# PROSPERITY *through* FREEDOM

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TO BERTHA

Who so well understands the values in life . . .
Especially the value of freedom.


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# Contents

# Foreword

I began writing a column of economic interpretation for the *New York World-Telegram and Sun* and other Scripps-Howard newspapers in the fall of 1944, and over the years it has been necessary for me to discuss practically every phase of the economy. In order to interpret these subjects intelligently and to comment constructively to the public on passing events, it became essential to relate each particular item to a definite economic and philosophical framework. Thus each analysis became part of a central theme.

In a way I have acted like a minister who expounds his basic concept by employing some current event or scriptural quotation as a point of departure. In my own case I am frank to confess I have expounded the importance and virtues of a free society. Whether the particular point under discussion was productivity, or wages, or economic growth, or labor unions, or government economic intervention, or any other subject, my theme has remained the same—the necessity for free markets and a free economy if we are to avoid coming under the yoke of some political despotism. I make no apologies for being guided by this absolute, but rather assert that it is logical and essential for an interpreter of economic affairs to do precisely this.

There is much talk today about the importance of "objectivity," but to me it seems that there are some subjects about which one should not be objective. Such a subject is the maintenance of a free society and the measures necessary to insure it.

As I look back I find that my philosophy took form in the years before World War II, when I decided to delve deeper into economic theory in graduate studies at New York University. Then it was that I developed a clear-cut framework of reference which I could use as a guide. Because of this rewarding experience I can recommend highly the return to systematic study after one has been educated and hardened in the business world. To a mind which has been matured by such experience, the value of further theoretical analysis can hardly be exaggerated.

Basic truths do not change, although events certainly do. The economic principles which guided me in interpreting the wartime and post-war period are the identical principles which guide my present writing. In those years I had to spell out the dangers of price and wage controls and a government-regimented economy. In recent years I have had to spell out the very same truths about the dangers of a government-regimented economy, but with different examples. Wage and price controls have been largely eliminated, although the menace of their return continues. But the extension of government economic activity and the proliferation of so-called welfarism, with its inevitable deficit spending and inflation, are the great forces which are driving us in the direction of a collectivist state.

It is interesting to note that in the early years of my writing, when I was expounding the identical principles which are embodied in my work today, the letters I received were generally hostile—often vituperative. In those times people seemed to have been carried along by the statist concepts of the New and Fair Deals. They became emotionally upset upon reading anything, no matter how logical, which disturbed their ideas.

Today my mail is quite different, although the principles which I expound are not. Practically all the communications I receive are favorable. My conclusion is that, dark as the world may seem to those immersed in its problems, there is evidence that people have progressed greatly in their understanding of the nature of freedom and the dangers of statism. I am encouraged in this belief not only by widespread public support but more especially by a vigorous libertarian movement which is taking place in the colleges and among young intellectuals generally. This could have great significance for the economic and political future of the United States.

New York City
June, 1961

# 1–

# Ways of life: Capitalism, Socialism-Communism

*It would require many volumes to discuss adequately capitalism, socialism and communism. Our aim in the following brief essays is rather to touch upon some important aspects of these systems, as a basis for the following discussion of specific problems facing a free society.*

*No one should imagine that the adoption of an economic way of life, or of important specific economic measures, concerns only that phase of our living. The choice of economic measures powerfully influences our entire way of life. There can be no political or personal freedom unless we have an economic system based upon the free movement of men, goods and money.*

## WHY PRIVATE CAPITALISM?

When Dwight Eisenhower was President of the United States he recounted a wartime meeting with Communist Marshal Zhukov at which they discussed capitalism and communism. Zhukov represented a completely materialistic, one-party, one-man tyranny which exterminated the opposition and controlled the people with an iron hand. But in talking to the American General, he represented the Communist State as idealistic and democratic. He attacked private capitalism as materialistic, anti-democratic and oppressive of the individual. In telling about this meeting at a press conference many years after the discussion, Mr. Eisenhower said that, according to Zhukov, the Soviet system "appealed to the idealistic" whereas ours appealed "completely to the materialistic." Then Mr. Eisenhower confessed, "I was very hard put to it . . . I had a very tough time trying to defend our position."

The American people have a soft spot in their hearts for Ike but they felt sad at such a reply. Couldn't the leader of the American nation adequately defend the system of private capitalism which has so many virtues?

Mr. Eisenhower was no more unknowing in this regard than many other American citizens. People are busy with their own affairs and have little time, even if they have the capacity, to make a searching analysis which requires a knowledge of economics, history and philosophy. They have come to take for granted the great blessings of a free society which is based upon freedom in the economic sphere—private enterprise. Certainly our schools do not prepare students with a theoretical understanding of private capitalism which would serve as a guide for judgment on practical, every-day problems. And there is little doubt that clever Soviet propaganda which lies about the facts has been accepted by many people as literal truth. It may be helpful if we state in very simple fashion some basic truths about our way of life.

What are the virtues of a free enterprise economy? Why is private capitalism of such great value to the American citizen that he should defend it to the death against communism? It is the *only* system which can achieve the following objectives:

### *Human Freedom*

Any economic system which does not accomplish this is bad, no matter what advantages are claimed for it. For over five thousand years people have struggled to get their rulers off their backs, and it would be tragic if we retraced our steps. John Chamberlain in his *Roots of Capitalism* has stated the case well in the following paragraph: "There are so many spiritual implications in liberty that it deserves to be considered an end in itself. Even if State planning offered more material goods, people who have known and cherished liberty would rather live as free human beings on a more modest standard of living than sell their birthright for a mess of totalitarian pottage. But no such alternative exists. The fruits of totalitarianism are for the State, at most for a limited class."

The basic principle of traditional liberalism has always been, *Beware of the encroachments of the State!* The mammoth growth of centralized power has always robbed people of their liberty in the long run. Until recent times no one could lay claim to being a liberal unless he strongly believed in this guiding principle.

Political liberty and economic freedom are intertwined—they cannot be separated. Any system which deprives the individual of his economic freedom—by controlling his job, or how much he can earn, or what he should buy, or how he should live—takes away his basic freedom. And it is important to remember that throughout history, whenever bureaucrats controlled people's economic lives, they soon came to control their political freedom as well. It is essential for the survival of democratic government that economic power be separated from political power. This is the sine qua non of democracy. It is the reason why the preservation of private capitalism is essential for the maintenance of a free society.

As an instance, take the vital matter of free press and free speech. No democracy can survive for long if these do not exist. But if the State owned all property how could any dissident hire a hall or attack government policy? If the state owned the paper mills and printing plants, how could any minority group even distribute a leaflet explaining its point of view? Today newspapers, magazines, radio, television—all present a kaleidoscopic view of economic and political opinion in our free society because they are privately owned and their owners and their managers represent different viewpoints. Can you imagine a state-owned or controlled radio or television station, newspaper or magazine encouraging dissent on a really vital matter? Of course the government might maintain a sham tolerance on unimportant issues. But once the chips were down government officials would undoubtedly control everything ruthlessly.

Take still another instance—a man's job. If the government guarantees it, then the government will set the conditions of work, wages, and other conditions. And it will even insist upon the "mobility" of labor—that is, if there is no job for carpenters in New York they will have to move to Chicago, or some other city.

So it becomes plain that human rights are bound up with property rights. Some honestly confused people, as well as demagogues, elaborate on the conflict between human rights and property rights. There is no such conflict. If an individual cannot retain the fruits of his labor—his property—then he has been deprived of his human rights. Our own Constitution in the Bill of Rights recognizes the identity of human and property rights when it says that no person may, without due process of law, be deprived of "life, liberty or property."

### *The Most Efficient Economic System*

The second objective is to establish the most efficient economic system. What we want is the highest possible *real* income (clothing, food, conveniences, and necessities) for everyone. Competitive private enterprise and the free market are the basis of the most efficient system because they most expertly resolve the countless economic conflicts which take place all the time. No individual or group is smart enough to decide the right relationship between the millions of factors which are changing every week and even every day.

Only the free market can accomplish this by permitting the laws of supply and demand to operate through free-pricing. How many electric dynamos shall we make, how many pairs of shoes, how many radios, how much cleaning service, how many hotels? These and countless other questions are decided every day in the give and take of the market. It is the only democratic way of deciding these things, for the only other method is for some autocrat to try to do this job arbitrarily, with the backing of the police power of the state. The remarkable record of economic progress in this country where the real income of all working people is doubled just about every thirty years is proof of our efficiency. The shortages, the famines, the snafus, the pathetic quality of construction and the persistently depressed standard of living prevailing in communist countries is proof of their inefficiency.

In the following chapters these statements will be amply documented. At this point I would like to make it clear that the ability of an iron-fisted communist autocracy to direct workers in manufacturing specific items is unquestioned. They can force the production of machines, tanks, sputniks, and many other things in ample quantities. But nowhere on earth has such a hierarchy ever shown the ability to create a *high standard of living for all the people* although they are notably successful in creating luxury for themselves. One excuse usually given for the low standard of living of the Russian people is that the communists started from scratch. This is palpably false. Russia, before the revolution, had one of the best technologies in Europe. Russian artillery, which required high technological skill, was the most famed on the Continent. So were many other of her manufactures. The communists started not from scratch but with a very ample birthright.

### *Self-Expression*

The third great virtue of the free enterprise system is that it offers every individual the greatest opportunity for self-expression. Collectivism is the opposite of individualism, and therefore the collectivist society is necessarily stultifying in this regard. The great profusion of works of art and literature in the western world where private capitalism exists is sharply contrasted with the well-known poverty of first-rate creative activity in these fields in communist countries.

Finally, and certainly of great importance, is the fact that life under private capitalism encourages maximum spiritual and aesthetic expression on the part of the individual. He can practice his religious convictions with absolutely no restraint and he can promote any ethical ideas which seem to suit him. Furthermore, he can change his ideas when he wishes. The State cannot stop him.

Most people accept the principles stated here as vital advantages of a free enterprise society contrasted with an all-out communist regime. But some who are against communism as a system want to modify private capitalism by the admixture of more collectivism—more federal spending, more federal organizing and directing the economy. They talk about the virtues of a "mixed economy," not realizing that as the government takes step after step to enlarge its economic activities and control over industries and individuals it necessarily restricts the area of voluntary activity. This step-by-step encroachment undermines and ultimately destroys the individual's freedom. A nation need not lose its freedom all at once. It can surrender it piecemeal until the take-over is merely a matter of form.

We hear it said, "It can't happen here." It is hard to imagine the United States without individual freedom. But we need only recall the frightening example of the growth to power of Huey Long to become aware of the danger. This persuasive demagogue used government money and government office to further personal control. He finally became the dominant figure in the southwest and was mentioned as a presidential possibility. Long became a dictator, and in his hands vast, accumulated government power could have been used with frightful effect. And it is clear that there can be other Huey Longs.

The danger of a drift towards collectivism is enhanced by the rapid extension of welfare state measures which lead us step by step in this direction. Those who call themselves liberals today often become uneasy when they realize the conflict that arises between safeguarding human freedom and extending the power of the central government. But in practically all such cases the liberal of today is willing to close his eyes to the threat to freedom in favor of the benefits he thinks will come from the extension of government-managed "welfare" measures. Preservation of human freedom is no longer the first principle of those who today call themselves liberals. It is merely one desirable objective—together with others.

The *traditional* liberal, on the other hand (often today called a conservative), is guided by the concepts of those who built the foundations of liberalism—ranging from John Locke in the seventeenth century on through to John Stuart Mill, author of the classic *On Liberty*, to Woodrow Wilson in our own time.

John Locke inspired the framers of the American Constitution to establish a government of checks and balances with limited power for the federal government. The first ten Amendments to the Constitution, known as the Bill of Rights, are replete with the phrase "Congress shall pass no law" concerning this or that. Another guiding statement of traditional liberal philosophy is Lord Acton's famous dictum, "All power tends to corrupt; absolute power corrupts absolutely." And the traditional liberal understands the wisdom of de Tocqueville who, visiting the United States early in the nineteenth century, made some astute observations about American life. He pointed out, for instance, that over here people solve many major problems for themselves which in Europe were increasingly loaded on to the State. It was the independence, virility, and individualism of Americans that impressed de Tocqueville in those times, and other traditional liberals since.

Very important, too, among traditional liberal concepts, is the rule that economic and social problems must be solved by the individual, the family, the local community—in that order. Only in case of crisis or provable necessity should the federal government enter the scene. By contrast the new-day liberal tends to think of almost every problem—from juvenile delinquency to the health of each individual—as one which must be solved by the federal government. This is a dangerous road for a freedom-loving people.

