 billion, then \$500 billion, \$600 billion, \$700 billion, \$800 billion.

SO we come to the “Economic Expansion Act of 1949,” introduced by Senator Murray for himself and for seventeen other Senators, namely, Thomas, Chavez, Pepper, Green, Hill, Kilgore, Langer, Magnuson, Morse, Taylor, Sparkman, McGrath, Gillette, Humphrey, Kefauver, Neely, and Graham.

The purpose of the bill according to the declaration of policy is to bring about, with the assistance of government, a “steady expansion of the national economy,” such as “over the next four or five years will raise the total output of goods and services to \$300 billion, valued at current prices.”

The bill may not pass as it is, even though Senator Murray says it is meant to implement President Truman’s economic program. Whether this particular bill will or will not pass is not the point. The point is that if the expansionist theory continues to control the economic thinking of government either this bill or one very like it is almost certain to pass in the name of the New Economics.

It is, therefore, more important to examine the theory than to analyze the bill.

The expansionist theory derives indirectly from the idea of planned stability. You have to begin there. What is to be stabilized? It is the whole economy—that is, the sum total of the activities of approximately 150 million people, as hour by hour and day by day they produce and exchange wealth. From historical observations of the total economy certain facts appear. The facts are these:

- (1) The free economy is inherently instable.
- (2) It revolves at variable rates of speed. The image of it might be that of a pyramid revolving on its apex, slower or faster, with a

kind of rhythm, which is called also the economic cycle.

(3) When it revolves very fast two appearances may be noted—first, that it grows; second, that it has stability, like a top.

(4) When it has revolved for a time at high speed and then begins to slow down, two opposite appearances are noted; namely, first, it shrinks, and, secondly, it begins to wobble.

Now whether speed is a function of growth or whether growth is a function of speed is a very debatable question. Does it grow because it revolves faster or does it revolve faster because it grows? That has never been proved one way or the other. But since these two appearances, growth and speed, are observed only in association, never one without the other, and since it is further observed that when the economy is both revolving at high speed and growing you have stability, the conclusion follows that—

(5) To stabilize the economy you have to keep it moving at high speed and at the same time growing.

So, to achieve what you are after, which is stability in a system which, if you let it alone, is inherently instable, you have to do two things. You have to keep it always growing bigger and bigger and always revolving faster and faster; and this is all the expansionist theory comes to at last.

There is probably no doubt that for at least a time you could stabilize the economy by that method. The difficulty is that you cannot protect it, for, as any schoolboy with a top might know, if by any means you could keep the system turning faster and faster, a point would come at which centrifugal force would cause it to burst asunder. Then what becomes of your stability?

From historical observations of its behavior as a whole, the fact is noticed that when quite of its own accord the economy slows down and begins to wobble, it shrinks. What is the nature of this shrinkage? Partly it may be an illusion, but not entirely. When the economy begins to slow down and wobble a little it does in fact shrink, because a lot of things that were added to it in the whirl begin to fall off—inflated things, uneconomic things,

highly speculative things, precisely the things that caused it to become too top-heavy. So long as the mass continues to revolve at high speed they contrive to stick because the force of inflation is greater than the centrifugal force; but when deceleration begins they fall of their own weight. Well, now if by any means, particularly by interventions of government, you keep the economy whirling faster, always faster, all these things that would otherwise fall off of their own weight continue to stick and to grow until at last their uneconomic weight is a large and very dangerous part of the mass as a whole. What would happen then from a sudden deceleration may be imagined.

Simply, therefore, the expansionist theory, so long as it works, provided it works at all, freezes into the economy everything that was already wrong, everything that might have fallen off by its own weight; all the natural laws of correction are suspended. For example, any natural law that might be working toward the decentralization or the deurbanization of industry would be weakened, if not nullified, by federal subsidy of city housing for workers in the low-income brackets; and public housing is one of the means by which the speed of the remaining system is increased, or prevented from decreasing of its own accord.

BUT the expansionist theory is irresistible. It holds out the promise of perpetual boom, full employment and progressive abundance, with never any depression at all. More than that, it promises to deliver man from a superstition which in the modern economic world has been comparable to the tyranny of black magic in the primitive world before reason; and that is the superstition about economic cycles. Finally, it will be the end of the economic forecaster. He will have to go to work. Briefly, man will make the economic weather to be what he wants it to be.

At a meeting of Americans for Democratic Action in Washington last July called for the purpose of putting all this upon the imagination of the people, the principal speaker in sup-

port of Senator Murray's Expansion Act of 1949 was Professor Leon H. Keyserling, vice chairman of the President's Council of Economic Advisers. He sketched the evolution of economic thought by stages to show how the expansionist theory had been arrived at. For a long time man thought economic cycles—alternations of boom and bust—happened like the seasons and were uncontrollable. He spent a great deal of time trying to find if they obeyed any law at all. It never occurred to him that he himself was the cause of them. "This stage," said Professor Keyserling, "is gone forever." The New Deal was a new stage. The idea then was to do something about depression after it happened, and that was really not very intelligent. Anyhow it never worked. The third stage arrived with the Employment Act of 1946, which created the President's Council of Economic Advisers. Then for the first time the idea developed of doing something about a depression before it happened, and out of that came what Professor Keyserling now calls the new approach, via the expansionist theory. He said:

"The heart of this new approach, popularly expressed, is the goal of lifting our national output to \$300,000,000,000 within a few years. I want to devote the rest of my remarks to bringing before you the dynamic quality and implications of this approach.

"First of all, the goal of a \$300,000,000,000 economy releases us from the bondage of economic forecasting, as that useful device has too frequently been misused. We used to be prone to worry ourselves so much with attempting to forecast when or how a recession or a depression was coming, when and how much unemployment would increase, when and how much businessmen would start to cut down on their investments, that we became distracted from the realization that instead of forecasting the evils that might or could happen if we did nothing we should be concentrating attention upon what we want to have happen and marshal our resources toward that end. President Truman does not forecast a \$300,000,000,000 national income; he simply states that we have the resources and ability to get a \$300,000,000,000 national income if we roll up our sleeves and go to work. This goal involves a program, not just a promise."

Now we know better. Cycles, we abolish them. Depressions, we kiss them good-by. We

have only to say how much prosperity we want and how fast we want it, according to what the President's Council of Economic Advisers will think is good for us, and we have it. The question that will have no more meaning is: "How is business?" For business will be what we make it. And all of this is surely true if only we provide ourselves with the right tools.

THE purpose of the Expansion Act of 1949 is to provide the tools and they are of the following kind.

First, the President's Council of Economic Advisers shall determine wherein the capacity of industry is inadequate to sustain economic expansion, how much new capital ought to be spent for new capacity, and whether private sources are able and willing to provide it, and then:

"Where necessary, the governmental measures provided herein shall be used as a supplement to the efforts of industry, labor, agriculture, and others to promote and sustain economic expansion."

Secondly, the President's Council of Economic Advisers shall:

(a) estimate how much money people at all income levels should spend for better living in a state of sustained economic expansion,

(b) find out whether they have it to spend,

(c) determine what general relationship of prices, wages and profits will be most conducive to an expanding economy,

(d) ditto for the relationship between industrial and agricultural prices, and

(e) consider how international programs affect the domestic economy,

—and then, having used the measuring tools to acquire all this perfect knowledge, and knowing beforehand what the goal is, it will be necessary only for the government to use the cutting tools that have been provided. The cutting tools are these:

\$3,000,000,000	loans, advances and grants to business by the Reconstruction Finance Corporation
400,000,000	for research and development work such as small business cannot afford to do for itself
100,000,000	to explore opportunities for new business
1,500,000	to watch how little business fares against big business
4,500,000,000	for investment in the undeveloped areas of the world according to President Truman's Point 4
3,000,000,000	for the procurement of critical materials abroad and stockpiling them here
40,000,000	for regional surveys to locate public works
500,000,000	toward the cost of local advance planning
30,000,000,000	to represent a reservoir of public works
1,000,000,000	to be advanced by the Reconstruction Finance Corporation to help state and local projects
3,000,000	to investigate areas of economic ill health
2,200,000,000	as an Unemployment Emergency Reserve Fund
50,000,000	to move indigent workers from where they are to where they may be wanted
<hr/>	
\$44,794,500,000	<i>Total</i>

Incidentally, payments to unemployed veterans under the GI Bill of Rights are to be extended in time and raised from \$20 to \$25 a week; unemployment compensation generally is to be liberalized by raising the minimum benefit to \$30 a week and making the minimum period 26 weeks, with provision for raising it to 52.

TO the Americans for Democratic Action, Senator Murray said:

"In making economic expansion the keystone of the Fair Deal, President Truman gave expres-

sion to the aims and ideals of an overwhelming majority of the American people.

"Most American businessmen want economic expansion.

"The farmers of America know that they can sell their products only in an expanding economy.

"The workers of America know that only in an expanding economy can they improve working conditions and obtain a more adequate standard of living.

"But let us not blissfully deceive ourselves into thinking that everyone is for economic expansion.

"There exists in this country today a small but powerful minority who look forward eagerly to recession and growing unemployment. This group is made up of finance capitalists who know how to ride the business cycle and pick up 'depression bargains.' It is made up of monopolists who view a depression as the easiest way of putting their small competitors through the wringer and forcing them out of business. It is made up of those economic Bourbons who see depression as a means of weakening organized labor. It is made up of those economists who view the recent increases in unemployment as a 'healthy readjustment.'

"There is much talk about who is loyal and who is disloyal to America. There is much talk today about subversive activity. I submit that the most dangerous type of disloyalty and subversion can be found among those who work toward scarcity instead of abundance, who regard booms and busts as inevitable, and oppose the objective of a sustained expansion in the American economy.

"I submit that it is disloyal to America to maintain that 'depressions are the price we pay for freedom.' It is alien to the hopes and aspirations of our people to maintain that the American system 'needs a floating pool of unemployed.'

"I submit that there could be no more subversive philosophy than the declaration by a leading American banker that 'corrective recessions are necessary to reduce costs and prices.' There could be no more subversive propaganda than the editorial in the *Wall Street Journal* observing that a recession to dispel the boom psychology would be 'a welcome guest.'

"I submit that those wild-eyed, harebrained reactionaries who propagate the philosophy of corrective recessions are the most dangerous enemies of American capitalism. If they succeed in their efforts they will lead us down the road to fascism or communism."

Lawrence Tibbett, president of the American Guild of Music Artists, AFL, also addressed the Americans for Democratic Action. He said:

"Of course, the Economic Expansion bill by itself—and its sponsors are the first to admit it—

is not enough. Other legislative action is also essential. The most immediate additional step that our members are interested in is the removal of federal excise taxes upon cultural and entertainment activities—particularly those excise taxes which are levied upon public and nonprofit civic enterprises. We are also interested in the development of a long-range federal program for the promotion of the arts."

As you see, this is a very grand theory. Only a reactionary will ask how this wobbly American economy, inherently instable, with never any theory about itself, did provide the highest standard of living ever enjoyed upon the earth and came to represent nearly one half the industrial power in the whole world.

Say The Christophers

Father James Keller, *Director*
121 East 39th Street

LESS than 1% of humanity have caused most of the world's major troubles. This handful—regardless of their labels—share a militant hatred of the basic truth upon which this nation and all Christian civilization was founded (and without which it cannot endure): *each and every human being is a child of God, deriving his rights from God, not from the State.*

Anyone driven by such hatred seldom keeps it to himself. He becomes a missionary of evil, striving to reach the *many*, not the *few*. He usually gets into one of the four fields that touch the lives of people the world over: (1) education, (2) government, (3) trade unions, (4) the writing end of newspapers, magazines, books, radio, motion pictures and television. . . . If another 1% go as apostolic workers—as Christophers or Christbearers—into these fields and strive as hard to restore the fundamental truth the other 1% are working furiously to eliminate, a trend *for the better* would be started!

That is the purpose of the Christophers! Each Christopher works as an individual. He takes out no membership, pays no dues, attends no meetings. Tens of thousands have already gone as Christbearers into the market place. Our aim is to find a *million*. It is far more important to get workers of good *in*, than to get workers of evil *out*. Positive, constructive action is needed. Little is accomplished by complaining and criticizing. "*It is better to light one candle than to curse the darkness.*"

If Business Lets Government Do It

An Industrialist Looks at Unemployment

By L. C. Walker

IT is discouraging, and it may turn out to be tragic for the freedom of American enterprise, that through the greatest boom in our history business has done nothing, has proposed nothing, toward solving the modern problem of mass unemployment. Government on the other hand has been planning full employment at any cost and under all conditions, and all of its plans have one feature in common, namely, direct intervention by government in the economic affair to any necessary extent.

Is American business so stupid as to suppose that mass unemployment, or the threat of it, is never going to happen again?

Or is it thinking that when and if it does happen the government somehow will take care of it?

Whether or not the government can take care of it, within the frame of our free institutions, is something we do not know. In the last depression it tried and failed. For all it could do, unemployment was rising again in a dangerous manner after five years of the New Deal. What saved us was first the defense program and then the war.

But if business beforehand will assume its share of the problem—and that must be the major share—then we may reasonably hope that the government can do the rest, and do it without taking us further toward a socialistic solution.

What Business Could Do

In the April, 1949, number of *American Affairs* I suggested what business might do. I said:

“Suppose that every employer undertook to assure those of his people who have been with him two years or more that they should have at

least three days’ work a week, no matter what happened. If he had not that much for them, then he would pay them for it anyway; or if he couldn’t, the city or state would lend him the money to pay it and charge it up to him, to be repaid when business picked up.”

Now if in this way the employer himself provides protection for those who have been on his payroll for at least two years, then the great majority of the labor force, and we may say also the cream of it, may rely upon business for job insurance, with no benefit of government. What remains of the problem is how to protect those who have been less than two years in continuous employment. Many of these will be young men, just starting, who are dispensable through no fault of their own; and, besides, we have always the fringe, and the fringe too must somehow live. If it were only these that had to be taken care of by the unemployment compensation laws we could be fairly sure that our insurance reserves would not be swamped. And, secondly, business would no longer be in the unfortunate position of seeming to unload the entire problem upon government.

What Have We Got?

With this thought in mind let us look at our existing unemployment compensation scheme. Would it be equal even to this load? It is new, untried, and just coming into use in a large way.

The Social Security Act, *including unemployment compensation*, was passed in 1935; assessing funds from employers by a 1% to 4% tax of all pay rolls since 1936; and paying to the insured idle since 1938.

During the prewar years it was not in evidence except to the paymasters of industry. During the war and postwar period payments

were made to the casual laborer temporarily out of work and to those made idle through strike disruptions. It created no situations and the relief was unnoticed in those years of full employment. We now enter a period of depression and marked contraction in general production which will make possible the most unemployment since the act was passed.

Do our new unemployment compensation laws alter in any important way the depression results of *some* unemployment? What may be the effect on human values and on the economy?

Let us speculate first on the beneficial side of a recession in business. It is true that the economic body needs a shock now and then to keep it in a healthy condition. The excesses of prosperity are little different from the excesses of living, being human nature in action with the governor out of kilter.

If we all had a conviction that crises in business are inevitable in a democracy, we might proceed in our plans of expansion with a little more caution and correct our defects in growth by occasional slight depressions. That, it seems to me, might be expected as the result of more education with business practices and greater familiarity with major depressions of the past and the signposts to watch for in looking at the future.