It is important to note that the coercive power of the State is dangerous whether it is applied directly with full force or indirectly in subtle fashion. Take the case of agriculture. Some people think that government price support for crops is harmless. The farmers themselves vote to restrict their crops, do they not? Of course they do, because the alternative offered to them is a harsh one when applied suddenly. In effect the government says "You can get 20 cents or 50 cents a bushel more for your corn or wheat if you sell it to government warehouses." Few farmers can resist this inducement.

Professor Friedrich Hayek, author of the monumental study of freedom entitled *The Constitution of Liberty*, explains the danger of the coercive power of the State in this fashion: "Coercion occurs when one man's actions are made to serve another man's (or the State's) will, not for his own but for the other's purpose. Coercion implies . . . that I still choose, but that my mind is made someone else's tool, because *the alternatives before me have been so manipulated that the conduct that the coercer wants me to choose becomes for me the least painful one.*"

In other words, government can corrupt large segments of the population by offering them a choice which is heavily loaded in favor of the government's plan. The same kind of coercion is offered to a worker when the government says, You have a choice of joining a specific union or not earning your living at your trade. This kind of indirectly exercised government coercion can in the long run destroy individual freedom just as completely as direct coercion and outright government domination.

## PEOPLE'S CAPITALISM

The phrase "people's capitalism" as a description of our system has been receiving increasing prominence in the press. The precise origin of this phrase is uncertain, but there is no doubt that whoever conceived it has made a major contribution to the general understanding of the free enterprise system.

It was Karl Marx who tried to give the free-market, private-ownership system an ugly connotation by calling it capitalism. This was calculated to make it appear cruel and impersonal. Communists and socialists have always held up to scorn the free enterprise system by calling it capitalism. But the phrase people's capitalism, embodying the word "people" which the communists love so much, cannot be so easily attacked by propaganda.

What the phrase "people's capitalism" says, in effect, is that the vast body of citizens owns the means of production, and it is they who profit from the vastly increased productivity of our economic order.

"Of all the great nations," says Frederic Dewhurst in his massive study, *America's Needs and Resources,* "the one that clings most tenaciously to private capitalism has come closest to the socialist goal of providing abundance for all in a classless society." It is ironic indeed that capitalism—not socialism—should lead the way towards plenty for all in a society without class distinctions. Hardly any informed person needs to be told the statistics proving the point of a people's capitalism.

A few of the salient facts are these: There are more than thirteen million stockholders of American corporations, plus approximately ten million private owners of farms and unincorporated businesses; about seventy per cent of the national income of the United States comes from wages and salaries, and at least another eleven per cent should be classed in the same category, being earned by self-employed people (doctors, lawyers, etc.) and unincorporated small businesses (grocers, butchers, tailors, etc.) plus several million small farmers. More than fifty-eight per cent of all non-farm dwellings are owned by individuals who occupy them.

The enormous productive power of industry gives the average factory worker a current weekly income of over $90. His real earnings just about double every thirty years. Of the total income of the United States less than five per cent is earned by those making $50,000 or more annually.

However, there are those who do not like the people's capitalism we have today. For instance, Professor Arthur Schlesinger, Jr. of Harvard wants a change to a "new liberalism."

He says, "The issue is whether the gains of economic progress should be invested in the welfare of a few [which, of course, they aren't] or in the general welfare [by means of government distribution]. . . . So long as we refuse to assert the general welfare against the false notion that the unlimited pursuit of profit will guarantee the general welfare, we can expect that, while we privately grow richer our nation will grow in proportion poorer."

Here once again is the old chestnut about the gains of the few and the poverty of the many which was popularized in Marx's *Das Kapital.* The events of the past hundred years, and the income statistics which the United States Government publishes, have completely discredited this baseless theory.

Communists, of course, attack people's capitalism, and try to make day look like night. For instance, Kolganov, a leading Soviet theoretician, twisted American national income figures to prove his point in an article published in a leading Soviet economic journal. He made some plainly false statements in trying to prove that a high percentage of our personal income goes to the "exploiting class."

Who are these exploiters? First, he said, seventy-four per cent of the net product of farming is really "capitalist" because seventy-four per cent of farm sales originated in farms with an income of over $2500 annually. So a farmer with an income of $3000 a year becomes an exploiter! Secondly, all income of unincorporated enterprises is credited to exploiters. These include small groceries, stationery stores, family variety stores, shoe repair shops, and other small enterprises. So corner grocers and shoe repair men become exploiters! Finally, the compensation of all corporate officers—no matter how small the corporation or how modest the salary—is considered as going to exploiters. Hard-working corporate executives receiving $200 or $300 a week will hardly recognize themselves in this category. The net result of Mr. Kolganov's figures is to prove that the "toilers" get a little over one-third of the national income while the "exploiters" get two-thirds.

But all the twisting of statistics and of words will not alter the fact that people's capitalism provides abundance for all and insures political liberty. The phrase people's capitalism is a good one and should be used increasingly.

### SOCIALISM IN DISGUISE

The achievement of people's capitalism in the United States—a broad-based, dynamic, free-enterprise system—has cut the ground from under the socialists. Their basic principle has been ownership by the government of the means of production. But today socialism stands repudiated by leading socialists of the Western World. Doctrines formulated by Karl Marx about a century ago, doctrines and policies which were at the apex of their popularity only a decade ago, are now dead. The very cornerstone of socialist policy, government ownership of the means of production, has been renounced.

Another plank, inevitability of class warfare, with the socialists representing the dominant "proletarian" class, has been disavowed. Finally, socialists now receive the blessing of their party to fight in the armed forces of their country. Shades of Karl Marx!

But despite these fair words, anyone who imagines that collectivism is no longer an issue may soon receive a rude awakening. Perhaps outright nationalization of industry which socialists now repudiate will not be the method of achieving a government-directed economy. But the danger is as great as ever because the collectivists of today aim to so change the free enterprise system as to give us socialism in disguise.

The reader will rub his eyes in amazement as he reads the official words of the German Social Democratic Party, the leading socialist party of the West, which was established in Germany, the birthplace of Karl Marx. The Party had a convention in 1959 at Godesberg and issued a formal statement. Listen to this:

"The free choice of consumer goods and services, free choice of a place to work, free initiative for employers, are decisive foundations, and free competition is a very important element of a free economic policy. . . . Totalitarian control of the economy destroys freedom. The Social Democratic Party therefore favors a free market wherever free competition really exists. . . . Every concentration of economic power, even in the hands of the state, carries a danger."

With but minor changes, the above statement could have been issued by the U. S. Chamber of Commerce or the N.A.M. Socialist accent on free enterprise and socialist fear of economic power for the state are indeed startling. On another issue the official document says, "The Social Democratic Party has turned from a party of the working class to a party of the people."

The tactical reason for such a statement is quite evident. Socialists are smart enough to realize that the number of factory workers tends to decline while the number of those in services and professions rapidly increases as private capitalism improves the living conditions of every country. A party based exclusively on the so-called "proletarian" blue-collar workers hasn't much chance of election, because *all* workers vote.

Although the above statements were made by the Socialist Party of Germany, they accurately reflect the drift away from pure socialism in all major Western countries. The British Socialist Party is split, with its leader, Hugh Gaitskell, arguing that British socialists should "deemphasize" the issue of nationalization of industry. In the United States also the Socialist Party has turned to advocacy of welfare state measures and has repudiated the doctrine that the state must own all the means of production.

Behind this repudiation of fundamental doctrines are two plain facts: (1) The Socialist government in Britain was a failure, and nationalization of industry was repudiated by the British people. (2) The free enterprise government of once prostrate Germany performed a miracle of recovery, and the Erhard anti-socialist, free-market policy created a prosperous Germany which outstripped every other country of Europe.

This has had its influence on the people of Germany, Britain and the rest of the Western world. They have observed that socialism is inefficient and that a country which encourages free enterprise produces the goods—and also guarantees individual freedom.

Nevertheless, there is a steady drumbeat of propaganda directed toward the achievement of a government-directed economy in the United States. It is advanced by men who would be horrified at being classed as collectivists. But no matter what name is given to the advance toward a socialist state, there is reason to fear the ultimate result.

Socialists today maintain that government need not have the responsibility of actually owning and running major industries. Private ownership would be permitted. Socialization of income would be achieved through government control of wages and prices, government taxing away profits of industry, and government distribution of money in wholesale fashion (regardless of federal deficits) to advance the so-called welfare state.

This policy is tantamount to holding a carrot before a donkey and snatching it away whenever he is about to enjoy it. Will the donkey (privately owned industry) forever move toward the carrot or will he recognize the socialist trick?

## ARE THE COMMUNISTS TEN FEET TALL?

Another widely used means of moving us gradually toward some form of collectivism is to cite the accomplishments of communism. Despite the fact that the United States has created a way of life which is the example and envy of the world, we are urged to change our principles of operation—to cut down the individual's control of his own income and increase government taxes, government spending, government projects and government control. We must change, it is said, because we must "move forward" faster—our national "growth" must be accelerated.

And why must we change? Because if we do not the communists will surpass us in creating an economy of abundance. You would think that those who urge this radical change in a free enterprise economy which is the envy of the world would first of all check up on their basic premises.

They ought to be doubly sure that what they assert about communist progress is correct. But is it? Or are we being urged to embark on a new and dangerous course, though nobody can prove there is any truth whatever in the communist claims about their growth.

We make no pretensions to expert knowledge in this field. We would merely like to quote a few facts and some expert opinions which have recently appeared in the press. Then we would like to ask whether stories about communist economic progress are reliable or mostly propaganda.

We are not here discussing communist ability to make destructive nuclear weapons. Even a second-rate nation by sacrificing everything to a single end may be able to develop nuclear power. We are asking about over-all economic progress which means a better way of life for the citizens of a country.

ITEM 1: The Dean of Soviet statisticians, S. G. Strumilin, shocked the Russian hierarchy in the summer of 1960 by stating what every intelligent western observer has long known—that Soviet statistics are false and completely unreliable.

He said that official Soviet statistics on industrial growth have been vastly inflated by the trick of double-counting—that is, counting the value of a basic product like steel first when it is mined, then when it is manufactured. Between 1955 and 1956 industrial growth was not eleven per cent, as officially stated, but only eight per cent. Between 1928 and 1956, production did not quadruple, as officially stated, but was exaggerated by at least 25 per cent.

United States statisticians of the Rand Corporation over here insist that even Strumilin's figures on growth are twice what they have any right to be. So the question arises, is the United States being urged to change its remarkable economy in order to surpass a lot of phony statistics?

ITEM 2: From the United States Department of Commerce comes a report after a long investigation of the Soviet chemical industry. The report says "the Soviets have not gone as far as the more scientifically advanced nations of the West in providing a sound chemical industry." The report predicts that Soviet progress in this field will be retarded by lack of scientific knowledge. Can any modern nation advance rapidly when it is behind in a basic field like organic chemistry?

ITEM 3: The official Soviet paper, *Pravda*, repeatedly attacks Soviet technology for "producing inferior products." In the building field it complains that "disorganization flourishes." Housing outside of Moscow is just about equal to that of pre-civil war in the United States, competent observers state. *Pravda* also is worried about sharp declines in receipts of collective farms, while in the United States we have farm surpluses running out of our ears.

ITEM 4: In the so-called dynamic economy of the Soviets, wages of many factory workers were cut fifteen per cent or more in September 1960 when the seven-hour day was introduced. This statement, quoting specific instances, comes from *Komsomolskaya Pravda*, which said that "wages depend primarily on fulfillment of the production plan." American labor unions please note—here is the speed-up under government force and terror.

ITEM 5: Professor G. Warren Nutter has made a study of Soviet statistics under the auspices of the National Bureau of Economic Research. His conclusion: In many key industries, the Soviet Union has made progress but *we* have progressed faster. Their time lag behind us in 1955 was greater than it was in 1913 in many basic industries such as steel ingots, cement, electric power, freight cars, natural gas, and other fields. Dr. Nutter's report is treated more fully in a succeeding chapter.

ITEM 6: In January 1961, Nikita Khrushchev grew violent at a meeting of the Central Committee of the Communist Party and threatened his hapless subordinates because Soviet agriculture was admittedly a failure. In 1957 he had promised to overtake the United States in per capita production of grain, meat and milk. By Khrushchev's own admission they were nowhere near that goal and were having trouble feeding their own population. "Sabotage," thundered Khrushchev, "stealing." But this was all nonsense. His much-vaunted system of production had broken down.