Natural Correctives Weakened by Law

Nearly every new piece of legislation designed to control the actions of business, or to cure defects in human relations, weakens the forces of correction that would normally act. For instance, before we had these unemployment compensation laws, when a man lost or quit a job he sought another. If he had trouble in finding one, he might conclude he hadn't given his best to the old job or that he would be wise to do a better day's work in the new one. Or he might conclude that some of the things he didn't like in the old job weren't so bad after all. Especially with young people, several changes in jobs are often necessary to educate them in what is required to earn a dollar.

It's the rough spots in meeting a payroll or the payment of a dividend that make better

businessmen and it's the rough spots that make poor workmen over into good ones. Failures in business represent selection of the employer. So also there must be selection of labor. That is how we keep overhead expense down, keep costs and prices low, and keep the standard of living advancing.

What do the new unemployment compensation laws do? If you lose a job, you walk down to the government office and after filling out a few forms and waiting a week, you get a weekly check for approximately 66 $\frac{2}{3}$ % of your average weekly earnings for the past 20 weeks (but not exceeding \$28 for a married man with four children) and you continue to get a like check for up to 20 weeks if you are still idle. You can then work for 30 weeks and start all over again in a new benefit year. There are no withholding deductions for taxes of any sort.

There now is a demand for increasing the payments and easing the restrictions. It seems that already there is considerable encouragement for idleness in the present schedule. Indifference to work is much in evidence. But a job is a two-way affair. One must seek to work where someone else has work to be done. Indifference on the part of either doesn't make for high employment.

The weekly payment should be ample to provide the necessities of life. It should not include luxuries. If the idle man wants more, that is the bait to get him back to work. In the labor force you have always those who are lazy and get on the dole and those who are naturally industrious and never get on anyone's back. Between these two extremes is a large number who work lackadaisically and eye the dole longingly. Too liberal benefits tend to tip these into the useless class.

Uses of Depression

Another useful function of a depression, even a mild one, is to redistribute labor throughout the nation and into all the channels that use labor. For instance, our present situation may soon demonstrate that there is too much labor in manufacturing and too little in service businesses. The war and the heavy postwar de-

mand for manufactured goods drew labor to factories from every walk of life. High wages, fine working conditions and short hours made this work very attractive. Men and women, young and old, skilled and untrained, lazy or alert, seem to choose this employment. They don't want to change. Many will take \$20 to \$28 a week in idleness and refuse to accept anything else. Only a considerable period of unemployment will get them back into the laundries, the dry cleaners, retail stores, domestic service, and so on. We need a redistribution, when retail deliveries will be made again, hospitals will have sufficient nurses, cities and towns kept clean and orderly, schools fully manned, etc. These services make up a big part of living and constitute an important part of the reward for having earned enough money to be able to enjoy them.

A figure or two may emphasize this point. In 1929 services were 30% of our gross national product. In the depression year of 1932, it was 39%, showing that "services" held up better than other products. But in 1946, the percentage had dropped to 20%, indicating that this very desirable product is still "on allotment" and will continue to be until labor can be had to increase the output. Unless depressions work to redistribute labor all through our business structure, we shall continue to have an imbalance that can easily be embarrassing.

Uncertain Advantages

Let us now consider the advantages of unemployment compensation. The theory of it is that by means of pay-roll taxes the government will impound buying power in good times, hold it in a reserve fund, and then release it when times are bad—release it in the form of cash payments to the unemployed. Here definitely is a powerful corrective force tending to restrain exuberant spending at one time and to restore buying power another time—provided the buying power actually has been impounded by the government. But suppose the government itself spends the money it draws to itself from the payrolls. That is what happens when the government "invests" the proceeds of the

pay-roll taxes in its own bonds. What you have then is an employment reserve fund represented by government bonds. Is that in fact a reserve fund? Or is it a debt owing by the government to the unemployed? And if it is a debt, how can the government discharge it except by selling the bonds to raise the money to make cash payments to the unemployed? If that is the way it works, then it is in fact inflation we rely upon to meet the problem of mass unemployment when it comes.

At the first of this year the unexpended balance in the unemployment reserve fund at Washington was \$7 billion. That amount of buying power—if actually it is buying power—restored to the people in 6 months' time might have a powerful effect toward arresting depression. Figuring that one consumer dollar turns over three times, that would mean \$21 billion of business. As compared with public works, disbursements of this kind have the obvious advantage that they are immediately available; the spending takes effect at once.

Let Us Be Thinking

At any rate here is a very large cushion, and it may serve us well if we do not let the whole burden of mass unemployment fall upon it all at one time. The danger is that business will think it is cushion enough and do nothing itself to relieve the government of the entire responsibility.

I do not pretend to have all the answers. My purpose is to stimulate thought on a subject we need to know much more about. Just as employment is the business of business so is unemployment; and this would be true if only for the reason that they are the positive and negative signs of production. If business cannot find the solution the government will say it has one, and when people are unemployed they will believe the government. Thus another experience with extreme depression may take us so far into socialism that we shall never get back.

If business cannot undertake to guarantee its basic labor force a minimum work week of three days under all conditions, American optimism is a lost faith.

Suicide of a Business

By *W. W. Vandever*
(Retired)

This is a remarkable story. The writer, together with a partner, built up a very profitable independent oil business in Cleveland and then could not afford to keep it. The more successful they were the greater the liability of bankruptcy in case either partner died. So to save the fortune they had made by their own exertions they merged with another company and quit. And the necessity to do this was imposed upon them by the punitive policies of government. Mr. Vandever makes his statement as a challenge to Congress, and asks: "When will the government make a real study of why small businesses are being merged?"—Editor.

WHILE the Federal government investigates, prosecutes and holds hearings on how big business is growing bigger by gobbling up its smaller competitors, thousands of small businesses are being forced to seek refuge in mergers with other companies because of the government's own regulations.

Our company—the Allied Oil Co., Inc., and its subsidiaries—were merged with the Ashland Oil & Refining Co. on August 3, 1948. On that day my partner and I were out of business—a business that we had built from scratch over a period of twenty-three years. On that day the number of competing oil companies in the United States was reduced by one.

We were not the victims of unfair trade practices. We were not gobbled up by any private monopoly. We were not threatened by any of our competitors—big or little. We sought to merge because of the threats held over our heads by the government that has been giving lip-service to the encouragement of small business and to the preservation of competitive enterprise.

We were ready, willing and able to carry on for many more years of successful business life. We had faced the business hazards of depression years, war years and years of postwar reconstruction. We were not a couple of doddering old men looking for a safe, quiet place to piece out the rest of our days.

We knew we could continue to increase our service to our community, and do it profitably, but Uncle Sam's tax laws backed us into a corner where we had only one of two choices: sell out or face the risks of personal bankruptcy at the time of our respective deaths.

This Is Now a Common Story

If our story were the story of only one small business, it would hardly be worth the telling. It is,

however, the story of thousands of independent, closely held business concerns. The liquidation and merging of these thousands of small businesses is reducing the area of competition and threatening our system of individual enterprise. I agree with the Washington arithmetic which shows the number of companies diminishing in many industries.

If growing economic concentration is heading us into a collectivist state, it is important that we know all the factors and influences that are eliminating competition. It is not enough to take wild political punches at big, integrated companies or to assume that they are the aggressors and forcing the small companies to merge against their wills.

The Threat of Government

There are many other factors that need to be studied. Merely to curb the evils of potential private monopoly is not enough. The threat of government-regulated monopoly may be as great. And, certainly, dynamic growth of competitive enterprise cannot be encouraged by restrictive rules and regulations alone. We need a political-economic atmosphere that encourages the formation of new businesses—and discourages the liquidation of established businesses.

It is time to study the problem of mergeritis from the viewpoint of the small business that has been merged. It is time to determine the composite causes that make liquidation or the merger route such a popular road to business suicide. We do not need more road-blocks on big business. We need an open road that will give small business the incentive and opportunity to stay independent.

The story of the Allied merger shows how government regulations encourage the sales of small business and reduce competition. Allied Oil was born,

like thousands of American enterprises, on a shoe-string. Its pattern of growth was that followed by many an American company.

Back in 1925, two partners opened a small office in Cleveland with \$30,000 in cash—three fourths of it borrowed from friends. They saw an opportunity to serve a growing industrial area with fuel oil and they had some ideas that would make oil a more economical fuel for industrial plants, public buildings and homes. They sold the advantages of oil fuels so effectively that when the day of liquidation came Allied Oil was doing an annual business of \$50 million.

Except for the NRA code days and the years of the Petroleum Administration for War, the business grew outside the shadow of government restrictions. We were free to compete for the fuel business of industrial customers. In that competition with natural gas suppliers, coal and oil companies, we had to show industrial plants how Allied Oil could help them reduce their operating and manufacturing costs. We did this by teaching their personnel more efficient fuel practices—by searching the country for lower-cost materials—and by devising new, lower-cost transportation methods.

In the process, we pioneered in several directions. Allied transported the first fuel oil from St. Louis to Chicago by water; moved the first trainload of liquid petroleum asphalt for fuel into a steel plant; Allied was one of the early pioneers in moving residual fuel oil by barge direct to an industrial plant on the Ohio River; delivered the first self-propelled tanker of residual fuel to a plant on the Great Lakes.

The economies we effected were reflected eventually in millions of dollars saved by steel plants, potteries, forge plants and other manufacturers. These savings were passed on by Allied customers in better products and lower prices to consumers all over America.

Plowing Back the Earnings

Over the years, to maintain and improve Allied service—in competition with other fuels and other oil companies—we built large storage terminals on the Great Lakes and the Ohio River. We created a fleet of Great Lakes Tankers and a barge fleet on the Mississippi and Ohio Rivers. We ended up by owning a refinery in Canton, oil wells in Illinois, Oklahoma and Texas; and a system of pipe lines to gather the crude oil we produced.

During these years of growth and diversification we plowed back practically every cent of the company's earnings into new facilities and in addition borrowed substantial sums from local banks and life insurance companies in order to further increase our service to the community and to tide us over

many a tight spot. Our expanding facilities each year served more and more customers with lower-cost fuels and better service and provided more and more persons with employment on the Allied Oil payroll.

On This Record Death

With such an apparent record of success, why were we forced to sell out?

To begin with, the tax laws encourage small business men to take their earnings in capital gains instead of paying taxes on current income. To do this you have to sell out. Amos and Andy were not the first to make this discovery. They were, however, the first to get wide publicity for using the capital gains route to hold on to a larger share of their earnings.

As our business grew, we could not distribute each year's earnings as salaries or dividends. Such a procedure would have weakened the institution financially, impaired its credit standing and checked its growth in the face of growing consumer demands. In addition to the regular corporate tax of 38%, every dollar of earnings paid out as dividends would have been subject to a second tax. Because substantially all the stock was held by two individuals, it would have placed them in an impossible income tax bracket. It was either plow back the bulk of earnings into the business or turn the major portion over to the government in income taxes.

The second impelling cause of our action grew heavier each passing year. The more earnings plowed back, the more the company grew, the greater its assets and earning value became and estate taxes assumed increased importance. The value of the organization was in its nature as a going concern based on earning power. It wasn't the tons of steel, the ships, the storage terminals and other physical properties, but the annual earning potential of a smoothly functioning unit that determined the value of the company.

They Could Be Wiped Out

Each owner knew that the untimely death of the other would set in motion a series of events that could wipe out the earning power of the company and bankrupt the surviving owner as well as the kin of the deceased. There was no established market value of the shares of the company. They were substantially all held by the two chief owners. How would "value" for inheritance and estate tax purposes be determined? Largely by capitalization of past and potential earnings.

Depending upon the rates used for capitalization purposes, the value so determined could easily ex-

ceed the realization that could have been actually procured under market conditions such as we have experienced and, unless government attitudes are changed, seem likely to experience for an indefinite time into the future.

Inheritance and estate taxes, determined on such a basis, would have greatly exceeded the estate value (liquid assets) held outside of Allied by either owner. Having never been able to pay out much in the way of earnings, their eggs were all in one basket. To meet such taxes, the heirs of the deceased stockholder would have to find a purchaser for a minority stock interest in the company. Where and at what price could such a purchaser be found? The survivor might have to go into debt in order to buy such stock to protect himself.

There might even have to be either a forced sale of the total properties or a liquidation of assets piecemeal. The effect on Allied Oil employees, customers and loan makers, to say nothing of the two principals and their heirs, might have been disastrous. We could not escape the inevitability of putting our estates in order.

Where Were the Buyers?

There were several possible courses of action and all were studied carefully and thoroughly. One solution was to issue and sell common stock to the public. This would have continued Allied Oil as an independent, competitive company and we would not have contributed to the "concentration of economic power" by merger into another company.

Allied properties were appraised by a capable firm of engineers in 1945 and a basis established for proper stock issue. The stock market turned down, however, and new issues could find a market only on the basis of bargain counter prices. Even larger companies—long-established and well known—found it necessary to finance their capital needs through banks, insurance loans and plowed-back earnings because funds could not be raised through new stock issues on any kind of fair basis. Investors were not rushing to buy new issues of anybody's common stock.

And who could blame them? The entire economic horizon over all business was and remains clouded with the uncertainties of a vacillating governmental policy. Corporations, the medium through which most of our national income is produced, are not only subject to a host of regulations, conflicting governmental policy, double taxation through the tax on dividends, but at the same time are held to be responsible for most of the nation's ills and looked to for the large part of \$4 billion of proposed additional taxes. As a result, savers are not making any notable contribution to the capital needs of our

rapidly expanding business economy through the purchase of new securities.

After working on the possibility of selling common stock to the public, we found it necessary to find another solution.

The Resort to Merger

We started a market survey of companies capable of buying Allied's little organization. Several oil companies were interested in making the deal. Our prime objective was to insure a continuation of the Allied organization on a sound and growing basis. That is why the exchange of assets for preferred and common stock of the Ashland Oil & Refining Co. was finally accepted.

We were satisfied that Allied would continue to serve the market as it had in the past. We were satisfied that our customers would be taken care of. We were convinced that our employees would be treated with dignity and fairness as becomes their abilities. All in all, it seemed the best arrangement for everyone who had an interest in Allied. It was the only way out for two individuals who had conceived and built up a business and which in other times or under different circumstances they would have carried on for the rest of their business lives.

That is the story of the Allied Oil merger and its contribution to the concentration of economic power in America. I do not expect any government body to ask us *why* we merged ourselves out of business because so far no government study has sought all the reasons why mergers are consummated. The government has repeatedly *declared* itself in favor of a competitive economy. Instead of studying how the legal framework of our laws prepares such an ideal seed bed, encouraging mergers, it spends its energies in devising means to "atomize" big business.

Instead of studying how government creates conditions which tend to destroy the free enterprise system and which force thousands of little men in little business to seek a solution to their problems by merger into a publicly owned business, our governmental bodies seek to justify the addition of patch upon patch on the present regulatory laws to curb big business. In addition to trying to find out how big business got that way, they might well study why small business finds it more profitable to sell out.

Government Hatchetmen

So far the government's attack on the problem of maintaining a free economy has been centered on

dismembering business into segments. The Department of Justice has worked for many years and is now working actively under that concept. It has decided that a meat packer cannot sell meat at retail—that a manufacturer of Pullman cars cannot operate those cars—that a film producer cannot operate a theater.

Senator Gillette has reintroduced bills, originally offered in 1939, for decentralization of the oil industry. Comparative efficiency, military urgency, historical record of accomplishment, investors' desires, consumer preference, cost to the public, and an infinite number of other pertinent questions have not been raised by the Senator and remain unanswered.

Congressman Patman wants to prohibit an oil company from marketing tires. Senator O'Mahoney writes an article for *Reader's Digest*, entitled: "Is Big Business Too Big?"

In the 81st Congress, the House Small Business Committee wants to make "a study to determine what effective and equitable legislation could be passed to divest certain large corporations and chains of the power of bigness, *whether actions are legal or illegal.*" (Italics by the author.)

The Merger Movement

The Federal Trade Commission must not go unmentioned. Here indeed is a militant administrative agency that is the source of infinite business confusion on prices, discounts, and legally permissible business efficiency. To do full credit to the confusion emanating from this one agency alone would require volumes.

I will comment only on its recent report on "The Merger Movement."

The report points out that we are now undergoing the fourth major phase of business merging or consolidation, and the concentration of economic power is growing to the point where free enterprise is in jeopardy. The commission feels that as concentration of wealth increases, protection of the consumer by competitive actions in a free market becomes virtually nil under the dead hand of capitalistic control. Under these conditions, the commission argues, the consumer must be protected from extortion by government edict replacing the protective functions performed by competition. I quote the report:

"No great stretch of the imagination is required to foresee that if nothing is done to check the growth in concentration, either the giant corporations will ultimately take over the country, or the government will be impelled to step in and impose some form of direct regulation in the public interest. In either event, collectivism will have triumphed over free enterprise, and

the theory of competition will have been relegated to the limbo of well-intentioned but ineffective ideals."

Alice in FTC-land

The cause of the growing concentration of economic power is attributed by the FTC to the "loophole" in the Clayton Act that permits a corporation to buy the assets of competitors. Because of this "loophole," the gargantuan corporations are pictured as moving freely about, gobbling up small business men in a cannibalistic manner to eliminate or stifle competition.

Having consumed an adequacy of such business rivals, the gourmand corporation sits in dull stupor and collects ransom from all innocent consumers. Because of this imaginary ghoulish economic hobgoblin, the commission has issued perhaps its most strident warning in 25 years of jousting with windmills:

"The commission believes that the economic forces, on which it has been basing its warnings, require that a definite choice be made. Either this country is going down the road to collectivism, or it must stand and fight for competition as the protector of all that is embodied in free enterprise. Crucial in that fight must be some effective means of preventing giant corporations from steadily increasing their power at the expense of small business. Therein lies the real significance of the proposed amendment to the Clayton Act, for without it the rise in economic concentration cannot be checked nor the opportunity for a resurgence of effective competition be preserved."

Although the FTC sounds the warning on collectivization, its tenets on purchase of assets, prices and functional discounts, for example, would speed us faster toward a state-controlled economy.

Will You Save Freedom with Controls?

The corrections suggested are either of a punitive nature directed toward dismemberment of the giant corporation or the passage of additional regulatory laws that replace free enterprise with statism. Here is indeed a semantic riddle. *Freedom* of enterprise and *freedom* of competition are to be preserved by inflicting more government restrictions, regulations and controls on the business community.

If the rate of business mergers is increasing—if mergeritis threatens our competitive business system—any cure limited to the creation of more controls over the merged parties or to their divorcement by government decree does not strike at the conditions that create mergers.

If these corporate marriages are undesirable why wait until annulment is necessary? Is it not time to

find out whose hand holds the shotgun at the wedding?

I agree with the legislators and with the Federal Trade Commission on one important point. I believe we are on the road to collectivism. There is no question in my mind that "collectivism will triumph over free enterprise" *unless* our government honestly seeks to find and correct the causes for this trend. While railing at business—big business—can get a congressman, or a senator, or even a president elected, this does not answer the problem. The answer is not to be found in smears and name calling. The answer is not to be found in more laws to create more controls over business that lead us only to another kind of monopoly: statism.

Challenge to Government

I suggest that it will be worth while to turn the government's inquiring eye on itself—and determine how the government's legislative and administrative bodies contribute to the delinquency of small business.

The sale of Allied Oil constitutes a segment of the merger movement so feared by those who presently assume to speak for government. Yet, no competitor gobbled up our little company. There was no monopolistic grabbing of our facilities. We had done pretty well in competition with the largest oil companies in our marketing area and, given freedom, I have no fears for little business men in competition with their big competitors. No competitor bought us out to rid themselves of a troublesome rival. There was no threat of reprisal by any businessman or corporation if we didn't sell. Our business was growing and there was no internal economic compulsion to sell out.

The economic pressure—the economic necessity—was of government origin.

Hence I should like to put this challenge to the government in all its operations:

1. Will the government make a real study of *why* small businesses are now being merged? Find out, and scientifically measure, the composite causes that make literally thousands of small business men sell out or seek to sell out.
2. Will the government then seek to correct the framework within which business must operate to eliminate or minimize the causative factors?
3. Will the government seek to establish an environment that will restore the confidence of savers, investors and businessmen? At least, will it give the enterprising middle class an equal hearing with labor and agriculture?

I believe if this inquiry is pursued with the dili-

gence, honesty and dignity that has characterized the Hoover Commission, we can dig down to the roots of mergeritis. We can prepare a soil that will encourage the free growth of competitive business. On this basis the trend to collectivism will be checked.

Our elected and appointed officials *talk* for a free, competitive economy. Let them *act* as though they believe what they say. There is no inexorable tide of collectivization except as we allow ourselves to drift in that direction.

While Allied Oil was an independent, going concern, we did not ask for government protection against anybody—or for government guarantees on prices, income and profits. We would still be in business except for the unrealistic tax laws that forced us to sell our company.

The owners of Allied Oil have been merged out of business. As one of the two owners, neither post facto investigations, decrees nor edicts by a paternal government can bring me back to life as a competitive factor in the oil marketing business.

A Massachusetts Resolution

We, the directors of the Massachusetts Farm Bureau Federation affirm our belief that

1. We were elected to this board by our membership with the thought in mind that we would carefully yet freely speak out and express our ideas regarding the well being of our America and American farming and that
2. We do not admit the power of any bureaucrat, petty or otherwise, to deny us the right to criticize, privately or publicly, at meetings on the radio, through the press or in any other way the actions of any part of our government, which we as citizens own and pay for with our taxes and that
3. We are well satisfied with the principles of freedom and liberty under which this country has grown under the guiding hands of our ancestors and that
4. We believe in and will fight if necessary to maintain our idea that the government is ours, to serve us as free men, and not to rule us, and that
5. When any of our members so sell out their minds and voices to a government agency for a paltry pay check that they can no longer subscribe to these principles we will welcome their resignation.

The American Sense of Guilt

By Agnes Morley Cleaveland
Author of "American Primer"

RECENTLY in the discussion following an address upon a patriotic theme, a member of the audience arose to protest the speaker's use of the word "American" to designate citizens of the United States. "That sort of arrogance," said the objector, "exasperates the peoples who inhabit other portions of this continent." When asked to suggest a substitute word he launched into a sermonette on brotherly love.

To such hairsplitting has it come with those who love to disparage their own country, but whether from sincere or insincere motives it is not always easy to say. The effect would be the same. The behavior may be observed in a number of ways. Note the significant absence of any but Anglo-Saxon names given to the villains in present-day literature. No movie or radio villain may have a name which does not suggest Anglo-American origin. Britishers and Americans may be caricatured and villified, but nobody else, except possibly a citizen of a nation with whom we may be at war at the moment. If people of Anglo-Saxon stock were as sensitive to such superficialities the whole of current literature would have to confine itself to portraying sweetness and light, with no antagonist to symbolize the forces of evil.

Why do so many Americans seem to feel that to foul their own nest somehow indicates tolerance and a sense of world brotherhood? What has happened to the emotion our forebears called patriotism? That it has suffered serious disintegration is hardly to be questioned. There was a time when Nathan Hale's statement, "I only regret that I have but one life to lose for my country," stirred the hearts of his countrymen. Every school child was taught to respect the memory of Nathan Hale. Is that true today? If his name is mentioned at all it is probable that it is with the explanation that he lived in a by-gone era and that the hero whom one must revere today is Gandhi. (This statement is taken from actual experience.) The very word patriotism is today apt to be coupled with the word "narrow," which subtly discredits it.

Timely To Search Our Hearts

If a majority of Americans still believe that the national motto, "In God We Trust," has deep significance, it may be timely to search our hearts and minds for an explanation of the growing tendency to belittle ourselves in the eyes of the world, and, what is worse, in the eyes of our children

who will inherit the country and whatever values that heritage carries with it. If our children do not grow up to understand their heritage then, indeed, have we sold our own birthright and theirs for a mess of pottage, the pottage of calling ourselves "liberal," lest we accidentally knock a chip from some sensitive shoulder.

Why should Americans mind when somebody says they are not world-minded or that the American tradition is not liberal? What is their record?

Beginning at the beginning, the Pilgrims who were the first to arrive with no object but to found a society where individual liberty would be forever secure, called themselves Separatists. They were following the injunction to "Come ye out and be ye therefore separate." They risked death, calumny, and, worst of all, the possibility that they themselves would doubt the wisdom of their venture. The impelling reason for it had been to be free, to follow the dictates of conscience; but when the little band was threatened with extermination by their hardships they might well have asked themselves whether the cause they served could not be better served by keeping themselves alive to espouse it.

Faith kept them alive. The seeds of faith took root. Protected and nourished as time went on by other men with the same ideals, men of many races and creeds, faith burgeoned into a tree whose shade spreads over the whole world. This for good or ill is America.

Many are hacking away at its roots under guise of pruning it of unfruitful branches. Many more are attempting to graft onto it cuttings of foreign cultures which have not sprung from the basic cell.

So Far It Stands

Up to this moment the tree has withstood all assaults upon it. Can it do so indefinitely? What has been the life-giving strength to it? The answer is patent. It has been the spiritual energy which man draws from the divine reservoir of spirit itself. This spiritual energy, expressed as untrammelled initiative, unhampered mentality, unfettered conscience, has been rewarded. We have seen the fulfillment of the Scriptural promise, "Seek ye first the kingdom of God and His righteousness and all these things shall be added unto you."

Our form of government was designed on that pattern. It was not the finite will of man, too often his willfulness, which the Founding Fathers sought to establish in our political, social and economic

order. The division of political authority into legislative, administrative and judicial branches, along with the reserved powers to the states, was to protect from exploitation by greedy men the institutions of home, school, church and all other voluntary associations of people, and to let them work out their own salvation according to the dictates of conscience. This course was not expected to be humanly efficient. No system which allows people to learn by their own mistakes can be, but who has the temerity to say that freedom to learn by one's own mistakes is not to be preferred to bondage to the mistakes of a tyrant, be that tyrant a single individual or any combination of individuals, even that of "the majority"?

Of all entities on the face of the earth to whom the word "liberal" does not apply, a political majority ranks first. A political majority has power but no conscience. It actually has no free will. Perhaps no word in the twisted vocabulary of the intellectually Godless has been more confusing and misleading than the word "democracy" when it is regarded as the will of the majority, whose will (or willfulness) we are supposed not to question.

Our Founding Fathers did not make that mistake. They did not assume that ten fallible men by pooling their fallibility could thereby achieve a lesser degree of it. The present-day political fallacy that an individual, as a member of a group, has "rights" which, as an individual, he would have to earn or forgo, is a catch to convince people that there is magic in such terms as "the state," "society as a whole," etc. It is a device to persuade men that somehow as individuals they can escape the moral law.

Not Government by Plebiscite

It goes without saying that numbers of people living together on a basis of mutual cooperation must think up some scheme whereby individual liberty shall not be allowed to bring about such disorganization that there is no liberty for anyone; and this was the task of the men who gathered in Philadelphia to write the Constitution. Their solution was a form that would forbid any finality to human authority. This is achieved largely by the division of political power into three branches, each a check on the other, and all adapted to the full nature of man, his mental, physical and spiritual endowment.

If America were governed by plebiscite, the will of the people could be most conveniently ascertained by mail or by an electric tabulating device. This would eliminate the cumbersome legislative branch entirely. But ours is not a government by plebiscite. It is not a mammoth town meeting. It is representative government, adapted to the needs of a wide-

flung and heterogeneous population, a large proportion of whom don't know exactly what they do want nor care to be bothered deciding. That is probably the sad fact about any large group of people anywhere. All will tell you they want peace and opportunity to carry on the details of living without interference, but in the matters of general policy which will affect the country as a whole, they have only vague and impracticable notions.

It is therefore imperative that they choose representatives to act and in some measure to think for them. Such representatives theoretically are chosen on a basis of superior qualifications, above-average mentality and training, to sit in conference with representatives from other parts of the nation, exchange information, debate issues and in due course accept the best compromise possible.

Such is the *theory*. What of the practice?

When Dishonesty Got Out of Hand

Dishonesty in American politics apparently got out of hand. The so-called political bosses became disdainfully corrupt, and honest men cast about for a remedy. It was easier to blame the political system than to tackle the moral problem of personal and civic dishonesty. "Put government back into the hands of the people" became the slogan of the reformers.

One movement to "bring government and the people closer together" was launched by as honorable and unselfish a group of men as probably ever banded themselves together to achieve a reform, to wit: the Progressive Party, with its successful advocacy, in many instances, of the Direct Primary, the Initiative, Referendum and Recall, the election of judges in lower courts, the election of senators and other devices designed to circumvent "the bosses" and go directly to the people.

The results were to be expected. The dishonest self-seekers in ever-increasing numbers desisted from attempting to control political machines and turned the batteries of their persuasive powers directly on the people. The era of government by slogans was under way. Do-goodism, not primarily for its own sake, but for vote-getting, grew and grew. Very little was said publicly about civic obligation but much about civic rights and benefits.

It was, of course, inevitable that under such circumstances elected representatives began to regard themselves as elected delegates bound to secure for their constituents what these indoctrinated people thought they wanted at the moment, however much those desires might conflict with the best interests of the nation as a whole.

Small wonder that our lawmakers began to feel it necessary to keep their ears close to the ground. Had they been listening to the Tower of Babel builders

they could not have heard more confusion. From every state in the Union came the clamor of pressure groups. Political parties began to lose their meaning and effectiveness. California at one period had nine political parties qualified to appear on the bedsheet-size ballots—Republican, Democratic, Communist, Progressive, Socialist, Independent, Commonwealth, Townsend and Prohibition, besides an array of pressure groups which operated as political parties. And, as though all of this were not getting close enough to the people and circumventing “the machine,” candidates were privileged to file on as many party ballots as they liked in the final election. One defeated candidate for the Senate availed himself of the right to file on four. As the most recent example, Governor Warren, who ran as a presidential candidate on the Republican ticket, nevertheless had been elected to the governorship on both Republican and Democratic tickets.

Breakdown of the Two-party System

Another example of the breakdown of the two-party system in California, and to some extent in other states, is the way the Initiative works in the home state of Hiram Johnson, hero of the “back to the people” movement. Despite all efforts to hedge it with restrictions, the Initiative threatens to make political parties obsolete.