ITEM 7: Many economists including John M. Cassell of the Rockefeller Office have published evidence to prove that in Gross National Product the Soviet Union since 1950 has grown at a slower rate than Japan, West Germany, Austria, and Greece. West Germany, by encouraging free enterprise, individual initiative and private investment has grown at a rate that makes the Soviet Union look like a backward country.

ITEM 8: Communist China is in *real* trouble. She faces the horrors of a devastating famine. After an investigation in Hong Kong and other Eastern places, Joseph Alsop, Herald Tribune syndicated columnist, estimated that the famine would take the lives of 150 million (this is not a typographical error) persons. Despite Chinese statements about nature's perversity, it has been clearly established that this is a man-made famine. The Chinese hierarchy destroyed the very basis of Chinese agriculture by trying to establish communes and by attempting to turn agricultural communities into industrial complexes. China is not fulfilling her export contracts for rice; in fact, she is importing rice—which is unheard of except in famine years. The propaganda about "the great leap forward" turns out to be pure blue sky.

It is dangerous to underestimate our totalitarian enemy.

But it is just as foolish to cripple our productive economy in order to meet mere propaganda statistics. We cannot successfully meet the threat of communism by repeating over and over, like an incantation, false phrases which become false guides in national policy.

## WHY DO SOME NATIONS TURN TO COMMUNISM?

One of the false phrases which has been most effectively sold to the country is that the way to keep a nation from turning to communism is to improve its economic conditions. We have been told that there is a direct relationship between the economic status of a people and communism; that the poorest nations are attracted to communism and that, as those with low incomes get more of the necessities and conveniences of life, they will turn away from it. Our foreign policy has been geared to this concept. Mr. Paul Hoffman, addressing the United States Chamber of Commerce some time ago, said that if by our gifts we could improve the annual income of low-income nations by $200 per person each year, we would eliminate the threat of communism. But is this true?

In the light of all the evidence isn't it about time that we reappraise the correctness of this basic assumption? The amazingly large communist vote in Italy despite her phenomenal economic advance is proof that the "buy-off communism" theory is a fallacy. The standard of living of the Italian worker has improved greatly each year over the past decade. In 1959 Italy's growth rate at stable prices was seven per cent, one of the highest in the world. In 1960 Budget Minister Giuseppe Pella reported to Parliament that Italy's national income increased to $3.1 billion from $2.8 billion in 1959. This was a rise of 6.8 per cent *after price changes are taken into account*—a remarkable achievement. Yet the Communist Party continued to poll about one-third of the entire vote—prosperity or no prosperity. The curious fact is that the communist vote is strongest in northern Italy, which is the most prosperous section of the peninsula. How do all these facts fit in with the theory that economic progress will defeat communism?

"But," say the spend-to-defeat-communism advocates, "the Italians are still so poor that communism greatly appeals to them." Then what about the Irish? Here is one of the poorest nations and yet communism is practically unknown in Ireland. If economic status is a determining factor, why aren't the Irish communists powerful, and why didn't this show up in their elections?

Take the case of the Austrians. These poor people were oppressed by the occupation of their homeland by the Soviets. They were bedeviled by communist sabotage in their own back-yard and stripped of practically everything but a little food and some clothing. Yet in the elections of 1951 the Austrians gave the communists a vote of less than five per cent. If poverty leads to communism how would you account for the poverty-stricken Austrians repudiating communism?

Then, of course, there are the Turks. The Turkish people are much poorer than the Italians and the Irish, yet communism is practically unknown in Turkey. Another case to consider is that of the Poles. Although this country was devastated more thoroughly than any in Europe and although the Polish people were practically starving, they gave the communists a vote of less than fifteen per cent immediately after the war when they were still free. They refused to embrace the devil, despite their terrible economic status.

On the other hand, despite the fact that France is one of the richest countries in Europe, and one which has made great economic progress during the last few years, communism is still a very substantial force. The communist vote continues to be about twenty-five per cent of the total, and in some of the large industrial centers which have made great economic progress, nearly one person out of every two votes for communism. Thus, while poverty does not necessarily mean communism, good living does not necessarily preclude its flourishing.

The evidence seems clear. You do not kill communism by raising living standards and you need not necessarily get it where the standard of living is very low. Communism flourishes where there is no strong opposing ideal to offset it. That ideal may be a powerful religious force, or intense and unified nationalism, or a vigorous libertarianism, but wherever a deeply rooted opposing ideal exists, communism will not make progress. But where such ideals do not exist, all the money in the world will not prevent the growth of communism. It is in the field of the spirit and the mind that the secret of successfully meeting the menace of communism will be found.

The economic factor is a minor one. Increased earnings of ten or even thirty per cent do not necessarily make for fewer communists. You can see that in the United States. Was it a depressed economic status that turned Alger Hiss and Lee Pressman toward communism? Are there not more communists and communist sympathizers on Park Avenue and other sections where the rich and well-to-do reside than there are in many working class sections of New York City, or in an industrial town like Gary, Indiana? The theory that there is a direct relation between the economic condition of an individual or nation and their affinity for communism simply does not hold water, and any national policy based on that theory is both wasteful and unsuccessful.

## THE NATURAL PREY

In relation to the problem of why some nations favor communism, I once was sent an interesting statistical analysis. It drew a comparison between the number of known communists in each state, as reported by the FBI, and the general prosperity and educational level of the states. Since there are government statistics on state-by-state incomes of individuals and on state expenditures for education, the study was able to depend on reliable figures.

The result of the study was startling. The states which, in proportion to their population, have the highest number of communists were the states with the highest incomes and highest level of education. The statistical analysis seemed to indicate a definite correlation between the educational level and the well-being of a state, and the number of communists who lived there. New York came first, California second, Illinois third, Pennsylvania fourth.

This study is not advanced in any way as conclusive, but it does present an interesting basis for speculation. If communism and extreme leftism are likely to grow as people become more educated, then it is perfectly obvious that there is something wrong with that education. One would expect that a person who has learned something of the truth of the ages, of logic and of human nature, would be better able to resist the wiles of totalitarian doctrine than the person who has not had these advantages.

Intellectuals of all kinds who are familiar with the development of western civilization and the importance of individual freedom in our progress should be staunch defenders of a free enterprise, Bill-of-Rights democracy. They should be more vigorous opponents of totalitarianism than poorly educated people. But the curious fact is that this is not always so.

A clue to the reason for this discouraging situation may be gleaned from a letter by Gordon Campbell of Harvard University to the *New York Times* at the time this subject was being discussed in my column. Mr. Campbell objected to the fact that communism is taught in many colleges "as part of a program of indoctrination" instead of "with fearless objectivity." He went on to say "it could be fairly reasoned, I think, that the examination of a doctrine according to a rigidly preconceived conviction is as bad—or worse—than the failure to teach the doctrine at all."

Mr. Campbell does not want us to have a "rigidly preconceived conviction" about the value of the Bill of Rights or freedom or human dignity—or communism. According to his line of reasoning, a teacher should be "objective" in discussing the question of slave labor camps, murder of the opposition and enslavement of people.

This shocking proposal—that those who teach the truth should not prefer good over evil and should never indicate a preference for freedom over slavery—may be a clue to what is wrong with so much of our education in this country today. It throws a spotlight on the reason why so many educated people are completely confused on the greatest problem of our time.

The basic reason for this confusion is that many intellectuals accept the false premises of Marxism often without even knowing it. These premises are actually being taught in many schools and colleges. For instance, the word "profit" has come to have a bad odor about it—certainly it is not as good a word as "wage" or "salary." That comes right out of Marx. The idea of class conflict instead of the co-operation of individuals in society is an accepted idea.

Workers and employers are supposed to be bitter enemies instead of co-operators in producing more so that everyone can earn more. Another generally accepted principle is that the free-enterprise system cannot regulate itself. If that is true, then why isn't socialism better—where the government regulates everything?

Even the Marxist "dialectic" is accepted and teachers explain that old-fashioned capitalism is evolving into some "higher form" of organization. Another principle generally approved in schools and colleges is that it is the duty of the government to "level off" high incomes. This leads to the socialist idea of an egalitarian society, although it takes away all incentive from those who have the ability and ingenuity to increase the general output.

Since many of the basic principles of Marxism are accepted in schools and colleges, is it any wonder so many intellectuals fall prey to the idea of communism?

## THE ACHILLES HEEL OF COMMUNISM

If better education on the tenets and meaning of communism might greatly diminish the number of people who are attracted to its principles, the actual facts about life in the Soviet Union also exert a strong educational influence. This record reveals for all to see the Achilles heel of communism.

The political explosions which take place in the Soviet Union periodically when some abysmal failure of production takes place emphasize a problem at the heart of the study of economics. That is the problem of efficiently allocating and using scarce resources. Since productive factors are limited, there must be some way of deciding how much food will be produced, how much steel, how much electrical equipment, how much clothing, etc.

In this country these questions are worked out in the free market according to the law of supply and demand. In Russia everything is decided by a commissar. Since the free market is flexible, the answers it gives are the right ones for maximum production at lowest possible costs. In the authoritarian state, however, the commissar's answers are bound to be wrong very often, because the commissar cannot possibly evaluate thousands of determining factors. One of the weakest spots in the Soviet Union ever since the revolution has been its agriculture. Mr. Malenkov was supposed to have made a mess of this, but it was the boss of the Soviet Union, Nikita Khrushchev, who had charge of agriculture after 1950. It was he who reported the appalling farm failure soon after Stalin's death in 1953.

He is on record as reporting that in 1953, after thirty-five years of communist rule, there were fewer cattle in Russia than before the communists took over in 1916. Livestock supplies had shrunk by three per cent, while population had increased forty per cent.

The total of beef and dairy cattle according to Khrushchev himself was fifty-six million versus fifty-eight million in 1916. Sheep and goats were about even with the pre-revolution years, although the hog population had increased somewhat. The area sown to grain was about fifteen per cent above prewar, which is not very much considering a forty per cent increase in population. The reader can well imagine what this has meant to a typical Soviet citizen. Actually, he has been eating less recently than he did under the Czars.

More recently—in January, 1961 to be exact—Premier Khrushchev became furious during a meeting of the Communist Central Committee because agricultural production had come nowhere near expectations. Everything had gone wrong. Khrushchev had promised to surpass the United States in per capita production. Instead Soviet farms did not even meet the modest goals set for 1960. Milk, meat, grain and most other commodities fell short of their own goals by twenty to thirty per cent. One of the main troubles was the decision of a bureaucrat like Khrushchev who decided to grow wheat in an area like Kazak—an area which smart farmers know is not suitable for wheat. The result was a failure that surely caused some heads to roll.

It was during the early 1920s that the Soviet managers started to liquidate individual farms and to drive the farmers into "collectives." That was the period when every little farmer was called a "kulak" and many of them were murdered. This policy of collectivization turned out to be a flop, as proved by the figures.

The following comparisons are made with 1928, which is the last year when there was any individual farming, and the year 1953: all cattle, 56 million compared to 67 million in 1928; cows, 24 million compared to 33 million in 1928; pigs, about even at 28 million; sheep and goats, 110 million compared to 114 million in 1928.

In 1953, as pointed out above, Khrushchev confessed to the world how bad food production was in Russia. But now let's come down to November, 1954. Commissar Maxim Saburov, a Deputy Premier, made an anniversary speech in which he said that Soviet grain production had remained stationary at 130 million metric tons since 1952.

He was disappointed in this because they had planted about

15 million acres more in western Siberia. Mr. Saburov also said he had to report that the total number of cows was 1.7 million below the anticipated total, despite the fact that the government had increased prices and raised incentives to peasants.

Incidentally, it should also be remembered that Soviet statistics are always better than the facts. For instance, when they give figures on their harvest, they make no allowance for harvesting losses, which every farmer knows are substantial. In other cases, their so-called statistics are merely invented figures for propaganda purposes. But even accepting their statistics, as we have done above, the case for Soviet mismanagement and low living standards is plain.

The unlucky bureaucrat who makes a sorry mess of things in totalitarian countries really has a very good defense, but he cannot use it. The defense is that the fault lies with the system, not the individual. But if he employs this defense, he would be promptly liquidated.

Only a free-market system which day by day adjusts itself to economic realities can possibly meet the needs of a nation. This fact has been demonstrated time and again. The recurring food crises in Yugoslavia, Hungary, and other totalitarian countries are clear evidence of this truth.