It would be interesting (although quite impossible) to know the amount of energy, money, temper and time vainly spent in trying to reach the people with measures in which as a whole they showed slight interest, as the lightness of the vote on many measures indicated.

But what happened to the lawmakers who had been sent to Washington was even more fantastic. During their campaigns they were given to telling their audiences that they would be always glad to hear from the folks at home. The invitation was accepted with an enthusiasm which must have left the cordial solons a bit bemused and with little time for anything but to tabulate—or weigh—their mail, read their telegrams and answer their telephones, even by proxy.

Something might be said for this as an evidence of public interest in government, only that it soon became apparent that the bulk of it was “inspired.” Experts on “how to impress a Congressman” took over. Radio commentators urged their listening audiences to stop listening long enough to write letters to their Representatives. Home gatherings were organized in the guise of social parties where the hostess supplied writing materials and form letters to be copied. Incidentally these had been supplied to her.

It is said that at the time of the Supreme Court Reorganization Bill lawmakers actually did resort

to weighing their mail, not on the even scales of impartial judgment, but of *avoirdupois*.

If Someone Should Say—

Even at the highest level of government, the presidency, presumably occupied by the best man available from every standpoint—integrity, vision, patriotism—we hear today of “mandates from the people.” What a thrilling thing it would be for a president to say, “I have a mandate from God honorably to serve the best interests of my country”—not to repeal or enact specific measures. Also wouldn’t it be thrilling if our scholars, scientists, writers, intellectuals in all fields, were to say, “We have a mandate from God to tell the truth, the whole truth and nothing but the truth, in so far as we are humanly able to do it, within our chosen field of investigation”? Then when they felt called upon to make pronouncements in other fields to say, “I am not now speaking as an authority. My present role is that of an ordinary citizen. What I say must be taken only for what it is worth.” Were this more often done we should not have men in one field throwing their weight around as authorities in another. “Intellectual liberty” would not then be so far removed from intellectual honesty as it sometimes now is, especially when it is a matter of social problems. We should not then have the spectacle of scientists *as scientists*, or writers *as writers* drawing up manifestos to influence legislation.

To make this requirement is apt to invite the charge of trying to suppress free speech and to stigmatize oneself as not being “liberal,” or of being a “witch hunter,” a “red baiter,” “intolerant,” “reactionary.” Those who most loudly condemn “laissez faire” in the economic field are often the first to call it “tolerance” in the sociological field.

The cry for tolerance appears to be reaching such proportions that no distinction is made between the sin and the sinner. If intolerant of the sin, one is accused of being viciously disposed toward the victim of it. The general trend today is to absolve the sinner of all moral responsibility and lay the whole blame for his behavior at the door of Society. Probably he had a frustrated childhood.

As a people we have come perilously close to repudiating our spiritual basis by repudiating personal and family responsibility.

Is it this betrayal of the American tradition that gives us our new sense of guilt?

It is in line with present-day psychological analysis to say that a guilty conscience seeks to silence itself by putting on a bold front. Our bold front more and more takes the form of collectivist doctrine, and that may be the perfect refuge, because in a collectivist society there is no such thing as individual conscience.

Review

The House We Live In

IF you have a clean tablet on which to write a new form of government for a free people what will you do with the vital principle of sovereignty, which is the supreme power, answerable only to itself? Where will you put it? If you say the government shall be sovereign, that is wrong because people are not free if they cannot change their form of government. If you say the law shall be sovereign, that also is wrong because sovereignty must be a living thing, endowed with will, and, moreover, people are not free unless they can change their laws. Therefore, you are bound to say, as our Founding Fathers said, that sovereignty shall reside in the people. But you will worry about it forever after.

For more than a century and a half the American people have possessed this sovereignty—a power above government, which they are free to change; a power above the Constitution, which they can amend or tear up as they please. What were they expected to do with it? What in fact have they done with it?

These questions lie at the core of Felix Morley's book,* "The Power in the People." He begins at the beginning, and at the beginning there is a contradiction. Sovereignty itself cannot be entirely free. Its power to do evil must be restrained. Even the tyrant or dictator is somewhat restrained by the ever-present thought that his subjects can cut off his head. But one cannot cut off the head of a sovereign people. The fragile solution of this difficulty is that people must agree to restrain themselves. That is what a constitution is for. It may be supposed to represent restraint imposed by people upon themselves. The American people are free to change their form of government or at any time to write themselves a new constitution, and yet they are bound by the original constitution to do it only in a constitutional manner, and the constitutional manner is slow by intention. It is not easy to change the Constitution. It is not like passing a popular law in Congress, which after having been passed may still be declared void by the Supreme Court, on the ground that it is unconstitutional. The people if they will may then change the Constitution, which has been done, but it takes time, and the use of time is for further reflection. It is as if people intuitively knew they would be sometimes tempted to

act on a sudden impulse to folly and so put obstacles in their way beforehand.

These restraints are very important and yet not enough. A sovereign people can express their will only by numbers. The majority rules. Nevertheless, all the wisdom we have about government, or ever had, warns us that a majority may be tyrannical. That is why Plato said: "Thus liberty, getting out of all order and reason, passes into the harshest and bitterest form of slavery." It is why De Tocqueville said: "If ever the free institutions of America are destroyed, that event may be attributed to the omnipotence of the majority." It is why the authors of the Constitution meant to create here a republic, not a democracy. They shared Plato's opinion that an unrestrained democracy must degenerate into dictatorship. Even so, and for all the safeguards it set up, the Constitution of the United States as it was written at Philadelphia could not be ratified until it was agreed that there should be added to it a Bill of Rights (the first ten amendments) to protect minorities against the majority.

All of this in due weight, the contradiction nevertheless remains. How shall a sovereign people express their will but by numbers? And how in fact can a willful majority be restrained? Here Mr. Morley comes to his theme, which is that the American adventure came forth of the spirit and rests at last upon faith. He says:

"This Republic is distinctive in history for one supreme reason. Its government assumes, and is designed to strengthen, a moral code of honorable individual conduct. . . . To put the power in the people implies faith. It implies that the component individuals are, for the most part, already endowed with self-control. This Republic is grounded in the belief that the individual can govern himself. On the validity of that belief it will stand—or fall."

Now the question may be revised. Instead of asking what the people have done with their sovereignty, one may ask about the faith. How has it borne the test? Mr. Morley's answers are not reassuring. Recalling Madison's words about resting all our political experiments on the capacity of mankind for self-government, he says:

"Of recent years it has been increasingly assumed that Americans are no longer capable of governing themselves. In view of conditions that have everywhere followed the destruction of self-government, a restoration of this faith would seem to be not only honorable, but actually essential for survival."

The spell of the demagogue widens in the land. As the government extends its control over the lives of the people, the demagogue, who is at once the product and the menace of democracy, becomes more and more plausible, telling people always what

* "The Power in the People," by Felix Morley. D. Van Nostrand Co., Inc., New York.

Wolf's Teeth for the Clayton Act

By Gilbert H. Montague

THREE identical bills to amend the Clayton Act now are pending in the House of Representatives. Each would forbid any corporation (no matter how small) that is engaged in interstate commerce (no matter in how small a degree) to acquire any stock or assets of another corporation (no matter how small) which is engaged also in interstate commerce (no matter in how small a degree), where in any line of commerce (no matter how small) in any section of the country (no matter how small) the effect of such acquisition may be substantially to lessen competition (no matter in how small a degree).

These bills are aimed at "mergers." They would invest the Federal Trade Commission with "new and undefined administrative authority which could have the effect of radically changing our whole economic system."

Hurting Littleness To Penalize Bigness

These bills would destroy the market for many small and medium-sized enterprises in case they ever want to sell out.

Consider the position of a small or medium-sized corporation which, by reason of internal difficulties, bad business conditions, or the death, age, ill health, or anticipated inheritance tax problems of individuals, or other causes, wants to sell out. Its best market, if not the only one, is among other enterprises in the same line—generally competitors. But if any of these bills becomes law, competitors will be forbidden to purchase. The enterprise will have to be disposed of piecemeal. Some of it may go for junk value. There will be no way of getting anything for the good will. There will be no market for disposing of many small and medium-sized enterprises that will have to be sold.

These bills will handicap the small and medium-sized corporation, and will protect the large corporation, and will lay the dead hand of arrested development upon the entire national economy.

Moreover, these bills are wholly unnecessary. For many years the Supreme Court has been expanding its interpretation of the Sherman Act. Today that Act empowers the Attorney General to apply to the court for an injunction, or criminal sentence, or dis-

solution decree in respect of any economic concentration, be it a person, firm or corporation, or group of them, which has power to raise prices, or to exclude competition, in any section of the country, *even though it never exercises such power.*

False FTC Propaganda

The Federal Trade Commission's propaganda against mergers has been misleading, and has failed to state the real reasons why smaller concerns frequently want to sell out.

Federal Trade Commission spokesmen talk about 2,450 mergers in the manufacturing and mining industries in the United States between 1940 and 1947, but they suppress the following official figures of the Department of Commerce:

Between 1940 and 1947, the total number of concerns operating in manufacturing and mining industries in the United States rose from 237,500 to 348,500, and the total number of concerns operating in all industries in the United States rose from 3,298,200 to 3,848,300.

Between 1940 and 1947, the number of new concerns starting in the United States was as follows:

Year	Manufacturing and Mining	All Industries
1940	33,300	357,300
1941	37,900	447,600
1942	34,700	334,700
1943	21,200	143,400
1944	27,200	272,800
1945	43,100	411,800
1946	64,500	615,300
1947	44,200	409,300
	<u>306,100</u>	<u>2,992,200</u>

How misleading it is to talk about 2,450 mergers, and to suppress all mention of the fact that they were only 0.8% of the number of new concerns that started in the manufacturing and mining industries during this period, and only 0.08% of the total number of new concerns that started in all industries during this period.

How farfetched is the Federal Trade Commission propaganda is shown in the Commission's repeated statement that 78 manufacturing corporations have sufficient net working capital to buy up the assets of 50,000 corporations of less than \$1 million in assets each, representing more than 90% of all manufacturing corporations in the United States.

How absurd it is for the Federal Trade Commission to believe that 78 manufacturing corporations will spend all their working capital to buy up the assets of 50,000 manufacturing corporations.

This is like believing that all the cash now owned

by 146 million Americans will be spent by them to buy automobiles.

Why Little Business Quits

Federal Trade Commission spokesmen when questioned by Congressional committees have confessed that the Commission has never investigated to find out the reasons why small concerns want to sell out.

Strangling taxation which is discouraging to small business is a primary cause, for when a business corporation is owned by a few individuals, the corporation pays a high corporate income tax, and the individuals then pay high individual income taxes on all dividends from the corporation.

With all the risks and responsibilities in business today, and the growing multiplicity of labor complications, labor laws, voluminous reports to manifold government agencies, collection of social security taxes, salary withdrawal taxes, unemployment taxes, disability taxes, sales taxes, excise taxes, and with heavy estate taxes on the death of any of the principal owners, which may require taking out a large sum of money to pay estate taxes, thereby wrecking the business, it is not surprising that owners of small business concerns frequently find that if they sell out, pay the capital gains tax on any increment in value, and put the money into diversified investments and trust funds, they will be better off than if they continue in business.

What To Tell the Americans

A Colloquy in the British House of Lords

From *Parliamentary Debates* (Hansard)

Lord Lyle of Westbourne: My Lords, I beg to ask the question which stands in my name on the Order Paper.

[The question was as follows:

To ask His Majesty's Government for what reason a press release has been made available by the British Information Services in New York defending the various nationalization schemes which have been enforced in Great Britain; and whether steps can be taken to discontinue propaganda of this kind and to leave the American public free to judge for themselves about such matters.]

The Parliamentary Undersecretary of State for Foreign Affairs (Lord Henderson): My Lords, it is

part of the duty of the British Information Services in New York to supply material calculated to inform opinion in the United States of America on measures approved by Parliament. If the American public are fairly to judge developments in this country, they need to be informed as to the facts. Therefore, the British Information Services, as a matter of course, have from time to time made available to the American press and public material explaining the working of the various nationalization schemes which have been passed by the present Parliament. The press statement issued on June 22 to which the noble Lord refers contained answers to questions frequently put by Americans in connection with the dollar drive. Among other matters, this statement answered in a brief paragraph, and in purely factual terms, the question: Are nationalized industries run by civil servants?

Lord Lyle of Westbourne: My Lords, arising out of that answer, may I ask whether, if His Majesty's Government have decided on the policy of spending the taxpayers' money in whitewashing the policy of nationalizing British industries, they will also spend some of the taxpayers' money in putting the other side of the case?

Lord Henderson: It is no part of His Majesty's Government's policy to do that. There is no need for them to spend public money in whitewashing nationalized schemes.

Lord Lyle of Westbourne: My Lords, may I ask His Majesty's Government whether it is not absolutely futile to try and convince the Americans that nationalization is a good thing?

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The matter complained of by Lord Lyle of Westbourne, published in New York as a press release by the British Information Services, was as follows:

"The government claims that its nationalization plans are designed not on a theoretical basis but for efficiency purposes only. When complete, 20% of the economy will be nationalized, while 80% will remain under private enterprise.

"So far, nationalization covers the Bank of England, coal, civil aviation and telecommunications, inland transport, electricity supply and gas. After that, the present government may bring the major iron and steel companies under public ownership, though left as separate units working in competition, and the present program would be complete.

"Nationalization in Britain means that the industry is run by a public board under business experts, and not under a government department. Britain has had a great deal of experience in 'public corporations' of this type. London's subways, for example, are regarded as a world model."

government can do for them, until they forget what self-government means. There has been, Mr. Morley thinks, a decay in the political thinking of Americans. Partly, this is owing to the fact that the original doctrine, taken too much for granted, has not been nourished by restatement and discussion, so that its light has fallen, like the light of an untrimmed lamp. Here he says:

"The flame of the Republic has not expired. But it burns more dimly than it did. . . . The American system of government is based on principles that are eternal. But failure to review and reconsider those principles constantly has played into the hands of men who would identify them with the 'horse and buggy' era. It goes unnoticed—until too late—that 'streamlining' the 'horse and buggy' ends by taking Man back to the era of the chariot. And the ease with which the accomplished demagogue can practice deception is due not so much to the lure of his oratory as to the shocking lack of any critical faculty among the electorate.

"A part of the blame for this situation must go to the narrow conception of free enterprise that has been allowed to dominate. It is not enough that this system has shown unprecedented capacity for producing material goods. If free enterprise cannot balance this flood of production with an equally impressive moral output, then it and the Republic designed to promote enterprise on the part of free men will go down together."

A deeper reason for the decay of American political thinking has been the impact of European thought since the beginning of the century. Mr. Morley says:

"The greatest danger to the Republic lies in the increasing tendency to abandon the American in favor of the European political philosophy. The fundamental lesson of revolutions needs to be learned again. It is that a concentration of political power which aims to liberate men from oppression almost invariably ends in oppression as great or greater than that which is removed. Our own Revolution is the exception that proves this rule. . . .

"Among European Socialists, confused and baffled by the well-being of the average American worker, it has been habitual to argue that the United States lags far behind in social legislation. The European background of servitude to the State obscures the fact that social legislation is a sign of retrogression, not progress. It should be obvious that there has been widespread individual failure if humanitarianism has to be enforced by disciplinary governmental action. The inevitability with which a planned economy leads on to the police state is now widely recognized in this Republic. What must be recognized more clearly is that the American system, because it has relied on individual decency rather than state compulsion for its moral direction, is ethically far more advanced than English or European practice.

"The major reasons for the inroads that feudalistic European thinking has made upon the more advanced American social philosophy are not obscure. In part they trace to the excesses of the free enterprise system.

On the one hand the very exuberance of its operation has countenanced a 'boom or bust' psychology. The restraints upon it have not been those of intelligence, but rather the enforced contractions resulting from gross overexpansion.

"This absence of self-control has itself led to the illogical conclusion that there is something inherently desirable in the state controls made inevitable in Europe by the historically entrenched position of vested interests. And that conclusion has been assisted by the deterioration of philosophical thinking in the United States. The curious failure of Americans to appreciate, or even to understand, the significance of their institutions further explains the widespread surrender to European ideas that are not properly applicable to American civilization."

In the difference between American civilization and European civilization there is a cleavage of history:

"Under our republican form of government the blessings of liberty have on the whole been widely distributed and deeply appreciated. In consequence, socialistic doctrine made relatively little headway in American thinking, even while it was capturing that of western Europe. Much of the credit for this must go to the conscientious leaders of American business who, despite all efforts to discredit them as a class, have in the main been primarily interested in placing their creative and administrative talents at the service of society. Through the exercise of these talents huge fortunes have certainly been amassed, and often not too scrupulously. But, just as notably, these same fortunes have been channeled into educational, cultural, and philanthropic undertakings, to an extent for which there is no parallel in any other country.

"The European experience, primarily because of the feudal background, has been different. Under primogeniture it was not even possible to 'alienate' an estate in order to endow a college or charitable institution. So one must conclude that the socialistic evolution was all but inevitable in Europe. There, the State arose as an instrument in which power had to be strongly centralized in order to crush the pretensions of privileged Estates.

"The centralization of government as supreme overlord was to be expected when the nobility formed one Estate, the clergy a second, and when 'the people' as a whole were lumped together in a *Tiers Etat*. This arbitrary and indeed indefensible arrangement was fertile soil for Rousseau's conception of an omnipotent democratic state, based upon 'natural right' and presumably responsive to something glibly called the 'general will.'

"Socialism was the political doctrine to be expected from the condition in which a 'lower class,' frankly labeled as such, was immutably subordinated to established privilege. 'What is the Third Estate?' asked the famous pamphlet of the Abbé Sieyès, as the clouds of the French Revolution gathered in all their ominous density. Sieyès answered his own question with the extremism which extremism itself always so tragically induces. The Third Estate, he said, is 'Everything!' Then: 'What has it been until now in the political

order?' Sieyès' own answer: 'Nothing!' Finally: 'What does the Third Estate demand?' "To be Something!"

"Karl Marx merely elaborated the third answer of the Abbé Sieyès, and logically. If the Third Estate—or 'Proletariat,' as Marx preferred to say—is 'Everything,' then it may and probably should demand to be everything: 'Dictatorship of the Proletariat.'

"The tragedy of Europe is illuminated by Sieyès' oversimplified rhetoric, as developed with less political caution and more intellectual courage by Marx. This revolutionary assumption, with regard to the Third Estate, suggests why unlimited power was given to representative assemblies; why democratic states then became socialistic states; why socialistic states finally fell easy victims to the new concept of a supranational Communist dictatorship. Napoleon and Hitler and Stalin are not just curious or vicious historical accidents. They are the natural products of a definite sequence of political thinking. We shall have such products in this country, also, unless our political theory is maintained on the wholly different plane to which the founders of the Republic directed it."

This is an important book, about the house we live in, why it was built as it was in the first place,

"to secure the blessings of liberty," and what has been happening to its foundations from neglect, from a confusion of words and from the importation of alien ideas. At the end he says:

"To become an empire, the United States must cease to be a Republic. Of course, this could happen here, as it happened in Rome. But it is hard to detect any popular enthusiasm for the imperial role. Sent overseas, the chief desire of the average American boy is to do the assigned job as quickly as possible and then 'come home.' One may believe that this homing instinct will continue, as long as home is significant to Americans. And if it ceases to be significant, we are lost. . . .

"In recent years Americans have been abroad, in more than the literal sense. We can stay abroad, or we can come home. We shall never make the world safe for democracy. But we can keep and continuously strengthen the power in the people, here at home. Only thus will the light of this Republic continue to shine before mankind, as a beacon unique in history."

Is it optimism or nostalgia?

—G. G.

The Underprivileged Railsplitter

FOLLOWING is the one-minute speech made recently by the Honorable Mrs. Frances P. Bolton, member of Congress from Ohio: "It never comes amiss for us to refresh our memories and perhaps clarify our thinking by recalling words once spoken by Abraham Lincoln." Mrs. Bolton then read as follows, and was rewarded with long applause:

"You cannot bring about prosperity by discouraging thrift."

"You cannot strengthen the weak by weakening the strong."

"You cannot help the wage earner by pulling down the wage payer."

"You cannot further the brotherhood of man by encouraging class hatred."

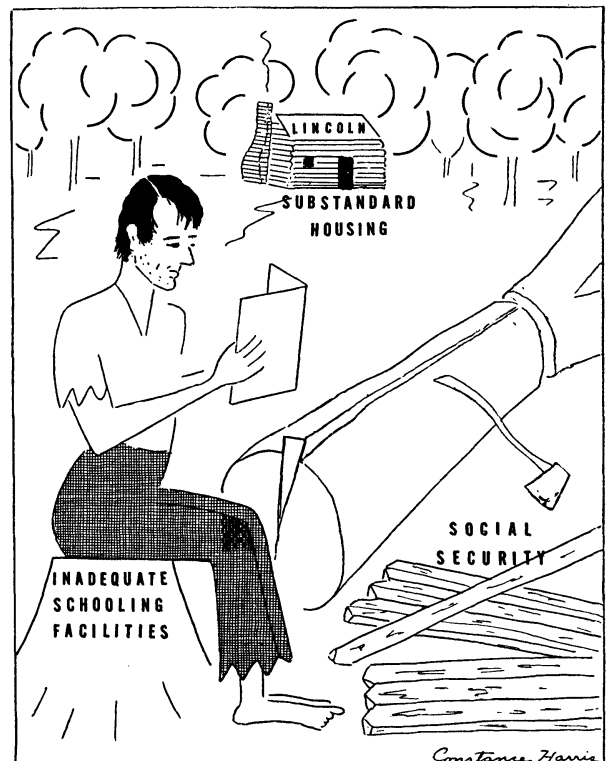
"You cannot help the poor by destroying the rich."

"You cannot establish sound security on borrowed money."

"You cannot keep out of trouble by spending more than you earn."

"You cannot build character and courage by taking away man's initiative and independence."

"You cannot help men permanently by doing for them what they could and should do for themselves."



Labor

The Lewis Plan for Moving In

*Yet how will he cure a price-sick
industry with dear coal?*

By R. C. Cornuelle

AT the annual convention of coal miners in Cincinnati, October, 1948, John L. Lewis went beyond any seasonal concern over the economic state of the coal industry. He said:

"With the decline in export coals, with the lessened consumption in our own markets, we find that the productive capacity of our miners at the present time exceeds the requirements of our domestic markets. We had similar conditions in the 20's and as a result the industry was forced into a war of attrition.

"We have not yet been able to work out with the operators any kind of stabilization arrangement, simply because there is no national leadership in the bituminous industry. If the operators can't give any leadership on the commercial side of the industry, the United Mine Workers of America can and will. So next year, or at any other time, when evil days come upon this industry, you will find the United Mine Workers of America moving in, and if there are only three days' work in this industry, we will all have three days' work."

Thus assured, the coal miners went back to work. By June 1, this year, storage stocks of bituminous coal had reached a record total of 75 million tons, enough to hold consumers for 65 days. No one was surprised. For years it has been fairly clear that the coal industry was overpopulated. Mechanization has steadily increased productivity. Coal is consumed more efficiently than it used to be. Most important, other fuels have taken greater and greater chunks of the market.

So Evil Days Came Again

The decline was temporarily obscured by wartime demand, but now that this demand has run its

course, it is evident that the coal industry is still in trouble. Too many people are producing too much coal. Too much production means lower coal prices. Lower prices mean the retirement of some operators to the uncomfortable limbo of submarginalism. The miners employed by these unhappy operators are then unemployed. All of this would mean that "evil days" had returned to the industry.

So on June 30, as advertised, Mr. Lewis told soft coal miners east of the Mississippi to work only three days a week. The idea was basically simple. If too much production was the problem, was not the solution a limitation of production? Of course there was a hitch or two in the scheme, as in any attempt to defy the market. Maybe the output restriction would make unprofitable the operation of mines geared to a higher level of production. Perhaps higher prices would make competition with other fuels difficult or even impossible. But the problem was there, and the operators had repeatedly demonstrated their inability to cope with it. If anything was to be done it would have to be done by the mine workers, and this is the course Mr. Lewis had chosen for them.

This, in itself, introduced a curious problem. The mine operators were helpless; Mr. Lewis was not. Their helplessness has had dire consequences in the past. In his October speech, Mr. Lewis recalled the Twenties.

"The coal operators, unable to sell their coal at a price whereby they could pay the scale, would close their mines for an indefinite period, and when our people were starved into submission locally, they would undertake to operate nonunion at a lower wage scale. This in turn would create the necessity for other operators doing the same thing and reducing it to even lower scales. There was no resistance whatever from the coal companies. . . ."

The Legal Enigma

In short, the operators can do nothing but compete for a portion of coal's dwindling share in the fuel market. It may be that they are as impatient with their impotence as Mr. Lewis is. Many of them would hate the competition of the twenties. It is no secret that some of them thought the three-day week an attractive idea when Mr. Lewis sought their approval of the plan late in June. The "captives" mine operators who had no particular interest in high coal prices rejected the proposal immediately, but commercial operators were divided. On reflection, however, they all dutifully rejected the proposition. Acceptance would certainly have meant prosecution under the antitrust laws. And here is the source both of the operators' weakness and Mr. Lewis' strength. The operators cannot restrict pro-

duction; Mr. Lewis can. Unions are exempt from the antitrust laws.

Washington reacted curiously to the recurrence of this legal paradox, namely, that unions may legally combine to restrict production whereas producers may not. A Senate committee began an investigation "to find out the extent of power which industry-wide labor organizations have acquired, the manner in which the power is being exercised, the effects of the economic power of unions in the coal industry and in industry generally. . . ."

John D. Clark, of the President's Council of Economic Advisers, said to a subcommittee of the Judiciary Committee of the House:

"I need not describe the opportunity for future production control, with management being complacent but carefully avoiding open collaboration, if this pioneer experiment becomes a practice in the great industries which deal with single unions."

The Government's Attitude

It is fairly clear that the government's objection is not to stabilization of the coal industry but rather to its being stabilized by John L. Lewis. The coal industry has been "stabilized" before—by the government. The Guffey Coal Act was enacted in 1937 to remedy the evils of an earlier siege of overproduction. It fixed maximum and minimum coal prices and established a bureaucracy to administer a system of marketing quotas. Similar legislation now in force in Pennsylvania provides for the planned marketing of hard coal. And then there is the government's agricultural program, designed to restrict production to achieve stability. Mr. Lewis is restricting production in the interest of stability. But the administration can hardly be expected to endorse John L. Lewis as stabilizer. He is not their favorite labor leader.

So what can a Congressional investigation accomplish? It can decide with the Administration that Mr. Lewis is an undesirable stabilizer. But this is a negative contribution. We still have a sick industry in our midst. If one physician is dismissed, should another be called in?

A Clear Diagnosis

Fortunately, there is no room for disagreement on the diagnosis. The symptoms are too clear and too persistent for that. This is an obvious case of severe, chronic overcapacity, and overcapacity is always basically a price problem. If coal were free, there could be no "overproduction." But when the price goes up, consumption goes down, as consumers turn to alternative products. In 1948 the "at-the-mine" value of bituminous coal had increased 155% over

its 1925-1929 average, while the value of crude petroleum increased only 80% and the value of natural gas decreased 38%. In that period, while total fuel consumption increased steadily, coal supplied an ever-decreasing proportion of the total. In 1926, soft coal was the source of about 68% of the energy produced by coal, fuel oil, natural gas and hydroelectric power, all together. By 1948, coal's share had dwindled to 52%. In the same period, fuel oil's share almost doubled, that of natural gas nearly tripled. Because of more attractive prices, competitive fuels are pushing coal out of the market.

This is the basis of the problem. But the war introduced a deadly illusion. When lend-lease and then war requirements increased the demand for fuel, it appeared that coal prices weren't too high after all. The crisis that had frightened the industry in the early thirties had disappeared by 1940. The Guffey Act became superfluous. More than 1,500 mines were opened or reopened between 1939 and 1947 and production increased steadily. While the industry continued to lose business to its competitors, the loss was painless. But now the illusion of prosperity has disappeared—at least for the coal industry. It faces the old overcapacity problem with a greater capacity than ever.

How Shall It Be Treated?

So how shall this malady be treated? If not by Mr. Lewis, then by whom? If not by "stabilization," then how? What are the possibilities? In the first place, we can refuse to treat the patient at all. That is, we can rely on competition for the cure. This might be effective, especially since the high cost producers that afflict the industry generally are localized in the margins. So when the price falls, the marginal producers stop, and the workers they employ are simply eliminated. But what does this mean—eliminated? It doesn't mean they disappear. It means only that they are turned out into the labor market. But suppose on the labor market there is already an unemployment problem. Moreover, the invisible hand that directs submarginal producers to new and profitable pursuits in a free market may be paralyzed in a restricted one. Competition might not cure overcapacity at all; it might merely transfer it. Overcapacity in coal would become overcapacity in general.

Another possible remedy is government subsidy. This has merit only in its perception of the real source of the difficulty—the consumer's stubborn refusal to pay high coal prices when he can get cheaper fuel elsewhere. The method would be foolproof. The government would simply lift the industry from competition and support it with a perpetual tax transfusion. But again this does not

really cure overcapacity. It is merely a costly rationalization. There would still be too many coal miners.

Mr. Lewis has rejected both these possibilities. The miners' scorn for subsidy was evidenced in an editorial in the *United Mine Workers Journal*:

"Unlike the farmer with his grain, potatoes, butter, eggs, peanuts and other crops, the government supplies no support prices for coal. The taxpayers are not called upon to build storage bins for coal and pay government losses from support prices.

"Consequently, when unwieldy inventories are built up, coal miners cannot enjoy the privilege of continued employment at government expense—irrespective of consumer demand."

So Mr. Lewis rejects subsidy.

Is a Philosophy Forsworn?

Nor can the miners be expected to accept graciously the consequence of competition. Is it not better to produce a little coal than to produce nothing at all? So Mr. Lewis has rejected competition. Yet less than four years ago he said this to a Congressional committee:

"American labor, and particularly the United Mine Workers of America, because they were pioneers in that field, have not resisted the introduction of power and automatic machines and labor-saving devices. We have recognized that the introduction of these devices creates unemployment by requiring fewer human hands to produce a ton of coal, but we have recognized, too, that it lowers the cost and gives labor the opportunity to participate in the increased efficiency, with higher wages and shorter hours and improved working conditions. So there we have our situation in America, constantly looking forward to improvement, and the end is not yet, because the productivity of the American mines is nothing compared to what it will be a few years down the road, when we have a chance again to get improved machinery and modern installations.