For instance, when Yugoslavia was free her great problem was where to find export markets for her surplus farm production. Under totalitarian rule, she has been frequently threatened with famine. As recently as February, 1960, a dispatch to the New York Times from Belgrade said that Yugoslavia had asked the United States for the right to purchase 500,000 tons of surplus American wheat for counterpart dinars left on deposit in Yugoslavia. This despite the fact that the Yugoslavia communists have maintained for years that their agriculture had progressed to the point where grain imports would never be necessary. Hungary used to be the breadbasket of the Balkans. Now under communism Hungary has crop failures and is in dire need of food.

China is a prime example of how communist organization destroys agricultural productivity. Peasant life was demoralized by the Party's attempt to drive Chinese farmers into communes. Also, the hierarchy sought to manufacture steel in every little community in China. The result was disastrous. In 1960 her agricultural crop was not sufficient to feed the population. As noted in Chapter 4, it is estimated that 150 million Chinese will lose their lives through famine. China was forced to contract for the purchase of $450 million of grains from Canada as well as for other large-scale purchases from Australia. The Chinese overlords know that famine will continue because they have already contracted for three years ahead. They know that they have fatally bungled.

An interesting sidelight on this event is the statement by a British agricultural expert, Lord Boyd Orr, a former head of the Food and Agricultural Organization of the United Nations. In the spring of 1959 he made a communist-conducted tour of China and was beguiled by Mao Tse-tung's propaganda about "the great leap forward." In the light of the true facts at that time his statement appears to be utterly ridiculous. He said "This spring's wheat crop is so good you can see the heavy plant structure while flying over the land." He predicted that Chinese advances in the next five years would radically exceed those of the last five years. He concluded, "New China's victory over the eternal plague of hunger is as startling an event as the conquest of interplanetary space." It is strange how so many so-called experts are eager to take communist propaganda as established fact.

Although communist countries have been able to make slaves of their industrial workers and get some production out of them, they have never been able to subjugate millions of farmers, and still get adequate food production. This may yet turn out to be their Achilles heel.

### THE MYTH OF SOVIET SUPERIORITY

Many people in this country have come to believe implicitly in the truth of so-called "statistics" passed out by the Soviets. They even accept without much question the Soviet claim that the communist individual standard of living will surpass ours by 1965. There is a two-fold danger in this naïve acceptance of Soviet propaganda as truth. First, it tends to weaken confidence in our own system and adversely affects the country's will to resist the Soviet offensive. Second, such unjustified belief in Soviet superiority leads to great pressure within the United States for us to imitate the centrally planned, totalitarian methods employed by the Soviets. Thus we may throw away our great advantage—our free, flexible, voluntary system—because we convince ourselves that big lies are the truth.

Prominent Americans who visit the Soviet Union often treat Soviet "statistics" as facts and the achievement of Soviet "goals" as inevitable. They uncritically repeat—as if it were fact not an unfulfilled dream—the communist objective to surpass the United States "in total and per capita production and give the Russian people the world's highest living standard by 1970 or before."

As we have said, all statistics coming out of Russia are propaganda. None are reliable. The well-known Australian economist, Colin Clark, who made an intensive study of the Soviet economy, labelled some enthusiastic American interpretations of Soviet annual-growth reports "an odd and dangerous brand of mathematical pedantry which applies indisputable mathematical methods to highly dubious facts in order to reach a foregone conclusion."

Testifying before a Senate subcommittee Dr. Clark said: "A statement which has now circulated so extensively that nobody ever questions it is the proposition that the real product of the Soviet Union is growing at the rate of 6 per cent per year . . . and that therefore it is mathematically inevitable that it must within quite a few years overtake and then surpass the real product of the United States. . . . Like so many other things which 'everybody knows,' this supposed 6 per cent per annum growth trend of the Soviet economy is an illusion."

Specifically, on the industrial front is the report, mentioned above, of Professor G. Warren Nutter. He made a systematic study of thirty-seven Soviet industries, comparing the years 1913, 1937 and 1955, and in many he found that Soviet production was more years behind the United States in 1955 than it had been in 1937. Here are a few of the comparisons:

| | *Time Lag Years Behind the U.S.* | | |
|---|---|---|---|
| *INDUSTRY* | *1913* | *1937* | *1955* |
| Steel Ingots | 21 | 32 | 29 |
| Crude Petroleum | 14 | 26 | 34 |
| Natural Gas | 32 | 51 | 52 |
| Cement | 19 | 33 | 32 |
| Electric Power | 13 | 21 | 16 |
| Coal | 45 | 49 | 47 |
| Rail Freight Cars | 33 | 51 | 69 |
| Canned Food | 43 | 45 | 45 |
| Wool and Worsted Fabrics | 43 | 67 | 69 |
| Vegetable Oils | 16 | 40 | 44 |

The above table indicates that Soviet production has fallen far behind our own in many major categories and has made very little progress in others. True, they increased their production, but we increased our own even more.

Dr. Nutter drew the following conclusions: "In the *first* place Soviet industry still seems to be roughly 3½ decades behind us in levels of physical output and about 5½ decades behind us in levels of per capita output. . . . *Second,* development of Soviet industry is roughly equivalent to what took place in this country in the four decades bracketing the turn or the century. . . . *Third,* Soviet industries have generally lost historical ground to their American counterparts—the lags have generally increased—in terms of both total and per capita output. . . . *Fourth,* while Soviet industry attempted in recent years to gain ground in terms of total output, they have continued to lose ground in terms of per capita output."

This comparison is made on the basis of taking Soviet propaganda statistics at their face value. Dr. Nutter adds, "It hardly seems likely that Soviet authorities have practiced the art of understatement in heralding their achievements."

It might be well to keep the above analysis in mind when we read glowing reports of Soviet progress brought back by short-term visitors or supporters of the "socialist experiment."

There is no doubt that the Soviets are making rapid strides in *selected* heavy industries. Nor need we minimize their frightening military power, and the threat it represents to our existence. Communist progress in rocketry—their ability to put into orbit a seven ton satellite—is something to worry about. But we ought to have greater respect for known facts when talking about general standards of living and her ability to surpass us in the near future.

There is no necessity, either, to overrate the stability of the Soviet regime. A headline on Adlai Stevenson's 1958 report said, "Stevenson Decries Belief Soviet Regime is Unstable." In pointing out the fallacy of this idea, Eugene Lyons, a respected expert on Soviet affairs, asked, "Why would it (the Soviet government) maintain in the forty-first year of absolute power a political police establishment unprecedented for size and ruthlessness in modern history?

"Why would it need the death penalty for an attempt to leave the country without permission, and other such drastic laws to hold down its subjects?"

Pointing out that the regime maintains six thousand special schools for training propagandists and that they have over two million part-time agitators, Eugene Lyons concludes, "Obviously a dictatorship in its fifth decade of total power does not invest such huge slices of its budget, brains, energy and manpower in internal security unless it feels it is insecure."

## IS SOVIET TRADE WORTH THE RISK?

If Soviet production is in trouble, as even its own inflated statistics show, and if the Soviet Union's populace is so restive that even after five decades of power "drastic laws are needed to hold down its subjects," should the United States bail it out of trouble by making up its production shortages in increased trade? Should the Western World—and especially the United States—contribute resources intended for its own destruction? Should we augment the economic, military and political power of an avowed enemy, who has stated time and again his intention to "bury" us? Bluntly stated, this is the basic issue at the heart of the question of increasing "trade" with the Soviet Union.

It is, of course, sound traditional liberal policy to eliminate trade barriers and to increase the flow of goods, money, and people across all national boundaries. That is the way to a better world. But the over-shadowing reality today is that we are at war with the Soviet Union. It is a cold war, and this country prays that it will never become more active, but as the authors of a recent authoritative study on communist strategy have said, the free world has superior power but the communist may "win World War III because they *know* they are in it." Many in the West do not know that we are already in a war. While we fumble back and forth between a policy of strength and of appeasement, every communist move is planned, with victory over us as the objective. To the communist high command every act of "trade" is part of a pattern of war strategy. Every act, as they have stated, is intended to weaken or destroy the enemy—meaning us.

Many people have become enthusiastic supporters of increased Soviet trade because they think they see a pot of gold at the end of the Soviet rainbow. But this talk is highly unrealistic, and does not take into account some of the basic facts about Soviet "trade."

First, it must be realized that trade is important mainly as a weapon of political warfare to the tough-minded communist rulers in the Kremlin. "We value trade least for economic and most for political purposes," said Khrushchev in 1955, and Soviet theoreticians have further emphasized the point. This has ominous implications for those who build up trade with the Soviet monopoly. They open themselves to Russian dumping in their markets, or dislocation due to loss of Soviet trade overnight.

This is explained by Professor Alec Nove of the London School of Economics in an essay in the January, 1959 *Lloyds Bank Review* of London. He says that, for political reasons, "Wool is bought from South Africa in preference to Australia because of the diplomatic quarrel with the latter . . . oranges which came from Israel before the Suez crisis are now bought in Morocco." Copper, tin and benzine have been dumped at below-market prices and wool has been bought in Afghanistan above the market for a purely political objective.

All the sound classical arguments about the advantage of increased foreign trade everywhere have no bearing on this problem. The guiding concept, as laid down by the communists, is warfare—political, economic, military, and propaganda. Until there is some kind of settlement, anything of benefit to the Communists (even though we might profit in a minor way) harms the United States.

The Soviets have insisted that increased trade is possible only if they get vast credits from the United States, whose government cannot find enough tax dollars today for its present needs. Judged by their record of dishonoring agreements, how good is a communist promise to pay in the future?

They especially want to buy heavy industrial products which are of advantage to them strategically, and machines of various types which can be pirated by their technicians and reproduced in Russia. The machines and other capital goods they acquire will then be used to make products which will flood markets all over the world, in competition with American goods.

Scripps-Howard reporter Charles Lucey reported in July, 1959 from London as follows: "The trend of Soviet industrial buying has been 'package deals'—that is, purchases not merely of individual pieces of machinery but of entire plans including a complete sequence of manufacturing processes." This is an important clue to their objective.

They would like us to provide plans and materials—or to actually build for them—factories which produce chemicals, synthetic fibers, machines, etc., etc. When they buy finished products, such as tractors, machine tools for making consumer products, etc., it is merely for the purpose of copying them.

In a report prepared for the Rand Corporation which does considerable research for the U.S. Government, it was reported in the spring of 1961 that the average Soviet standard of living in recent years in the Soviet Union has been about a third that of the United States. This is only slightly above the U.S. living scale in 1890. Apparently Soviet citizens have expressed discontent. Premier Nikita Khrushchev promised (in May 1961) that the Soviet Union would increase production of consumer goods. This is precisely what the ousted leader, Georgi Malenkov proposed in 1953, and was deposed from the premiership for saying so. Whether Mr. Khrushchev's promises will be fulfilled remains to be seen. But one thing is certain. In trying to fulfill that promise the Soviets are going to need plenty of western-made equipment and western techniques for the production of consumer goods. They will need plenty of imports—tools, model products and know-how which they can employ or reproduce for their own purposes.

Since the Soviets can send us very little we need, they insist upon our financing their imports. Khrushchev recently said, "We have no dollars or pounds." Technically that is correct, but he evades the truth. The Soviets hoard about $9 billion of gold which is convertible into dollars, pounds or any other currency at their option. Apparently they are holding this as a crisis fund—or as a powerful weapon against the West whenever they need it.

While the Soviets want credits from us, claiming they cannot pay in goods or gold, they are at the same time extending big credits to "underdeveloped" countries which they want to penetrate politically. They have agreed to give $2.1 billion of credit (not gifts) to these countries, of which $560 *million* was drawn upon in the last four years. Now the interesting thing about these credits is that the Soviets charge an interest rate of 2½ per cent, and their total value is far less than the *gifts* which the United States has handed to these countries. We have given billions away. The Communists have merely extended time for payment of Soviet goods, which are frequently inferior in quality. Yet judging by some foreign comment, the Soviets are in high favor abroad while American prestige is low.

If the Western World—especially the United States—expands its trade with the Soviet Union, it will be contributing to the development of Soviet resources which are intended for our destruction. It will help the Soviets to lend more money to the underdeveloped countries, to engage in propaganda and subversion all over the world. It is difficult to understand why we should help Khrushchev in his attempt to "bury" us.