"Now, in England, the British Miners Federation for forty years has opposed the introduction of machinery into the mines, the utilization of power, on the sole ground that it would create unemployment, destroy job opportunities. The British mineowner has never seriously advanced the cause of modernization. It may be temperament, or it may be a characteristic of British industrialists.

"We have welcomed progress; we have welcomed machines. If machines were brought into a coal mine that employed 500 men, and the mine then only could employ 200, as a result of the machines, displacing 300, we have told our people that they had to accept that condition, that it was the process of progress and that they would have to take their chances.

"But the men who remained there got a higher wage, and higher living standard and the people who bought that coal got it at a lower price and there was a lower

cost to our manufacturers of steel and motor cars and textiles who bought that coal to furnish energy and power, and who were then able to put on the market a product that would compete and sell in the markets of the world."

It is tragic that Mr. Lewis has found it necessary to forsake this philosophy and turn to "stabilization." It is more tragic that he has chosen a method that can only fail. He wants to divide the shrinking coal market among the operators and to distribute among them the loss that would otherwise fall on a few potential submarginals. In doing so, he will hold up the price of coal, in order to protect not the earning power of his miners but a certain high wage structure; and he will do it notwithstanding the fact that the relative dearth of coal is the cause of the industry's trouble.

Now Government Will Fix Wages

By Clarence B. Randall

Mr. Randall is president of the Inland Steel Company. He made the following ominous statement, August 11, before the President's Steel Industry Board in hearings on the union's demand for a fourth-round increase in wages, pensions and insurance. His point is one of principle, namely, that by this procedure collective bargaining is destroyed and in place of it comes wage fixing by government, then profit fixing and thirdly the nationalization of industry.—Editor.

IT is no exaggeration to say that the welfare of every citizen of the United States is at stake in the hearings before this board. And by this I mean not only the fact that you gentlemen are authorized to make recommendations that might affect the prosperity of the whole nation, but the fact that you are here at all.

When the President announced the formation of this board he was in fact announcing an industrial revolution in America. By doing so he has declared himself as favoring a new social order, and one so different from that under which our magnificent production record has been achieved that unless the process is stopped, and stopped at once, there will be no possibility of turning back.

Through this means, whether he knew it or not, he has proclaimed that wages shall be fixed by the government. This step is always the first one taken by those who set out to establish a socialist or corporative state. The fixing of profits comes next,

and then when incentive is killed and production falls, the final step of nationalization follows. Europe came close to starvation because of this tragic sequence, and was saved only by the dynamic quality of a free America. Yet here is the same pattern.

Review the sequence of events. Bargaining was undertaken by this union that turned out to be bargaining in name only. Take Inland Steel Company, for example. It is now quite clear that at no time did the union actually intend to come to an agreement with us. We were but an insignificant part in the working out of the global strategy by which the establishment of this board was to be forced upon the government. The wage demand which was presented to you gentlemen was never brought to our bargaining table. We hear of it first here. It was pensions the union asked of us.

“Collective Bargaining Has Been Destroyed”

We made an offer on pensions. We were confident that our employees liked that offer, but the global strategy of the union required that it be rejected and that no single company be permitted to make an agreement. So we find ourselves pleading our cause before strangers, men of standing but men who are strangers to our company and to our employees. You have never seen our plant, and never talked with our men, and it isn't human to expect that in the few brief moments that we shall be before you, you can understand our problems. Collective bargaining has been destroyed. It has been repealed by the President. And if this union strategy works this time, collective bargaining will never come back. The precedent here attempted, reflecting the similar attempt made in 1946, would commit us to boards and government wagefixing forever.

And no thoughtful person should be deceived by the naive suggestion that your findings are to be recommendations only. The moment your announcement is made every power of the government will be brought to bear to compel both sides to accept your conclusions. If management in a particular steel company feels it must take exception to your findings, an attempt will be made to forget the word “recommendations,” and to whip up public opinion to force company acceptance. This I say my company will resist.

I would hold this view with the same deep conviction even if I knew that you would deny each demand of the union, as statesmanship requires you to do. No increase in cost whatever should take place at this time. To increase cost in a falling market is to invite disaster. Rising costs inevitably bring lower volume and unemployment. War pressures are ended, and we are in a rapidly changing

market. The battle now is to maintain production, and industry needs lower costs, not higher.

“This Is a Revolution”

I cannot think but that you gentlemen see this as clearly as I do. But the system that brings you here is wrong, tragically wrong in my opinion. I repeat, that this is a revolution. It is a different America if three men are permitted to substitute their judgment for that of hundreds and thousands of managers of individual businesses all over the country. President Truman recently criticized the bigness of business. But the bigness which he has here created is a bigness so incalculable that it can destroy America. It is a bigness that denies every American tradition, and that must be resisted if America is to remain free.

And in my opinion it will be resisted. This is America at the crossroads, and the steel industry cannot stand idly by. This is labor monopoly given its blessing by government and by the same government that cries monopoly at management.

Mr. Murray speaks with complete authority. His is the single voice for all unions in the steel business. He holds the power to suspend steel production in every steel plant in the country, and suspend it too in plants that use the production of that industry. Through political alliance with the government he possesses the power to induce the President of the United States to take extra-legal action at his request.

Sarcastically in these hearings he scoffed at the fact that the various companies involved had difficulty in acting as a unit. Does he think that we have one single man who can dictate policy to hundreds of separate companies? Has he forgotten that steel plants are privately owned, and that the individual owners are entitled to run their businesses as they think best, and not as a steel czar might dictate? Has he forgotten competition? If so, the Attorney General might well instruct him on the point. He has operated within a labor monopoly for so long that by mental habit he associates the same pattern of monopoly with other institutions. He conceives it natural for the steel industry to form an opposing monopoly as complete and as gigantic as his.

“That Is Complete Madness”

This we will not do. See where it has brought us in these present hearings. The labor monopoly took half of the time of this board. About sixty steel companies are now before this board. Many of them have asked to be heard on the management side. Yet there has been allotted to them eight days—eight days to be divided between them, the same

time given the labor monopoly. Many fine institutions must content themselves with a brief fifteen minutes or half an hour in which to discuss a question on which the whole future of their enterprises may hinge. That is complete madness. No orderly discussion nor fair results can flow from such a process. I repeat—this is the repeal of collective bargaining—this is government wage-fixing, the inevitable consequence of labor monopoly.

In my judgment, the steel industry cannot by its presence here be deemed to consent that this process go on. I must protest to you and to the President, and to the American people, that this is a distortion of our economy. And I submit to you gentlemen that it lies fully within your province to protest likewise. You will hear our doubts as to the propriety of this political proceeding, and you are not the men I think you are if you have not already yourselves entertained similar doubts.

I ask you to be courageous. I ask you to be statesmen. I ask that in your recommendations you not only record our doubts, but that you express your own honest convictions to the effect that the very establishment of this steel fact-finding board is in itself a bad thing for the United States.

“Today It Is Dangerous”

It is bad in principle—therefore it would be bad at any time, but today it is dangerous. Our country is now in a recession. Production is in the falling trend in industry after industry. Unemployment has reached its highest point in seven years. You cannot safely pile new uncertainties on an already uncertain situation. You cannot safely discourage investment in private enterprise, which, after all, is the source of all employment, all wages, all profits, all production—the livelihood of the American people.

You will do all of these things if you permit yourselves to be made an instrument through which Mr. Murray's union can impose increased cost on American industry and the American people. This is surely the time for management, for labor, and for government to exercise genuine statesmanship for the common good. It is obviously no time, in the face of the present situation throughout the world, for any interest to pursue a course which could precipitate a grave economic crisis in the United States.

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

Agricultural Notes

Why Not To Shoot the Grocer

The Supported Potato

From the *Congressional Record*, August 22:

MR. DEANE, of South Carolina: Mr. Speaker, within recent days John W. Ball, *Washington Post* reporter, wrote a series of five articles on the government's potato price-support program as it relates to Aroostook County, in the state of Maine. These stories reveal that the government paid out \$65,000,000 last year to hold up potato prices in this one county. The stories by Mr. Ball indicated that one grower, and there may have been others, received checks of approximately half a million dollars for potatoes sold to the Commodity Credit Corporation, and that 31 farmers obtained more than \$100,000.

During the time that this series of articles was appearing in the *Washington Post*, Mr. Ralph S. Trigg, administrator of the Production and Marketing Administration and President of the Commodity Credit Corporation, made the principal address at the Potato Blossom Festival at Fort Fairfield in Aroostook County, Maine. He stated: "It is perfectly obvious that the sound answer does not lie in unlimited purchases to support the market. We need a better approach and the authorization to develop such an approach, if we are to avoid a program collapse which could threaten the whole farm price support structure." It is Mr. Trigg's opinion that the whole price support program is threatened by the extravagance of potato purchases.

From the *Washington Post*, August 20:

If potatoes were to be sold for what they would bring in the open market without price supports, there is no knowing where they might end up. For per capita potato consumption has been steadily declining, and the demand for them as food is relatively inelastic. Hence, it is doubtful whether lower prices would stimulate increased buying to any considerable extent.

From the *Bangor (Me.) Daily News*, August 17:

Let's admit that all the facts published in a Washington paper and purchased by a Boston paper

with Democratic leanings for exclusive New England distribution are true.

Having admitted them, we ask, "So what?" Why pick on potatoes, which form only a part of the nation's farm products, and on Maine spuds in particular, which aggregate from fifteen to twenty per cent of the nation's total tuber production? Why not take the stab at the biggest boy in the parity game, Old Man Cotton?

Breadstuff

From the News

Kansas City—The government is buying wheat at \$2.02 per bushel and selling it abroad at \$1.80 under the new International Wheat Agreement.

From the News

Chicago—Buying of wheat, based on expectations that the government would make liberal purchases of it in the immediate future and that there would be a rush of flour buying following announcement of the amount of the export subsidy, turned prices upward after a small dip early, and closing trades were at net gains of $\frac{1}{2}$ to $1\frac{1}{2}$ cents, September leading.

From the News

Chicago—Price changes in the grain markets on the Board of Trade last week were fairly rapid, with the distant deliveries coming in for more attention from traders and investors. The feeling was that government loans would ultimately cause the markets to tighten up despite above-normal production of wheat and oats plus a liberal carryover and prospects that corn might establish a new record if weather conditions were favorable.

The Irreducible Egg

From the *Congressional Record*, August 22:

A letter by the Secretary of Agriculture to Senator Elmer Thomas:

"At the present time, the Commodity Credit Corporation has on hand 16,000,000 pounds of dried whole eggs carried over from 1948 operations. Added to these are about 49,000,000 pounds from 1949 purchases, as of August 1. It is estimated that an additional 10,000,000 pounds will have to be bought during the rest of this year, in order to maintain

prices at the mandatory levels. This total of dried egg stocks will reflect a cost to the Commodity Credit Corporation of about \$100,000,000.

"Serious as this situation is, the prospects for the year ahead are still more discouraging. Our poultry specialists anticipate from eight to ten per cent greater egg production in 1950 than in the current year. If this happens, even if consumption stays at present high levels, we could be faced with having to spend from \$150,000,000 to \$200,000,000 in egg price support procurement in 1950—if we are operating a mandatory ninety per cent support program. . . . You suggest the desirability of switching egg price-support purchases from dried eggs to whole shell eggs, and then marketing these shell eggs in 'deficit' areas. There are several points that need to be considered with great care in this connection.

"It would not be practicable to shift purchases to shell eggs. If these eggs should be resold in 'deficit' areas as you have suggested, the effect would be to lower producer prices in the deficit areas by as much as they were raised in the surplus areas where originally purchased. It would obviously, then, be extremely difficult, if not impossible, to meet our mandatory support obligations because the price-enhancing effects of purchases in one part of the country would be offset by price-depressing effects of heavy marketings in other parts of the country. As I have pointed out, per capita domestic consumption is already so high that there does not seem to be much room to increase the over-all market for shell eggs under present conditions."

Charles T. Brannan, Secretary of Agriculture.

Marking Up Butter

From the News

Chicago—Trading in butter futures contracts was the most active in six months on the Chicago Mercantile Exchange today following announcement of an immediate 3-cent increase in the support price and government entry into the cheese market.

The moves were made to bolster the price of milk going into manufactured products.

From the News

Most retail stores will raise butter prices 2 cents a pound today after wholesale listings yesterday neared the government support price of 62 cents a pound put into effect on Wednesday. "Consumers are being taken for a ride by the Department of Agriculture because of their method of supporting butter and egg prices," Alfred Rich, of the Butter and Egg Merchants Association, charged.

Marginal Readings from the Congressional Record

Temptation of Profit

In the House

MR. RABAUT: The amount of \$3,000,000 is included [in the Supplemental Appropriation Bill] for the National Capital Sesquicentennial Commission. The site selected is what is known as the Anacostia Flats, behind the National Guard Armory at the end of East Capitol Street. This will be a money-making proposition insofar as the Federal Government is concerned. It is estimated that the total cost of construction will be \$7,880,750. The estimated direct return is \$20,875,000. Most of the revenue is to be derived from the sale of space to private industry at \$30 per square foot. This will account for approximately \$11,000,000. Another major source of revenue will be the admissions. It is estimated that 15,000,000 people will attend the celebration over the 2-year period which, at 50 cents per admission, would result in a revenue of \$7,500,000. The indirect benefits to the government will result from taxes on transportation, gasoline, and so forth. In addition, the District of Columbia will receive an estimated revenue of \$3,000,000 from the sales tax.

MR. TABER: Millions of dollars have been appropriated for different celebrations, but I have never heard of one such expenditure that ever was repaid. The only way they are required to repay it is if the money is available. Mr. Barron was up before our committee on this proposition. He said they were going to have a hurdy-gurdy to draw in the crowd, but they were not going to have a Sally Rand. This noon in today's paper here in the District, Mr. Barron, who is the head of this setup, is quoted as follows:

Mr. Barron figures the government will get back about \$10,861,000 from its investment. Local businessmen, he said, probably could have contributed enough money to swing the whole celebration, but we wanted the prestige of a congressional appropriation.

What do you think of that? The reason for this appropriation is the prestige.

MR. RABAUT: This is to invite the youth of the nation to the Capital of the United States for a sesquicentennial celebration, the slogan of which is going to be "Freedom—Freedom Through Progress." The slogan is "Freedom Through Progress."

Are there some here who do not appreciate freedom through progress?

MR. REES: For this Congress to approve celebration on borrowed money seems rather absurd to say the least.

(Mr. Wheeler of Georgia moved an amendment to strike it out, and the amendment was agreed to by a vote of 121 to 63.)

Rubbing Out the Past

In the House

MR. LODGE: Mr. President, in a few days we shall be leaving this Chamber. The reason for our doing so is that the roof over our heads is no longer safe and must be repaired. This is a good reason. Moreover, we should have here in the Senate every advantage of modern science insofar as light, sound, and ventilation are concerned.

But the repairing of the roof and installation of modern conveniences are not the only work which will be done while we are absent from this Chamber. In addition to repairing the roof, the whole interior decoration of this historic old Hall is going to be completely changed from top to bottom and to such an extent that there will be nothing left of its present appearance.