# 2–

# Economic growth in a free society

*There is nothing new about economic growth to a country like the United States which has been bursting at the seams over a hundred years. Our phenomenal progress has been the example and envy of the world—especially since the turn of the century when we began to exploit commercially the great inventions of our time: electricity, the automobile, the assembly line, telephonic and radio communication, etc., etc. But the remarkable growth of this country throughout the past is now being minimized and we are told this is not enough. "Five per cent growth each year or bust!" seems to be the new slogan.*

*Basically the rate of growth is determined by the economic, political and social conditions which exist in a country. These conditions should give maximum encouragement for individuals to create, save and invest—for that is what causes economic expansion. People—not government—actually make the country grow, although government must see to it that there are no roadblocks in the way. It must establish proper tax and other laws which give people zest for working and incentive to save and invest.*

## WHAT IS BEHIND SPENDING-FOR-GROWTH

Big government spending is being urged in order to insure faster national "growth." But this very same spending policy was recommended in past decades by the same people as a sure-fire prescription for national health during depression, prosperity, and boom.

Suspicion is growing that the real objective sought by those who advocate the same prescription under all conditions is really more government control of the economy—especially control over what people buy with their earnings. Leaders of the government-spending school have frequently let the cat out of the bag by their public statements. For example, Arthur Schlesinger, Jr. who may be considered the philosopher of ultra-liberals, recently said, "There is nothing wrong about wanting to do things for consumers. . . . And," he added patronizingly, "Free consumer choice is fine." But "The question is whether these should be the dominating objectives of our society."

Now if free consumer choice is not a dominating objective of our society, what is? The reader has probably guessed it—the dictates of government officials about what we should want and what we should have. "We must decide," says Mr. Schlesinger, "whether we really want consumer spending to dictate our national priorities."

He says there is an evil "alliance between the big producers who live by the creation of consumer wants and big advertisers who have mastered the technology of creating wants where none existed before." His professorial ire is directed at voluntary organizations which cater to and encourage free consumer choice, and he imagines a dark conspiracy existing among them.

Democratic Senator Joseph M. Clark of Pennsylvania, one of the foremost advocates of government-spending-for-growth, recently said, "Our gross national production includes many items, such as liquor, cosmetics, cigarets and certain types of advertising which are either useless or downright harmful in terms of national strength." Plainly, the Senator does not like the way free citizens spend the money they earn. He believes that more of their income should go into the Federal Treasury so that the government might spend it for things which *he* prefers.

Professor Horace M. Gray of the University of Illinois, a leading New-Day Liberal, recently protested that "a considerable portion of personal consumption is unnecessary, frivolous, wasteful and harmful." The professor would be shocked at the implication that such a statement reflects a hidden totalitarian streak. But he can hardly deny that this is precisely the philosophy of totalitarian administrators. Totalitarians always complain that the public wants things it shouldn't have, and they assert that government officials know best what the public should have.

Perhaps the most revealing statement of all was made by Adlai Stevenson in approving Senator Fulbright's proposal for more government spending, both military and non-military. Mr. Stevenson said, "In making decisions on the allocation of resources the Russians have a considerable advantage over us because of the difference in the decision-making process in the two countries. There, it is centralized in a few men. Here, in its basic aspects, it involves all the people."

Mr. Stevenson's tone implies that democracy—involving "all the people"—is our national weakness. On the contrary, the strength of this country is in the very fact that decisions of all kinds "involve all the people." Even in military spending we have checks and balances in competition among the services. This minimizes the possibility of one big, catastrophic mistake.

In contrast to the statist concept is the view of former President Eisenhower, who has deep democratic instincts and faith in the ability of people to choose the right course. The President said, "Our federal money will never be spent so intelligently and in so useful a fashion for the economy as will the expenditures that would be made by the private taxpayer, if he hadn't had so much of it funnelled off into the federal government." Here was a simple, clear-cut statement that lays the issue right on the line.

In the past government spending was urged to offset our "mature economy"—which was supposed to be stagnant and would never grow again. (That piece of nonsense was current only a little over a decade ago.) Then it was government spending for greater prosperity under a so-called "compensatory economy" scheme. (But always there were deficits which were never "compensated" by surpluses.) Now it's spending-for-growth. The real purpose? Maybe it's just government spending to insure more government control of the people.

## INFLATION VERSUS GROWTH

Massive government spending, whatever its avowed purpose, has one result that is quite certain—inflation. People who believe in inflation usually disguise themselves. They know that the word inflation is unpopular, and they do not dare to indorse it openly. Instead they try to achieve their objective by hiding behind a more popular term.

The inflationists' new device is to wave the banner of what they call "growth." Of course, they say, we are against inflation. Of course, they assert, we are not in favor of zooming prices. But after all, they quickly ask, isn't growth the *really* important thing—shouldn't we achieve growth (with government in the driver's seat as planner and spender) *even at the expense of some inflation?*

By phrasing the issue this way they imply that inflation promotes growth. They imply that anti-inflationary measures and a stable or declining price level actually *prevent* growth. These assertions are made despite a long history which proves that the opposite is true. Inflation actually endangers sound growth. Much factual evidence on this growth-inflation subject is available, but in this brief chapter we have space for only a few instances.

Take the course of the Federal Republic of Germany and of Great Britain from 1948 to 1955. Germany turned her face against inflation and government control of industry while Britain, under a Labor Government, took the opposite course. The result of these divergent courses, which is recorded in a following chapter entitled "How Our Experts Almost Ruined Germany" provides a startling record for the world to study. Everyone now knows the phenomenal nature of the German recovery and prosperity.

Another historic instance of growth is the period in the United States from 1873 down to the turn of this century. During this time an anti-inflation policy caused prices to *decline* about forty per cent, while production more than doubled. These are just two instances of growth and anti-inflation going hand in hand. Other recent cases of anti-inflation coupled with growth are the Philippines, Burma, and Ecuador; while the opposite phenomenon, in which inflation throttles growth, can be seen in Brazil, Chile, Argentina, and many other countries.

The public statements of prominent people often reveal how widespread is the unthinking acceptance of the growth-inflation policy. Dag Hammarskjold, secretary-general of the United Nations, stated that modern industrial nations have been inclined to favor policies aimed at price stability instead of encouraging growth (note how he poses a false conflict). Price stability has not been well won, he said, if its cost is economic stagnation—even though the stagnation is on a high level. Mr. Hammarskjold's statement turns out to be a slightly disguised brief in favor of inflation, which has nearly ruined so many European and South American nations.

In this country, on the television program *Meet the Press* in 1960 Governor Nelson Rockefeller was asked whether he agreed with President Eisenhower that inflation is "the great issue of our national life." Gov. Rockefeller hesitated and said, "I'm not sure. I think this is certainly an integral part of the total issue. I think the economic growth of our country and the adequacy of job opportunities . . . are the root, really."

Now it certainly would be unfair to call the Governor an inflationist, although his liking for expanded, costly government activities is well known. But it is evident from his statement that he has come to the same fallacious assumptions that the inflationists make. His thinking is no different than that of the late Professor Sumner Slichter of Harvard, who must be given due credit for openly and honestly advocating "creeping" inflation.

Similar logic was employed by the Democratic Advisory Committee and by Mr. Leon Keyserling. They persistently urged cheap money, giant-sized government expenditure, and budgets unbalanced temporarily (they hoped) to create growth.

There is only *one* way to achieve growth—that is by increased savings and by increased investment in the tools of production. In this way there is a greater flow of goods resulting from every hour of human labor. Anti-inflationary policies encourage growth because people are inclined to save more when they have a conviction that the dollar they put aside today for future use will not be eaten up by the price increases of tomorrow. People save less when they are convinced that the dollar saved today may be worth only fifty cents or only a dime after many years.

Those who think that it is up to the government to create growth overlook the fact that increased economic growth depends upon the intelligence, work and thrift of individuals and corporations. People—not government—create growth. All the government can do is to encourage people to save and invest. This can be accomplished by curtailing government spending and encouraging sound fiscal and monetary policies. The evidence is plain that sound growth is achieved by fighting inflation, not by encouraging it. The so-called "miracle" of German recovery and prosperity is a good illustration of this important point.

## HOW OUR EXPERTS ALMOST RUINED GERMANY

In 1951 the United States State Department sent a commission of American economists to West Germany to investigate and make recommendations to that government on fiscal policy. Chairman of the commission was Professor Alvin W. Hansen of Harvard. Professor Walter W. Heller, who now heads President Kennedy's Council of Economic Advisers, joined the commission and is reported to have had a hand in writing the report. The world long waited to view this report, which was classified as a secret document. Many people had wanted to know precisely what measures for sound growth were recommended by Dr. Heller and the other economists, and to what extent the phenomenal West German prosperity was related to the prescription which they had given for Germany's economic health.

I had a special interest in this report ever since I heard Economics Minister of Germany Ludwig Erhard tell a small group of economists that the recommendations by American experts in the 1946-48 postwar period could have wrecked the feeble German economy. At that time West Germany was in ruins from war time bombing. Her people could barely find the necessities of life. West Germans had to share their scarce resources with several million of their former compatriots who escaped from the tyranny of the communist puppet government in East Germany. In accommodating itself to this vast influx, and in trying to meet the great problems of postwar reconstruction, the West German government naturally faced an immediate problem of high unemployment.

In 1948 our experts insisted that the only way out for Germany was to adopt inflation. But Erhard threatened to resign if this view was forced upon him, and the Americans backed away. Supporting Erhard, the German government insisted upon the opposite course—upon the maintenance of a sound currency, a balanced budget, the elimination of price controls, incentives to business and individuals to save and invest, and encouragement to private enterprise rather than government directed economy. The rest is history. Erhard won the battle in 1948, and Germany went on to become the most prosperous nation in Europe.

The Hansen-Heller report was declassified in April 1961. Finally we could find out precisely what economic prescription our experts advised for the struggling West Germans in 1951. Here are some of the recommendations in the report: (1) That Germany had an "excessive concern for price stability." It tried to egg the Germans on to more inflation and said that they (the Germans) tended to "confuse wartime inflation with the normal operation of peacetime credit." The Germans would have none of this. They kept the lid on the money supply and refused to pursue a cheap-money policy. Germany had less inflation than any nation in Europe, and as a result she had more prosperity. (2) Our economists told them that "a rate of interest high enough to stimulate any large volume of personal savings would seriously curtail investment." The Germans scoffed at that idea, and they encouraged savings by a high rate of interest. Instead of German investments being curtailed they were expanded. German industry made the most rapid strides in Europe.

The Germans allowed fast depreciation of capital investment and gave special inducement to corporations to increase their investment in new plant and equipment. The American economists objected to this, saying that "it was an expenditure of tax funds which would otherwise have been collected by the government." Always the Americans suggested that the government should be dominant in the economy. The Germans completely disregarded this recommendation and went their own sweet way to prosperity.

Finally the American report said that "the nostalgic hopes

... looking toward a revival of the nineteenth century role of a capital market are doomed to disappointment. The capital market plays no such role in any modern country and there is no prospect that it will." This is probably the most ridiculous statement in the report. It reveals the deep prejudice of American economists in favor of government action rather than individual action.

The capital market has since become the mainspring of German prosperity. It is also certainly the heart of American progress. But plainly Dr. Heller and his associates never had any confidence in the heart of the private capitalist system—the private capital market.

### A LESSON FOR THE U.S.—GROWTH AND STABILITY

When I first commented in my column on the 1951 Hansen-Heller report on Germany, my purpose was not to embarrass the chairman of President Kennedy's Economic Council, although that may have been one result. Rather, my intention was to direct public thinking to the basic question of whether the economic philosophy represented by the Heller school of economics is right or wrong for the United States. This Heller school type of thinking dominates the administration, and therefore the question is pertinent. Will it lead to a high degree of prosperity and maintain the free economic system in the United States?

The important point is that the Hansen-Heller report urged Germany to engage in deficit spending, to maintain a cheap money policy, to enlarge government economic activity and shrink the private area—the same policies which they advocate today for the United States. Economics Minister Erhard summarily rejected this advice. Instead he adopted a policy of balanced budgets, monetary restraint, encouragement of private enterprise, and incentive for individual effort. The result was what became known as "the miracle of German recovery." The progress and prosperity of Germany has been unequalled in the entire world. Shouldn't America follow Dr. Erhard's course and spurn the kind of economic nostrums that could have ruined Germany?

The first thing the Germans did was to institute currency reform and establish a hard, new Reichsmark. They vowed that they would never engage in inflationary government spending or inflationary monetary policies which would rob people of their earnings. Then, with sound money as a base Dr. Erhard said, "we decided upon and re-introduced the old rules of a free economy, the rules of *laissez-faire*. We abolished practically all control for allocation, prices and wages and replaced them with a price automatism controlled predominantly by money."

Imagine throwing out wage and price controls as early as 1948! When the United States eliminated controls five years later we were told by so-called liberal economists that this action would result in catastrophe.