The wonderfully quaint stained-glass panels which are now in the ceiling will all go, in spite of the fact that they are very vivid reminders of the days when this Chamber was first built. The interior decoration of the Chamber will be completely eliminated. In its place there will be a decorative scheme which, I agree, is inoffensive, which I have seen downstairs, and which, I agree, more nearly resembles the interior of a bank than—as some people have irreverently observed—a cocktail lounge. I know that it has been approved by the Fine Arts Commission.

The thought occurs to me, however, that the question of whether or not we should redecorate the Senate Chamber is not one for the Fine Arts Commission to decide. It is none of its business.

It is almost as though we were ashamed of our past and wanted to obliterate any signs of it. The fact is that our country has grown by degrees and that this growth is reflected in its buildings. It is an interesting thing for young people—and old people, too, for that matter—to see some relics of the past, because nothing gives them a more vivid impression of the fact that we have actually had a past—and a glorious one at that.

It may be, as some people say, that the decorative style of this Chamber is early pre-Civil War Pullman and there may be those who do not like the combination of parlor-car green, mahogany brown,

and putty-colored walls which are the prevailing colors in this Chamber. It is, however, the design which they liked at the time. Not only that—it is the design which constituted the surroundings for some of the greatest and most historic events in our history. It was here that the gigantic figures of the pre-Civil War drama spoke their lines. It was here that Charles Sumner was murderously beaten on the head, almost causing his death. It was here that Ben Wade of Ohio kept the famous squirrel gun in his desk when he used to challenge people to duels. It was here that the great drama was unrolled which symbolized the fight for the Union without which we could not be one country today, without which there would be no United States of America for the American people to believe in and no United States of America to whom the rest of the world could look for help and strength.

Look at Congress

Representative Hugh D. Scott, Jr.

In the House

A pay-as-you-go method of conducting our federal economy is actually something which 62.3 per cent—or more than 91,000,000 of our taxpaying citizens know nothing about. Their adult experience began after the Republicans were put out of office, and the tax-tax, spend-spend deficit financing methods of the New Deal took over.

Think with me of the profound significance of this one fact:

Today in the Senate there is but one Republican member of that great body who has any firsthand knowledge or experience whatsoever under a “stay within the budget” Republican administration. That lone Republican, Senator Vandenberg, is but one of the 8 United States Senators out of a total of 96 whose service antedates the coming into power of the Democratic Party and its New Deal orgy of deficit spending.

As for the House of Representatives today, there are but 35 Representatives who have had any experience in the economy of Republican governmental administration—all the remaining 400 having come to Congress at some time during the administrations of Franklin D. Roosevelt or Harry S. Truman.

Many of our new members of the House were mere children when the Honorable Franklin D. Roosevelt succeeded to the Presidency and they know no other, at firsthand, as the Chief Executive of the nation.

Out of the total of 435 members, there are today 174 with but 2½ years of congressional legislative

experience, and 95 of these have but 5 months' experience to their credit.

It is always well to remember that throughout the early Thirties the Congress was concerning itself almost entirely with the enactment of emergency measures—PWA's, CWA's, WPA's, REA, FERA, and a veritable multitude of alphabetical administrations that were concerned with abating the effects of the so-called depression days.

The congressional acts of that day which were then written into public laws were all supposedly temporary measures, but I have noted for years past that in the main the Congress has concerned itself not with the restoration of those principles and those policies that made this country great, but with the extension and the perpetuation of the administrations and the services that were allegedly set up merely to combat the depression.

Grooming

In the House

MR. HOFFMAN of Michigan: Now, I know you think this is funny, but there is nothing funny about spending the taxpayers' money. Just think of some hard-working woman or man finally getting a tax dollar and then having it spent to ask some well-paid NLRB girl to come in and get a demonstration lecture on how to act and how to be more attractive. Just so there will be no mistake, I quote the bulletin itself. It reads:

NATIONAL LABOR RELATIONS BOARD,

Washington, D. C., August 18, 1949.

ADMINISTRATIVE BULLETIN

To: The Washington staff.

Subject: Clinic on-job grooming for women employees.

The Virginia Farrell Organization from Detroit, Mich., through the Federal Recreation Committee, will sponsor a series of ten clinics on personal grooming. The course is patterned after one normally costing \$150, but it is being abbreviated and adapted for government girls in groups at a reduced cost of only \$3.

Part I of the program is a demonstration lecture which includes a series of do's and don't's in a typical day of a business girl's life. Part II of the program is a grooming clinic set up with regular techniques to give personalized attention to the business girl's fashion and wardrobe problems, her figure and posture faults, her make-up and hair-styling needs, and special rules for office etiquette.

This program will be made available to women NLRB employees who are interested in taking advantage of this opportunity. Should you wish to enroll in this course, please contact Jo Ravali, Personnel Branch, extension 6323.

The Chinese Manifesto

By Mao Tse-tung

Chairman of the Communist Party of China
In celebrating the 28th anniversary and the basic victory

THE widely propagated fiction that the Chinese Communists were agrarian reformers or bandits or a mixture of both, was exploded some time ago. Nevertheless this document is must reading for one who wants to know beyond any doubt what the revolution in China means. So far as we know, the full text of it has not been printed before, except in the Congressional Record, where it was introduced by Senator Knowland. The style is Oriental; the dialectics are Russian. This combination gives it a quaint and very unusual quality. The reader will notice that the ideas become vague and weak as they verge upon economic reality. The imperative seems to be the industrialization of China, under a dictatorship of the proletariat, with the assistance of Soviet Russia and loving Communists everywhere—Editor.

JULY 1, 1949, means that the Communist Party of China has passed through 28 years. Like a man, it has its childhood, youth, manhood, and old age. The Communist Party of China is no longer a child or a youth in its teens, but it is an adult. When a man reaches old age, he dies. It is the same with the party. When classes are eliminated, all the instruments of class struggle, political parties, and the state apparatus will, as a result, lose their functions, become unnecessary and gradually wither away, end their historical mission, and travel toward the higher plane of the society of mankind.

We are quite different from the political party of the bourgeoisie. They are afraid to talk of abolishing classes, state authority, and the party. But we, however, openly declare that we struggle hard precisely for the creation of conditions to accelerate the elimination of these things. The Communist Party and the state authority of the people's dictatorship constitute such conditions. Anyone who does not recognize this truth is no Communist.

Young comrades who have just joined the party and have not read Marxism-Leninism may not understand the truth. They must understand this truth before they can have a correct world outlook. They must understand that all mankind has to travel along the road of eliminating classes, state authority, and party. The question is only one of time and conditions.

The Communists in the world are more intelligent than the bourgeoisie. They understand the law of the existence and development of things. They understand dialectics and see farther ahead.

The bourgeoisie do not welcome the truth because they do not want to be overthrown by the people. To be overthrown—like the Kuomintang reactionaries being overthrown by us at present and like

Japanese imperialism having been overthrown by us and peoples of various countries in the past—is painful and it is inconceivable to the overthrown.

For the working class, laboring people, and Communists, the question is not one of being overthrown but of working hard and creating conditions for the natural elimination of classes, state authority, and the political party, so that mankind will enter the realm of world communism.

Our party has passed through 28 years. Everybody knows that they were passed not peacefully, but under difficult surroundings. We had to fight against enemies within the country and abroad and within and outside the party. Thanks to Marx, Engels, Lenin, and Stalin who gave us weapons. These weapons are not machine guns by Marxism-Leninism.

Lenin in his book, "Left-Wing Communism—An Infantile Disorder," written in 1920, described how the Russians sought for a revolutionary theory. After several decades of hardships and tribulations, they eventually discovered Marxism.

Many things were the same or similar in China and Russia before the October revolution. The feudal oppression was the same. The economic and cultural backwardness was similar. Both countries were backward, and China is even more backward. Progressive people struggled hard to seek for revolutionary truth to bring about national recovery. This was the same.

Since China Lost the Opium War

Since China lost the Opium War in 1840, the advanced Chinese underwent countless tribulations seeking for the truth from the western countries.

Hung Hsu-chuan, Kang Yu-wei, Yen Fu, and Sun Yat-sen represented this group of people who sought for truth from the West before the birth of the Communist Party in China.

At that time the Chinese who sought for progress read all the books that contained new western teachings. The students sent to Japan, England, America, France, and Germany reached a surprising number. Efforts were made to learn from the West. The old examination system of officialdom was abolished and schools multiplied.

What I learned in my youth were also such things. They were the culture of western bourgeois democracy, or the so-called new school of learning which included the sociological doctrines and natural sciences of that time and which were antagonistic to the culture of China's feudalism, or the so-called old school of learning. For quite a long time, people who learned the new knowledge were confident in believing that it was sure to save China. Apart from people of the old school, very few of the new school expressed doubt. To save the country, the only way is to enforce reforms, and to enforce reforms, the only way is to learn from foreign countries. Of the foreign countries at that time, only the western capitalist countries were progressive. They had successfully established the modern bourgeois state.

The Chinese also wanted to learn from the Japanese. To the Chinese of that time, Russia was backward and very few people wanted to learn from her. This was how the Chinese learned from foreign countries during the period from the forties of the nineteenth century.

The Shattered Chinese Dream

Imperialist aggression shattered the dream of the Chinese to learn from the West.

Really strange, why do teachers always invade students?

The Chinese learned much from the West, but what they learned could not be put into effect. Their ideal could never be realized. The conditions of the country worsened day by day, the environment was such that the people could not live. Doubt sprang up, grew, and developed.

The First World War shook the whole world. The Russians carried out the October Revolution, creating the first socialist country in the world.

Under the leadership of Lenin and Stalin, the revolutionary energy of the great Russian proletariat and laboring people, which had lain hidden and could not be seen by foreigners, suddenly erupted like a volcano. The Chinese and all mankind then looked differently at Russians. Then, and only then, the Chinese entered an entirely new era. The Chinese founded the universal truth of Marxism-

Leninism which holds good everywhere, and the face of China was changed.

The patterns of the western bourgeoisie, the bourgeois democracy, and the pattern of the bourgeois republic all went bankrupt in the minds of the Chinese people. The bourgeois democracy gave way to the people's democracy under the leadership of the proletariat, and the bourgeois republic gave way to the people's republic.

A possibility has thus been created to reach socialism and communism through the people's republic, and to attain the elimination of classes and attain world communism.

Kang Yu-wei wrote a book about world communism, but he did and could not find the road to it. The bourgeois republic existed in foreign countries but could not exist in China, because China is a country oppressed by imperialism. The only road to the elimination of classes and to world communism is through the people's republic under the leadership of the working class.

All other things had been tried and had failed. Of those who yearned for something else, some had fallen, some had awakened to their mistake, and some are changing their minds. Events developed so swiftly that many people felt surprised at the need to learn anew. This state of mind of these people is understandable and we welcome such good intentions to learn anew.

Where They Got It

The vanguards of the Chinese proletariat learned Marxism-Leninism after the October revolution and established the Communist Party of China. Following this, it entered into political struggle and traveled a zigzag path for 28 years, before gaining a basic victory.

From the experiences of 28 years, just as from the experiences of the 40 years in the will of Sun Yat-sen a common conclusion has been already reached, namely: "The firm belief that to attain victory we must awaken the masses of the people and unite ourselves in a common struggle with those peoples of the world who treat us on the basis of equality."

Sun Yat-sen has a different world outlook from us, and started out from a different standpoint to observe and deal with problems, but on the problem of how to struggle against imperialism in the 1920's of the twentieth century, he arrived at a conclusion which was in basic agreement with ours.

The Chinese found Marxism through the introduction of the Russians. Before the October revolution, the Chinese not only did not know Lenin and Stalin, but also did not know Marx and Engels. The gunfire of the October revolution sent us Marxism-Leninism. The October revolution helped the pro-

gressive elements of the world and China to use the world outlook of the proletariat as the instrument for observing the destiny of the country and reconsidering their own problems. Travel the road of the Russians—this was the conclusion.

In 1919 the May 4 movement occurred in China, and the Communist Party of China was formed in 1921. During his period, Sun Yat-sen came across the October revolution and the Communist Party in China. He welcomed the October revolution, welcomed Russian help to Chinese, and welcomed the Communist Party of China to cooperate with him.

When Chiang Kai-shek Came to Power

Sun Yat-sen died, and Chiang Kai-shek came into power. During the long period of 22 years, Chiang Kai-shek dragged China into hopeless straits. At this period, the anti-Fascist Second World War, with the Soviet Union as its main force, defeated three big imperialist powers, weakened two other big imperialist powers, and only one imperialist country in the world, the United States of America, suffered no loss.

However, the domestic crisis of America was very grave. She wanted to enslave the entire world, and she aided Chiang Kai-shek with arms to slaughter several millions of Chinese. Under the leadership of the Communist Party of China, the Chinese people, after having driven away Japanese imperialism, fought the people's war of liberation for three years and gained a basic victory.

Twenty-four years have elapsed since Sun Yat-sen's death, and under the leadership of the Communist Party of China, Chinese revolutionary theory and practice have made big strides forward, fundamentally changing the features of China. Up to the present, the Chinese people have gained the following two basic experiences:

1. To awaken the masses in the country. This is to unite the working class, the peasant class, the petty bourgeoisie, and the national bourgeoisie into a united front under the leadership of the working class and develop into a state of the people's democratic dictatorship, led by the working class, with the alliance of workers and peasants as its basis.

2. To unite in a common struggle with those nations of the world who treat us on the basis of equality and the peoples of all countries. This is to ally with the Soviet Union, to ally with the new democratic countries of Europe, and to ally with the proletariat and masses of the people of other countries to form an international united front.

"You lean to one side."

Precisely so. The forty years' experience of Sun Yat-sen and the twenty-eight years' experience of the Communist Party have made us firmly believe

that in order to win victory and to consolidate victory, we must lean to one side. The experiences of forty years and twenty-eight years show that, without exception, the Chinese people either lean to the side of imperialism or to the side of socialism.

There Is No Third Road

To sit on the fence is impossible. A third road does not exist. We oppose the Chiang Kai-shek reactionary clique who lean to the side of imperialism. We also oppose the illusion of a third road. Not only in China but also in the world, without exception, one either leans to the side of imperialism or the side of socialism.

Neutrality is a camouflage, and a third road does not exist.

"You are too provoking."

We are talking of how to deal with domestic and foreign reactionaries, that is, imperialists and their running dogs, and not of any other people.

With regard to foreign and domestic reactionaries, the question of provoking does not arise, for whether there is provoking or not does not make any difference as they are reactionaries.

Only by drawing a clear line between reactionaries, only by exposing the designs and plots of the reactionaries, arousing vigilance and attention within the revolutionary ranks, and only by raising our own morale and taking down the arrogance of the enemy can the reactionaries be isolated, conquered, or replaced.

Facing the Wild Beast

In front of a wild beast you cannot show the slightest cowardice. We must learn from Wu Sung (one of the 108 heroes in the famous historical novel, "All Men Are Brothers"), who killed a tiger on the Chingyang Ridge. To Wu Sung, the tiger on the Chingyang Ridge will eat people all the same whether you provoke it or not. You have to choose between the alternatives of either killing the tiger or being eaten by it.

"We want to do business."