Tax rates in Germany were reduced—to provide greater personal incentive—to a point where the top individual tax rate was no more than fifty per cent. German depreciation allowances were permitted on business investment—although our Fair Deal "experts" said at the time this was bad. German interest rates were kept high to encourage savings and investment. German government expenses were held down and balanced budget was maintained. These policies were scorned by our experts.

What was the result? From the moment, in 1948, when our Occupation Authority's authoritarian controls on the economy were abandoned, vigorous recovery began in Germany. In ten years production more than doubled and *real* wages—earning power—also more than doubled. By 1958 the Bonn government offered its citizens the right to buy ten and twenty gram bars of gold for 57 and 112 marks respectively. There was no rush for gold because people had faith in the soundness of the mark.

A comparison of those years with the situation in Britain under the Labor government in power at that time is interesting. Britain pursued the opposite policy. According to Economist David McCord Wright, British prices under inflation (1948-56) increased forty-five per cent while German prices *fell* five per cent. While real wages in Germany more than doubled, British workers got barely a ten per cent increase. Under Germany's lower-cost production her manufactured exports rose from seven per cent of the world market to over fifteen per cent. Her gold and dollar surplus soared, while the British declined.

But could this pace be maintained in 1960? people asked. The answer is that 1960 was one of the most prosperous years in German history. Her total product increased eight per cent in real terms—a fantastic record. There was no unemployment—the in-between-jobs registrants totaled less than one per cent of her work force. In 1960 her exports increased by fifteen per cent, and she had a trade surplus of over a billion dollars. There is no record to equal this in the entire western world.

Why, then, do we in the United States give heed to advice that might have ruined Germany had it been taken? We are now advised, as Germany was, to spend ourselves into prosperity by way of government deficits. We are told that governnment must spend more of the national income and individuals must spend less.

Our tax rates choke business and curb individual effort, but they say that high taxes are necessary because high government spending is essential. Our depreciation schedules restrain industry investment in new plant and equipment—which is the very foundation of a higher standard of living for everyone. Yet administration economists refuse to revise these schedules basically and instead come up with a piddling credit which is merely a gimmick.

Administration economists urged a new law which would tax as income in the year property is sold, all the depreciation allowances which have accumulated over the years. This is economic lunacy, for it would freeze capital investment, depress real estate and other values, and spur contraction rather than expansion.

Germany proved that sound monetary policy encourages growth. Our New Frontier economists do not believe this. German experience proves that dynamic growth can be achieved by employing sound classical economic measures. But administration economists today give no sign of understanding and believing these principles.

## THE "GROWTH" DEBATE—WHAT IT REALLY MEANS

What is at the heart of the argument about the rate of national "growth"?

A forthright—and a most interesting—answer to this question was given by Walter Lippmann in his syndicated column in June, 1960. To appreciate the importance of his analysis the reader should remember that Mr. Lippmann is a staunch advocate of a government managed five or six per cent national growth rate. During the last presidential election, he repeatedly chided President Eisenhower and Mr. Nixon for their refusal to subscribe to this idea.

What, according to Mr. Lippmann, is the heart of the problem? In the boom resulting from aggressive government spending and cheap-money policies used to stimulate the economy, he said in his syndicated column, the demand for labor would often exceed the supply, and wages and prices would be bound to rise, especially in the big industries. With the economy under forced draft and the government whipping up activity, continued Mr. Lippmann, *"we shall be driven inexorably to some kind of public supervision of price and wage agreements."* This is a frightening and significant prediction. Mr. Lippmann goes on to assert that Mr. Rockefeller sensed the necessity for "public supervision" and that was why he came out for compulsory arbitration in labor disputes. With inflation active, continued Mr. Lippmann, there would be distress and instability unless some powerful government agency told workingmen what they could earn and told industries what prices they could set. In short, with inflation there would also have to be compulsory arbitration.

The Democrats were quite aware of these facts, Mr. Lippmann said, but they realized that compulsory arbitration is unpopular with both unions and business. Therefore they did not ask for it. But, he asserted, *"they will not be able to escape from other forms of controlling price and wage increases."*

Think about these statements and their implications. Here we have the whole story in a nutshell. Government control of the economy and inflation is acknowledged to be the inevitable result of trying to achieve a government-directed five or six per cent annual growth rate. This frank confession is made by one of the foremost advocates of the forced five per cent national growth rate.

No doubt advocates of a forced five or six per cent growth rate think that the effects of inflation resulting from such a policy would be bearable and controllable. But such a hopeful attitude is really naïve. The experience of every nation in the world including our own denies such a probability. Everyone can recall the black markets, the corruption, the shortages, the bureaucratic inefficiency of our price-wage control era. This was a national scandal until Congress, under the urging of President Eisenhower, threw it all out when he took office in 1953. Furthermore, for a nation to give over practical control of its economic system to government functionaries in a non-war period is a long step toward outright collectivism.

But if any administration should actually commit itself to such a policy it would have to bear the full consequence. Inflationary action in the United States would have repercussions throughout the world, because we are part of a world community of nations. The United States Treasury has poured out billions since the end of World War II in order to establish some degree of order in world financial and commercial markets. Finally free convertibility of key currencies at least for current accounts was achieved. Is it not clear that if we now adopt a one-way route to inflation, we will destroy this laboriously built edifice?

This is how it would happen. The inflationary spur to a five per cent or six per cent growth rate is a plentiful supply of cheap money. Artificially cheap money in America, while interest rates are maintained at an anti-inflationary, higher level abroad, would naturally cause a vast outflow of dollars in search of greater returns. Our inflationary policies would cause a massive withdrawal of gold from the United States and a serious dollar crisis.

Foreign nationals and governments have on deposit about $21 billion in the United States in one form or another. We are still running a deficit in our balance-of-payments account. Our total gold stock, which must act as a reserve for our currency, totals little more than $17 billion. We cannot afford to lose much more of it. A national policy of stimulating growth by way of inflation in this country would cause chaos in international markets. The United States would be the biggest loser in the resultant world disturbance.

If a government-directed five or six per cent growth rate means the re-establishment of wage-price and other controls, dangerous inflation and a probable international monetary crisis—hadn't we better look for a sounder way to achieve progress? There are such ways, and the evidence for them is plain.

### THE RUEFF PLAN IN FRANCE

While almost every week some American business executive or university professor makes a statement that "an all-out offensive in favor of growth" is necessary and that we had better stop worrying about "the myth of price stability," there is obvious proof throughout the world that the *opposite* course is the only one which will promote prosperity, political stability and sound growth.

First there is the case of West Germany which we have just discussed. Germany's prosperity has been called a "miracle" —but it is simply the result of following the sound classical economic policies which we examined. In France successive governments for over a decade tried the elixir of inflation. The country found that it made France weak instead of strong. Then, beginning in mid-December 1958, France adopted a plan submitted by economist Jacques Rueff, which abandoned a vast machinery of government interventionism which had gone along with inflationary government spending and credit expansion.

The French history of growth-through-spending-and inflation had by then placed this once strong nation in grave jeopardy. For more than ten years prices had continued to rise, although subsidies handed out to producers to hold prices down continually increased. "Escalator" clauses, which tied income to a price index, multiplied—everybody tried to beat the inflation. The government couldn't sell bonds to the French people. Workers were dissatisfied. Exports fell off because prices were getting too high, while imports increased. In the two years before France changed her economic policy under the Rueff plan she lost over $1.5 billion in gold and hard currencies—more than half of her total reserves.

"The idea that France alone in the world should be characterized by a kind of congenital inability to earn her daily bread by her labors is simply absurd," said Mr. Rueff. He outlined a course of action that would not only reestablish financial stability but would also modernize productive equipment, improve scientific research, increase needed housing and raise the standard of living in the colonies.

At the start of his plan Mr. Rueff pointed out that the key to growth, prosperity and progress is just one thing—more savings to be invested in capital improvements. "We have inflation because there are not enough savings coming to the market," said Mr. Rueff. "There are not enough savings coming to the market because we have inflation." His plan proposed to break the vicious circle.

In order to curb inflation the plan provided (1) an immediate reduction of fifty per cent in anticipated borrowing by the Treasury; (2) an end to subsidies to producers; (3) reliance on free prices; (4) increase in some taxes; (5) stimulation of foreign trade by abolishing ninety per cent of all quota restrictions; (6) immediate ten per cent reduction in tariffs. There was one other important step. The government suppressed, by public decree, all "escalator" arrangements which tie remuneration to a price index. No automatic link between income and prices was permitted because these "escalators" accelerate the pace of inflation.

How has the plan worked? The results have been remarkable. Price increases were greatly slowed down. The French franc became strong and readily convertible into other currencies. French exports soared. More than $2 billion of gold and other hard currencies flowed back into the French Treasury. Although many readjustments are still to be made the net result has been a return of confidence, based on increased savings, increased exports, and increased economic health. In 1960 France's balance-of-payments on goods and services showed a surplus of $637 million. Her reserves of gold and convertible currency increased by $347 million.

There are important lessons for the United States in the French and German experience. When a country finds it difficult to sell government bonds, when its prices are rising, its trade balance is unfavorable, and gold is flowing out of the country, the nation must take steps to remedy the situation before serious damage is done. The way to assure prosperity, stability, and sound growth is to halt inflation, not to encourage it.

# 3–

# Welfare and education

*The word "welfare" is as elastic as a rubber band. It can be stretched to cover nearly everything that goes on in a country. In fact the word has been stretched to its limit by Congress and the Supreme Court in their interpretation of the clause in the Constitution which says "Congress shall have power . . . to . . . provide for the . . . general welfare of the United States."*

*So much has been said about the necessity of* government *providing welfare that most people rarely think it is they themselves—as individuals and as voluntary groups—who really provide for the welfare of the country. This subject is treated in the following chapters which include discussion of one very basic contribution to the nation's welfare—education.*

## WHO PROMOTES OUR NATION'S 'WELFARE'?

Newspapers are filled these days with discussions about promoting "welfare." Invariably this word appears in connection with some government action. There is talk about "welfare legislation" or "promoting welfare," or "advancing the welfare of the country" and always the implication is the same—unless action is taken by the government there can be no improvement in welfare.

This is a curious state of affairs. If improved welfare means—as it does—better living for everyone, who really provides it? Who provides the countless improved conveniences of life—from automobiles and wonder drugs to electric dishwashers and frozen foods? Who provides the means by which people get more education, more medical care, more opportunity for expressing themselves and making progress in life according to their own lights? Plainly, it is business and professional organizations and the people who work in them who advance everybody's welfare and give us the remarkable kind of life which exists in this country. The government has had little to do with this throughout our national history.

The word welfare has been so widely identified with government action exclusively that even as staunch a defender of private enterprise as Senator Barry Goldwater permits himself to fall into this trap. In discussing public policy in his admirable book, *The Conscience of a Conservative*, he says: "I do not undertake to promote welfare, for I propose to extend freedom." Here the Senator has posed a false choice—a choice of welfare *or* freedom. But people can enjoy *both* under private enterprise, for true welfare is promoted by people's economic and other voluntary activities.

The Senator is, of course, correct in stating the choice between the maintenance of freedom and extension of the power of central government. This great power is advanced by giving government-paid-for privileges to some groups at the expense of others (so-called welfare legislation).

Who really promotes the country's welfare? The people who run the great supermarkets of this country, providing wholesome, inexpensive foods for everyone (at a net profit of less than two cents on each dollar of sales) have done more to promote welfare than all the government legislation ever devised. Manufacturers who have spread over the land such conveniences as dishwashing machines, electric vacuum sweepers, air conditioners and a host of other items to improve daily living, are in the forefront of the promoters of welfare. People and business organizations in this country who have labored for generations to save and invest in improved tools and techniques of industry should get medals for promoting welfare. Unless this capital had been saved and invested we could not now have the good life we lead. Still more wealth-producing capital investment is necessary if we are to pay for more doctors and hospitals, more educational institutions as well as churches and ministers who offer spiritual welfare.

To what extent do government-paid-for privileges (which give special advantages to some groups over others) meet the definition of welfare at all? Is it promoting welfare to rob Peter to pay Paul? If a young married man scraping along on a modest salary must pay for the support of some older person who can very well afford to pay for himself, or if he must pay for someone else who has no right to be on the federal payroll, is the general welfare advanced?