Entirely correct. Business has to be done. We only oppose domestic and foreign reactionaries who hamper us from doing business. It should be known that it is not any other than imperialists and their lackeys, the Chiang Kai-shek reactionary clique, who hamper us from doing business with foreign countries and even hamper us from establishing diplomatic relations with foreign countries.

Unite all forces at home and abroad to smash domestic and foreign reactionaries and there will be business, and the possibility of establishing diplomatic relations with all foreign countries on the

basis of equality, mutual benefits, and mutual respect of territorial sovereignty.

Not Without International Aid

“Victory is also possible without international aid.”

This is an erroneous thought. In the era when imperialism exists, it is impossible for the true people's revolution of any country to win its own victory without assistance in various forms from international revolutionary forces, and it is also impossible to consolidate the victory even when it is won. The great October revolution was thus won and consolidated as Stalin had told us long ago. It was also in this way that the three imperialist countries were defeated. This is and will be the case with the People's China at present and in the future.

Let us think it over. If the Soviet Union did not exist, if there were no victory of the antifascist Second World War, and especially, for us, no defeat of Japanese imperialism, if the various new democratic countries of Europe did not come into being, if there were no rising struggles of the oppressed nations in the West, if there were no struggles of the masses of peoples in the United States, Britain, France, Germany, Italy, Japan, and other capitalist countries against the reactionary clique ruling over them, and if there were no sum total of these things, then the international reactionary forces bearing down on us would surely be far greater than that at present.

Could we have won victory under such circumstances? Obviously not. It would also be impossible to consolidate the victory when it was won. The Chinese people have had much experience about this. The remark made by Sun Yat-sen before his death about joining hands with international revolutionary forces reflected this experience long ago.

A Childish Thought at Present

“We need the aid of the British and American Governments.”

This is also a childish thought at present. At the present time, rulers in Britain and the United States are still imperialists. Will they extend their aid to a people's state? If we do business with these countries, or supposing that these countries are willing in the future to lend us money on the condition of mutual benefits, what is the reason for it? This is because the capitalists of these countries want to make money. The bankers want to gain interest in their own crisis; theirs is no aid to the Chinese people.

The communist parties and progressive parties and groups in these countries are now working to

bring about business with us, and even to establish diplomatic relations with us. This is well meant, this is aid, and this cannot be spoken of in the same breath together with the acts of the bourgeoisie in these countries.

During his lifetime, Sun Yat-sen had many times appealed to the imperialist countries for aid. The outcome was futile and instead met with merciless attacks. In his lifetime, Sun Yat-sen received international aid only once and that was from the U.S.S.R. The reader can refer to the will of Dr. Sun, in which he did not ask the people to look for aid from imperialist countries, but earnestly bade them to unite with those peoples of the world who treat us on the basis of equality. Dr. Sun had had the experience; had been duped. We must remember his words and not be duped again.

Internationally, we belong to the anti-imperialist front, headed by the U.S.S.R., and we can only look for genuine friendly aid from that front, and not from the imperialist front.

Yes, We Are Dictatorial

“You are dictatorial.”

Yes; dear gentlemen, you are right and we are really that way. The experiences of several decades amassed by the Chinese people tell us to carry out the people's democratic dictatorship, that is, the right of reactionaries to voice their opinion must be deprived, and only the people are allowed to have the right of voicing their opinions.

Who are the “people” at the present stage in China? They are the working class, the peasants, the petty bourgeoisie, and the national bourgeoisie. Under the leadership of the working class and the Communist Party, these classes unite together to form their own state and elect their own government to enact dictatorships over the lackeys of imperialism—the landlords, the bureaucratic class, and the Kuomintang reactionaries and their henchmen—representing these classes to oppress them and only allow them to behave properly and not allow them to talk and act wildly. If they talk and act wildly they will be prohibited and punished immediately.

The democratic system is to be carried out within the ranks of the people, giving them freedom of speech, assembly, and association. The right to vote is given only to the people and not to the reactionaries. These two aspects, namely, democracy among the people and dictatorships over the reactionaries, combine to form the people's dictatorship.

Why should it be done this way? It is very obvious that if this is not done, the revolution will fail, the people will meet with woe and the state will perish.

“Do you not want to eliminate state authority?”

Yes; but not at present. We cannot eliminate state authority now. Why? Because imperialism still exists, the domestic reactionaries still exist, and classes in the country still exist. Our present task is to strengthen the people's state apparatus, which refers mainly to the people's army, people's police, and people's court, for national defense and protection of the people's interests, and with this as condition, to enable China to advance steadily, under the leadership of the working class and the Communist Party, from an agricultural to an industrial country, and from a new democratic to a Socialist and Communist society, to eliminate classes and to realize world communism. To the hostile classes, the state apparatus is the instrument of oppression. It is violent, and not "benevolent."

We Are Not Benevolent

"You are not benevolent."

Just so. We decidedly do not adopt a benevolent rule toward the reactionary acts of the reactionaries and the reactionary classes.

We only adopt a benevolent administration among the people and not toward the reactionary acts of the reactionaries and reactionary classes outside the people.

The people's state protects the people. Only when there is the people's state it is possible for the people to use democratic methods on a nation-wide and all-around scale to educate and reeducate themselves, to free themselves from the influence of reactionaries at home and abroad (this influence is at present still very great and will exist for a long time and cannot be eliminated quickly) to unlearn the bad habits and thoughts acquired from the old society and not let themselves fall on the erroneous path pointed out by the reactionaries, but to continue to advance and develop toward a Socialist and a Communist society.

The methods we use in this field are democratic, that is, methods of persuasion and not coercion. When people break the law, they will be punished, imprisoned, or even sentenced to death. But these are some individual cases and are different in principle from the dictatorship over the reactionary class as a class.

After their political regime is overthrown, those of the reactionary classes and the reactionary clique will also be given land and work and a means of living to reeducate themselves anew through work, provided they do not rebel, disrupt, or sabotage. If they are unwilling to work, the people's state will compel them to work.

Furthermore, political work, propaganda, and educational work will be carried out among them, and moreover, carefully and adequately, as we did to captured officers. This can also be said to be

benevolent administration, but this is what we enact through compulsion to those of a formerly hostile class.

The End of Exploiting Classes

Such reeducation of the reactionary classes can only be carried out in the state of the people's democratic dictatorship. If this work is well done, the main exploiting classes of China—the landlord and bureaucratic capitalist classes—will be finally eliminated.

As for the remaining exploiting class, the national bourgeoisie, much appropriate education work can be carried out among many of that class at the present stage. When socialism is realized, that is, when the nationalization of private enterprises will be carried out, they can be further educated and reeducated. The people have in their hands a powerful state apparatus and are not afraid of the rebellion of the national bourgeois class.

The grave problem is that of educating peasants. The peasant economy is scattered. According to the experiences of the Soviet Union, it requires a very long time and careful work to attain the socialization of agriculture. Without the socialization of agriculture, there will be no complete and consolidated socialism.

The revolutionary dictatorship and the counter-revolutionary dictatorship are opposite in nature. The former learned from the latter. This learning is very important, for if the revolutionary people did not learn the methods of ruling over counterrevolutionaries, they would not be able to maintain their regime, which would be overthrown by the reactionary cliques at home and abroad. The reactionary cliques at home and abroad would then restore their rule in China and bring woe to the revolutionary people.

The basis of the people's democratic dictatorship is the alliance of the working class, the peasant class, and the urban petty-bourgeois class, and is mainly the alliance of the working class and the peasant class because this class constitutes eighty to ninety per cent of the Chinese population. It is mainly the strength of these two classes which overthrows imperialism and the Kuomintang reactionary clique. The passing from the new democracy to socialism mainly depends on the alliance of these two classes.

Wisdom of the Working Class

The people's democratic dictatorship needs the leadership of the working class, because only the working class is most farsighted, just, unselfish, and

richly endowed with revolutionary thoroughness. The history of the entire revolution proves that without the leadership of the working class, the revolution is bound to fail, and with the leadership of the working class, the revolution is victorious.

In the era of imperialism, no other class in any country can lead any genuine revolution to victory. This is clearly proved by the fact that the Chinese national bourgeois class led the revolution many times and failed.

The national bourgeois class is of great importance at the present stage. Imperialism is still standing near us, and this enemy is very fierce.

A long time is required for China to realize true independence economically. Only when China's industries are developed, and China no longer depends on foreign countries economically, can there be real independence.

The proportion of China's modern industry in the entire national economy is still very small. There are still no reliable figures at present, but according to certain data, it is estimated that modern industry only occupies about ten per cent of the total production output in the national economy of the whole country.

To cope with imperialist oppression, and to raise the backward economic status one step higher, China must utilize all urban and rural capitalist factors which are beneficial and not detrimental to the national economy and the people's livelihood, and unite with the national bourgeoisie in the common struggle.

To Tame Capitalism for the Present

Our present policy is to restrict capitalism and not to eliminate it. But the national bourgeois class cannot be the leader in the revolutionary united front, and also cannot occupy the main position in the State. The national bourgeoisie class cannot be the leader of the revolution and should not occupy the main position in the institutions of the State, because the social and economic status of the national bourgeois class has determined its febleness, its lack of foresight, its lacking in boldness, and fear of the masses by many of them.

Sun Yat-sen advocated "awakening the masses" or "helping the peasants and workers." Who is going to awaken and help them? To Sun Yat-sen this meant the petty bourgeoisie and the national bourgeoisie. But this is in fact unfeasible. Sun Yat-sen's forty years of revolutionary work was a failure. Why? Because in the era of imperialism it is impossible for the petty bourgeoisie and national bourgeoisie to lead any real revolution toward success.

Our 28 years were entirely different. We had plenty of invaluable experiences, and the following

were our three main experiences: (1) A party with discipline, armed with the theories of Marx, Engels, Lenin, and Stalin, employing the methods of self-criticism, and linked up closely with the masses; (2) an army led by such a party; (3) a united front of various revolutionary strata and groups led by such a party.

The Basic Victory Is Won

These mark us off from our predecessors. On these three things we have won the basic victory. We have traversed tortuous paths and struggled against rightist and leftist and opportunistic tendencies within the party.

Whenever serious mistakes were committed in these three things, the revolution suffered setbacks. The mistakes and setbacks taught us, making us wiser. Thus, we were able to do better work. Mistakes are unavoidable for any party or person, but we demand that less mistakes are committed. When a mistake is committed, correction must be made. The quicker and the more thoroughly the better.

Our experiences may be summarized and boiled down into the following single point—the people's democratic dictatorship based on the workers' and peasants' alliance led by the working class (through the Communist Party). This dictatorship must unite in concert with international revolutionary forces. This is our formula, our main experience, our main program.

In the 28 years of the party we have only done one thing, and that is, we have won the basic victory. This is worth celebrating because it is the people's victory and a victory in a large country like China.

Now To Learn as the Russians Did

But there is plenty of work before us, and, like walking, what has been done in the past is simply the first step in the 10,000-mile-long march. Remnants of the enemy have still to be wiped out, and the grave task of economic construction lies before us.

Some of the things with which we are familiar will soon be laid aside, and we are compelled to tackle things with which we are unfamiliar. This is difficult. The imperialists bank on the belief that we are unable to tackle our economic work. They look on and wait for our failure.

We must overcome difficulties, and master what we do not know. We must learn economic work from all who know the ropes, no matter who they are. We must acknowledge them as our teachers, and learn from them respectfully and earnestly. We

must not pretend that we know when we do not know. Do not put on bureaucratic airs. Stick to it, and eventually it will be mastered in a few months, one or two years, or three to five years.

At first, many of the Communists in the U.S.S.R. also did not know how to do economic work, and the imperialists also waited for their failure. But the Communist Party of the Soviet Union won. Under the leadership of Lenin and Stalin they not only could do revolutionary but also reconstruction work. They have already built up a great and brilliant Socialist state.

The Communist Party of the U.S.S.R. is our best teacher, from whom we must learn. We can wholly rely on the weapon of the people's democratic dictatorship to unite all people throughout the country except the reactionaries, and advance steadily toward the goal.

LETTERS

To the Editor of AMERICAN AFFAIRS:

In the mail this morning I have the honor to receive, with the compliments of L. C. Walker, a paper entitled, "Now the Fiscal Crisis," by Senator Harry F. Byrd.

I am returning herewith a one-page letter which I prepared on May 20th and mailed to two hundred American newspapers and a number of top Americans, including Senator Harry F. Byrd. Not one individual, including Senator Byrd, indicated any interest in this suggestion. I realize that I made the mistake of mimeographing this letter instead of having it typed out to individual newspapers and individuals. Newspapers and individuals are flooded with so much mimeographed material nowadays that this apparently was just another piece of propaganda in their estimation.

The people of Greenwood County have been so upset over the bullheaded determination of Army engineers to go ahead with building two dams that the people of Greenwood County do not want, that they devoted an entire evening at the local Chamber of Commerce to talking about how to defeat these dam projects. This letter was my suggestion to the meeting.

Eureka, Kans.

WALTER A. BOWERS
President of Utopia College

*

Excerpt from Dr. Bowers' ill-treated letter:

"Could a 'Save a Billion Dollar Opportunity Bond' drive be combined dramatically with Harry Truman's

'Buy a Billion Dollar Opportunity Bond' appeal to balance the Federal Budget and increase safety of U. S. Bonds?

"Here is how the billion dollar 'Save a Bond' opportunity would work: A citizens meeting was held here in our small country town last night to protest against a ten million dollar flood control project about to be started here by the U. S. Army Engineers which will ruin a lot of good farm land and will not stop floods. The money has been appropriated and the U. S. Army insists on spending it. The citizens here would like to subscribe for ten million dollars of Harry Truman's 'opportunity' bonds and then surrender in payment for the bonds the U. S. Army dam project. To be sure the Army would not try to spend the ten million dollars elsewhere Harry Truman could have ten million 'opportunity' bonds stamped paid by Secretary Snyder of the Treasury and shipped down here to the citizens of this town as proof that ten million dollars had been cut off the Army appropriations in payment. As soon as the canceled bonds were received, a public meeting would be called and the ten million bonds would be burned in a public ceremony. Thousands of people would attend."

*

To the Editor of AMERICAN AFFAIRS:

I am desirous of getting in touch with teachers and educators who may be actively interested in the free market for the purpose of:

1. Collaborating on obtaining materials and lesson plans for the study of the free and controlled market at the junior and senior high school levels of achievement.
2. Collaborating on a text or texts for these same grade levels.

The dearth of material used in the social sciences in our schools and the misrepresentation of the free and controlled economies have prompted me to ask you whether a brief notice could be inserted on the "Letters" page of AMERICAN AFFAIRS.

Gibsonia, Pa.
R.D. 1, Box 182

A. J. BROWNMILLER

*

Even Gold

To the Editor of AMERICAN AFFAIRS:

Re Dr. Spahr's remarks, I think paper money is on the mental level of idiocy, but even on gold we would still have the Reserve System, which was very active up to the 1929 debacle—and now _____?

Benton Harbor, Mich.

IDA N. TYLER

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Reprints of an article entitled *Laissez Faire*, by Gareth Garrett, from the Winter 1949 Number of AMERICAN AFFAIRS, are available at 10 cents per copy up to 100; 8 cents per copy up to 500; more than 500 at 6 cents per copy.

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