Soundly administered insurance plans—whether for old age, or medical care—can certainly contribute to welfare, but we know that the projects now in effect, or proposed, are not planned that way. They are really currently collected tax funds which are assessed against the productive in behalf of those who are not productive. This certainly describes our Social Security system. Such pools of currently collected tax money are really a redistribution of current income. They prevent hardship in some cases. But if we are to promote the general welfare—everybody's welfare—we must think of measures and institutions which actually create income and give everybody an opportunity to improve his standard of living. We must give the prize for advancing "welfare" to individuals and voluntary associations who, by their savings, investment and work translate the creative spirit of man into better living, more leisure time and greater opportunity for artistic and spiritual expression.

## HOW TO ACHIEVE AN "AFFLUENT SOCIETY"

In discussing "welfare" we must be careful to note a semantic trick which is practiced by many clever advocates of more government intervention in economic affairs. They identify welfare exclusively with the activities of government. Thus, they reason, we must expand the "public sector" and shrink the "private sector." This phraseology clearly suggests that the plentiful and wonderful things produced by American industry are not of public benefit. Only the contributions made by government in the so-called "public sector," they imply, contribute to the public benefit. Plainly this is untrue. It is merely a manipulation of words—a semantic trick.

No one has done more to spread this confusion than John Kenneth Galbraith, a Harvard professor who was appointed U.S. ambassador to India.

When a Harvard professor writes a book on economics and makes policy recommendations, only a limited audience is usually interested. But when that professor happens to be John Kenneth Galbraith, who is a prominent theorist in the service of the Democratic Party and in the creation of the new liberal ideology, his ideas become of greater importance, and soon are reflected in the actions and the statements of leading political figures.

While Professor Galbraith makes some clear but controversial observations on taxes, unemployment benefits and related minor topics, the central thesis of his book *The Affluent Society* is strangely confusing. His main point is that this country cannot solve its major economic problems by more production, because we are already an "affluent society." What we are really after is not full production, he says, but full employment, national security, and less inequality. We do not necessarily gain these ends by more production, according to Professor Galbraith.

After minimizing the importance of production, Galbraith throws the reader a curve by saying, "As a source of income for people its importance [production] remains undiminished. This function of production must be carefully safeguarded."

Well, if production is necessary for income, why attack it and say we have too much of it? The answer is that Professor Galbraith, like many other people today, simply does not like *some kinds* of production. He does not approve the things which people buy today, and their manner of living. Basically he wants a society regulated according to his own tastes and prejudices. Whether this is a truly democratic philosophy the reader will have to judge for himself.

"Our concern for production," Galbraith says, "is traditional and irrational. We are curiously unreasonable in the distinctions we make between different kinds of goods and services. We view the production of some of the most frivolous goods with pride. We regard the production of some of the most significant and civilizing services with regret." He gibes, "alcohol, comic books, and mouthwash all bask under the superior reputation of the market."

At another point he says that "increased output satisfies the craving for more elegant automobiles, more exotic food, more erotic clothing, more elaborate entertainment—indeed for the entire modern range of sensuous, edifying and lethal desires." The author has a tendency to describe what he does not like as "sensuous, edifying and lethal."

Professor Galbraith's idea is that less money should be spent according to the judgment of people who earn the money (the so-called private sector) and more should be spent according to the judgment of public authorities (the so-called public sector)—especially the federal government. What worries most people is that more than one-fourth of the national income is already being spent by the government today. This hardly seems a niggardly percentage to be levied against everyone's income.

The economy envisioned by Professor Galbraith is one in which payments for unemployment would increase to each individual as unemployed totals grow. Thus, at times, unemployed workers would receive amounts equal to their entire working salaries.

He admits that labor union pressure would then increase to make these maximum payments a minimum. But he dismisses this threat and says it is the kind of chance we must take to achieve "social well-being." In line with his general philosophy that the economy must be less free and more closely managed he recommends controls where necessary. The fact that controlling one price inevitably leads to controlling another and that *limited* controls cannot exist for any length of time, is not even discussed.

In his chapter on inflation Galbraith achieves some kind of record by talking about inflation for sixteen pages without once mentioning the heart of the problem—increase in the supply of bank-created dollars which of course is the deciding factor. When, in the next chapter he does get around to discussing monetary policy, his solution is naturally for extensive additional controls. Whatever subject he discusses, Professor Galbraith's solution is for more detailed control of the economic process by some government body.

There is no doubt that this country is better off today than any other in the world or any other in history. But who and what is responsible for this? Government did not do it. Planning by federal agencies did not do it. It is due solely to the institutions of private capitalism, to *individual* work, to thrift, to enterprise, to production, to capital accumulation and investment.

Although Professor Galbraith does not follow the Marxian ideology, nevertheless he makes the same cardinal error as Karl Marx before him. They both assume that increased production can be taken for granted. But this is not so. It must be nurtured and encouraged.

Although American workers are the highest paid in the world, nevertheless a large segment of our people do not live in luxury, as Mr. Galbraith assumes. According to latest Government figures approximately eighty per cent of total revenue derived from the personal income tax comes from those whose net income bracket is less than $6,000 a year. This income can be greatly improved in the years to come if we pursue the proper economic and political policies. The way to insure that improvement is to restrain government spending and to encourage production in accordance with free-market principles. Then let the people decide what they want to do with their own earnings, what products they wish to buy, and how they will use their savings. Only in this way can the free enterprise system of the country remain free and our capital reserve grow in sound proportion to our increasing population.

## MORE CAPITAL—THE SECRET OF WELFARE

A great many editorials are written these days about magnificent prospects for the economy in 1970. If we continue to increase productivity at a rate equivalent to that of the past ten years, then the projection into 1970 calls for a total production of goods and services at an annual rate of about $700 billion—instead of over $500 billion now being produced. It must be understood that this estimated gain would be in stable dollars of current purchasing power, not depreciated by inflation.

But in making these projections into the future many forecasters take for granted what really cannot be taken for granted—that people will save at a very rapid rate and accumulate the enormous amount of capital which will be essential to achieve this goal. It will require vastly increased investment in plant, machines, tools, power, and other basic means of production to develop the expanded income which is anticipated. The welfare of a nation depends upon savings and capital investment.

The need for more capital can be grasped from two elementary facts. Today over $14,000 of capital investment is required to provide the necessary tools, plants, inventory of materials, and other productive factors which are required to back up each job-holder in the United States. Also, it must be remembered our labor force will grow at the rate of about 1.5 million workers annually over the next ten years. If this country is to remain stable and productive, it must have the tools and equipment to provide jobs for these workers. During the past ten years industry invested over $300 billion of capital in plants and tools. To provide adequately for workers in the next ten years will require over $500 billion. These future capital requirements represent far more money than can be raised if savings are maintained at the rate which has become more or less established in recent years. The rate of savings will have to be stepped up.

Unless the savings are forthcoming there will be a temptation to manufacture the money. It would have to come from commercial banks or from government deficits—and dangerous inflation would result if the deficiency were great. Sound growth can come only through industrial progress based upon real savings.

This is a simple statement of an important problem. In it the reader will find revealed the reason why interest rates throughout the world are so high, and why governments try to put a brake on increased borrowing. The demand for new money in almost every nation today seems almost insatiable. A great part of the trouble is that people are consuming too much of current production and are not saving enough to provide the capital equipment they need for a higher standard of living.

The great need for capital coupled with the current low rate of savings highlights a fallacious theory which was accepted as gospel fifteen or twenty years ago, and which still holds sway in academic circles. This is the theory of John Maynard Keynes, well known British economist, who maintained that the villain in the economic system is the *surplus* of savings. Keynes maintained that there just cannot be enough investment opportunities for all the money which people save.

He claimed that as personal incomes increase, savings will increase at an even greater rate. This theory is positively disproved by the history of the years from 1951 through 1954. Personal income increased from $255 billion to $303 billion. Savings during that period dropped from 7.8 per cent of disposable income to 6.3 per cent and never increased in any single year despite the growth of income. It does not seem to be true that people necessarily save more money as they earn more. Keynes' theory was called a *general theory*—that is, good for all times and all places. It is hard to believe that this false theory, which was based upon the evil of too much savings and the lack of investment opportunity, could ever gain such wide acceptance among economists. But the record shows that it did.

Today it is apparent that the real problem is how to get more real capital and how to employ this scarce capital to best advantage. Keynes' system was built upon the idea of the imminence of *deflation*, whereas today the problem is how to limit the supply of money because we must prevent *inflation*. This is a curious twist of circumstances, but a realization of the true facts is necessary, so that governments can take proper measures to protect the economic health of their nations.

Since capital must play such a tremendously important part in achieving the $700 billion economy in 1970, then it seems clear that savings will have to be generously compensated. This means that the cost of hiring capital—interest rates—will have a tendency to remain on the high side. While governments may hold interest rates down temporarily by powerful manipulation, they do so only at the risk of more inflation. Artificially cheap money means inflation, and governments—even welfare governments—dread the result of monetary inflation, which is rising prices. Therefore, in the decade ahead, we should expect a high level of interest rates. After all, capital accumulation is the basis of improved future welfare, and capital accumulation is encouraged by a high rate of return.

Capital accumulation, flexible interest rates geared to the market, the maintenance of a free market which quickly equates supply to demand and the other factors we have been discussing, are essential for a dynamic free enterprise country. It is surprising that any literate person today can be ignorant of them, but there are many in America today who seem never to have had the economic facts of life presented in understandable terms.

## WHAT DOES AMERICAN EDUCATION TEACH ABOUT FREE ENTERPRISE?

There is no doubt that education is a most important factor in advancing the welfare of a nation. But education for what? The concepts which are taught in our schools and colleges are eventually translated into programs of political and economic action which lead us toward freedom or away from it. While we seem to be preoccupied with the question of Federal aid to education to increase teachers' salaries or for new buildings, many parents are becoming alarmed about the *quality* of the product itself—the quality of the educational program.

The Brookings Institution reported in 1958 that less than five per cent of high school graduates have had any training whatever in economics. This is a sobering fact in a world where economic issues so largely dominate the political scene and the life of the nation. But this lack of education in the principles of economics, deplorable though it is, is not the most harmful aspect of the problem.

Even more harmful is the teaching of distorted concepts and collectivist ideas wherever economics is taught. Judging by opinions expressed by high school students in various surveys, we would say that there is too much of this type of teaching, which undermines the student's faith in the free enterprise system.

Opinion Research Corporation of Princeton, New Jersey, questioned high school seniors about the free enterprise system in 86 schools scattered throughout the United States.

Here are some of the results: (1) 61 per cent said that the profit incentive is not needed for the survival of our system. (2) On the question of the best way for workers to raise their living standards, only 43 per cent said produce more, while 56 per cent said get a larger share of the employer's income. (3) On the question should a worker produce all he can, 62 per cent said no. (4) 55 per cent of the students endorsed the doctrine (originated by Karl Marx) "from each according to his ability, to each according to his needs," as a good plan of compensation in industry. (5) 76 per cent said that "most of the gains from new machinery go to the owner." (6) 60 per cent said owners get too much of the profits of production, while 82 per cent said we have practically no competition in business.

A United States Chamber of Commerce survey of 39,000 high school students of 12 states revealed the following facts: (1) 50 per cent felt that steel, coal and oil industries should be regulated by the government. (2) Only 37 per cent felt the schools were teaching proper understanding of the American economy.

Even though we make generous allowances for the possibility of error in these surveys, for the manner in which the questions were asked, and other possible causes of inaccuracy, we must come to the conclusion that high schools are doing a far from adequate job in this area. In some cases they are actually perverting the students' ideas on the nature of the free enterprise system.

Do schools teach that private capitalism—which makes the consumer king and fragments power so that individual freedom is preserved—is essential for the preservation of human freedom? Or are they apologetic about capitalism?

It is highly important that a basic training in sound economics should be a prime prerequisite for graduation from high school. Students should get an understanding of the nature of productivity, and the fact that increased productivity alone must account for an increased standard of living for everyone.

They must be taught that only capital accumulation converted into machinery and equipment makes possible high productivity, and that socialist schemes of "share the wealth" or "share the income" (no matter how they are disguised) lower the standard of living; that purchasing power and production are two sides of the same coin, and that the only way to increase purchasing power is to increase production. In short, students must be taught the economic facts of life.

As basic texts, high schools would do well to use Professor Fred Fairchild's *Understanding Our Free Economy*, and that classic little volume *Economics in One Lesson* by Henry Hazlitt, as well as *How to Think about Economics* by Clark and Rimanoczy of the American Economic Foundation. For collateral reading, students (and teachers too) would profit by studying Dr. Lewis Haney's *How You Really Earn Your Living*, which answers economic questions soundly and simply. These straightforward texts take the mystery out of such subjects as money, production, inflation, and other phenomena of economics. More important, they assert positively, and give convincing evidence, that free enterprise—not government control of industry—is the road for a freedom-loving people.

Courses in "social studies" with a smattering of economics are no substitute. In fact, students frequently come out of these courses lukewarm—and even hostile—to the principles of private capitalism and the free market.

At the end of their high school education, students should have a healthy respect for the system of private capitalism—first, because it is the only system compatible with human freedom; and second, because it has proved the most efficient system ever devised for providing goods and services for everyone. Are students today being given a fair opportunity to form an understanding of these facts? In our opinion the answer to this question is definitely no. But it is not only in the secondary schools that the problem of teaching sound economics arises. In most American colleges the teaching of economics leaves much to be desired.

## NEW MONOPOLY IN COLLEGE TEACHING

When a leading New Deal publication like the *New Republic* features an article attacking academic "liberals" for their intolerance of opposing ideas, and for their responsibility in forcing upon college students a lopsided, exclusively "liberal" point of view that certainly is news—and its significance should not be underestimated.

Before discussing Professor Morton Cronin's article which appeared in the *New Republic* sometime ago, it might be well first to cut away some ideological underbrush. Ideas espoused by those who call themselves liberals today have little identity with the principles established by the great liberals of the past—men like John Locke, John Stuart Mill, Lord Acton and others.

The new-day liberal has simply appropriated the word "liberal," although his own beliefs are diametrically opposed to those of historic liberals. Historic liberals feared the power of the state and the extension of executive power while new-day liberals are in favor of extending the power of central government. Historic liberals stressed the importance of the individual, while the new liberal is a statist. Historic liberals insisted on the operation of the free market and the protection of private property as necessary for the preservation of political freedom. The new liberal urges more state controls, and he is more concerned with collective action than individual freedom. Many more contrasts could be made, but these are probably sufficient to point out the confusion existing in the word "liberal."

What is Professor Cronin's charge against the modern liberal? He says "Society has a great stake in truth; truth is elusive; the wise policy is one of wide accommodation for all schools of thought." But, he says, it is the faculties themselves which decide what shall be taught, and these faculties in our leading universities are dominantly and almost exclusively new-day liberals.

They "generate within themselves such coercive pressure toward conformity that the range of opinion that is effectively expressed among them is decidedly narrow." Their new-day liberal ideas have become the "local orthodoxy." For instance, "liberals have done superb service in scrutinizing the moral foundations of American business . . . but on the campus a professor would feel a decided coolness if he made a similar scrutiny of the practices of labor unions." There has developed a "tyranny of liberalism" which practically excludes from its academic world all other ideas, although these opposing ideas are represented by a truly great tradition, and by many teachers of great scholarship and reputation in the academic world today.

The new-day liberal philosophy is taught in all the social studies and it is a powerful factor in the field of economics. Here, too, the accent is not on individual initiative, individual profit, individual savings, but upon the "aggregative" economics and the "mixed economy."

With rare exception, the colleges of this country base their teaching of economics upon textbooks which expound the ideas of the "new," so-called liberal economics, such as *Economics—An Introductory Analysis*, by Paul Samuelson; *The Elements of Economics*, by Lorie Tarshis; and *Income and Employment*, by Theodore Morgan. No student nurtured on these texts is likely to come out with a healthy respect for private capitalism. According to these books profit is not the reward for enterprise, but comes from "a contrived scarcity." The individual's right to engage in business of his own is derided. Dr. Morgan says "The right of a man to engage in business for himself is not a basic freedom." Individual savings are scorned and a large public debt is praised. Dr. Samuelson says "There is no technical, financial reason why a nation fanatically addicted to deficit spending should not pursue such a policy for the rest of our lives and even beyond."

It is a sobering fact that this kind of economics is taught in practically every leading university in this country with a few notable exceptions such as The Graduate School of Chicago University, with such outstanding teachers as Dr. Milton Friedman and Dr. George Stigler; several Graduate Schools of Business Administration; and an occasional undergraduate department such as that of the University of Virginia.

The important question for the country is this: Should any special doctrine like new-day liberalism have a monopolistic hold on higher education in this country? Shouldn't students be exposed to other points of view also? Shouldn't faculties be chosen with a view to proper balance? Now that the new-day liberals themselves are raising this question, as Professor Cronin has done in the *New Republic*, there may be some hope for a change.

# 4–

# Producing the goods in a free society

*Anyone who understands the ABC of economics knows that we can provide a higher standard of living for everyone only by increasing everyone's productivity. The idea that the redistribution of income is the way to increase the income of all workers has been proven to be a hoax. Even the socialists do not believe that these days.*

*So the question is, by what practical measures can productivity be increased? In exploring this subject it is necessary to analyze the fundamentals of a free-market system. The basic factors of savings, investment, wage rates, prices and profits all enter into the analysis. These are the subjects which are briefly discussed in the following pages.*

## THE ROLE OF AMERICAN INDUSTRY

Every blueprint for a completely new economic system, or for radically modifying private capitalism by government intervention, is always based on one simple, fallacious premise. The assumption is that increasing production at low cost is no problem at all.

The theory is that regardless of what government does in taxing income or in regulating production and prices, productivity will increase, the worker's standard of living will improve and the horn of plenty will continue to give us all we need in abundance. This error was made by Karl Marx, founder of modern Socialism, who advocated the overthrow of private capitalism and it is also made by Galbraith, who is not a socialist, but who wants to reform capitalism in his own image. The same fallacious concept runs through the writings of Arthur Schlesinger, Jr. and practically all the acolytes of the New Liberalism.

But anyone who understands the operation of industry must realize that an affluent society cannot remain affluent long, unless industry is properly encouraged. Increased productivity cannot be taken for granted, but given the right climate free industry can perform wonders.

Industry performs its miracles by the introduction of marvelous new machines and techniques which cut the cost of production, improve output per manhour and improve everyone's standard of living. This requires vast sums for current expenditure and capital investment. Five years ago about $3 billion was spent in a year on research, today more than $13 billion is being spent. Today investment in new plant and equipment is running at the annual rate of about $35 billion, and it has been as high as $37 billion. But this is only the beginning of the story. If we are to continue to improve our standard of living, and if we are to continue to stay out front in the race with the communists, continued perfection of machines and techniques in industry and a prodigious investment of capital must be made.

The magnitude of the job ahead is revealed by authoritative surveys, which estimate that it will cost $95 billion just to replace obsolete equipment in industry today, and the total required will be $135 billion over 5 years. Industries must cut costs and improve their products, or they will not survive. New machines and new techniques are the answer to that problem.

Today too much of our industrial plant is outmoded. Almost fifty per cent of our present equipment was installed before the end of World War II—and machines of that era are comparatively about as efficient as a hand-mower. In the chemical industry, where improved methods and machines are vital, less than half the plant capacity is new since 1950. The key to the problem is that modern machine tools are about forty per cent more productive than 1948 models. On our railroads over sixty-five per cent of the freight cars are more than ten years old and freight yard equipment is antiquated. Yet it has been estimated that costs can be cut almost in half with new freight cars and modern freight yard equipment.

These statistics must be read against the background of coming increases in population of about 32 million in the next ten years, the expectation of higher standards of living, and the certainty that there will be fewer workers in our population and more dependents.

"You can be sure of one thing in industry," said a vice president of the Celanese Corporation. "If you stand still for two minutes, somebody's racing ahead of you." This sums up the sentiment of executives in practically every industry—and that is why everyone is racing against everyone else.

To a non-technical mind what is happening in American industry is nothing short of a miracle. In oil refining, for instance, one company spent $50 million modernizing its plants. A leading business magazine briefly describes this process of modernizing as follows: "First in the chain of instruments installed in those plants are sets of on-stream continuous analyzers. These reach into the process stream and feed back to a central control room. Information on the octane rating, the composition, and even the color of oil products flow through the lines. Before these instruments were installed workers at the refinery six times a day tapped the flow, took back samples to laboratories to have them analyzed, and then switched valves to make the change in the production mix . . . each check took between thirty minutes and two hours. And since the refinery ran at 1,000 barrels a month, there was a wide gap for error."

Similar production miracles are taking place in other leading industries. This means increased productivity and a higher standard of living for everyone. It is a misnomer to call this "worker productivity" because it is really made possible by managerial skill, new inventions, and the use of new machines which are made possible by the savings and thrift of the people and organizations of this country who invest in industry.

Will the billions necessary for progress be invested in the coming decade in modernizing industry? That will depend upon a great many economic and political factors. But there is no denying the fact that one of the very important factors is the extent to which our tax laws will encourage such investment. Among all tax regulations those which prescribe the extent to which business can recoup its investment in plant and equipment are of particular importance.

## A DYNAMIC MOVE FOR NEW PRESIDENT

In November, 1960, we elected a new young president. In my column at that time I wrote, "As President-elect, John F. Kennedy has it in his power to recommend to Congress a course of action which would stimulate business, vastly increase our productivity, encourage more rapid 'growth,' and raise the standard of living and real wages of all workers.

"This sounds like a large order but it can be promoted by one sound measure. Let Mr. Kennedy announce that he will use his influence in Congress to revise the law about depreciation which is allowed to industry on capital investment in new plant and equipment immediately and *substantially*.

"If he should state that he will urge Congress to follow the course of practically all other nations of the Western world in allowing capital investment to be recouped quickly, he would spark an unprecedented demand for capital goods that would give a solid foundation to economic recovery in this country. More important still, such a program would help to equip this country with productive facilities that would raise our own standard of living and permit our industries to compete more successfully with other major countries of the world."

Since Mr. Kennedy's election to the Presidency, he has not firmly grasped the opportunity presented to him. Instead of recommending a substantial revision of present depreciation schedules the President merely proposed a piddling tax gimmick. This is intended to induce companies to spend a little more than their normal investment. It is not far-reaching and will probably have only a small impact. Furthermore, the Kennedy proposal is of very little aid to medium-size and small businesses, and it penalizes companies which are under-financed. The necessity still remains for a complete overhaul of the tax laws which apply to depreciation of capital equipment.

Why shouldn't the government encourage industry to maximum investment in the newest type of equipment? One objection is that Treasury tax revenue might fall heavily for a number of years, since depreciation charges would be heavy and taxable corporate income less. A Senate committee has refuted this viewpoint. It said, "It is doubtful that there would be any loss in the second year after such liberalization and perhaps none in the first. In the third and fourth years revenue would be larger."

If a company invests a million dollars in a machine and claims *total* tax reduction in that year, then it will get no tax reduction on that machine in the following years, and therefore its profits would be higher and income tax payments larger. In the long run the government loses absolutely nothing by such a policy. A machine can be depreciated only once regardless of the time schedule allowed. In fact, the Treasury gains. As companies purchase more capital goods, greater profits accrue for many suppliers, their income tax payments increase and the United States Treasury recoups much more than it loses. Fear of decreased tax revenue for one year is a short-sighted reason for not instituting a policy that would increase government revenue in the long run and provide America with more dynamic industry.

Today depreciation schedules are ruled by Bulletin F, issued in 1942 by the United States Treasury. According to these rules many industries must wait twenty to twenty-five years fully to depreciate their equipment. The composite life of equipment in the steel industry, for instance, is scheduled at about twenty-five years. During this long period of time obsolescence and inflationary price rises for new equipment seriously affect American companies.

Today business is really not permitted to recover enough capital to replace worn-out machines and tools which have a long life. To be sure, companies get back their original investment *in dollars*. But with rising prices over a decade or two the original equipment can hardly be replaced for double or triple its original cost. Where does business get the extra money? Generally it goes into debt—or it may dip into "accumulated profits." But these are *phantom* profits. During the entire long life of the machine the company pays a profits tax on some earnings which are not profits at all but should have been earmarked for full replacement of the worn-out machine.

American industry has been short-changed to the extent of about $6 billion annually because of these phantom profits. Other countries, such as France, permit full depreciation adjustments based upon rising costs of replacement. In Britain special "investment allowances," in addition to regular depreciation, are permitted. But the United States permits no such encouragement to investment. Certainly revision of outmoded depreciation rules should be the first order of business in order to remove the barriers to expansion now existing in this country.

This is not only an aid to industry—it is a vital factor in improving the prosperity of the entire country. Today over $14,000 of invested capital is required properly to equip each worker in industry. Workers' incomes will rise only when that investment in more efficient tools of production is increased. Also, it must be remembered, industry must provide for the approximately six million more workers who will be added to the labor force in the next five years.

To insure higher real income for everyone, more jobs, and the vigorous growth of industry's productive power, Congress should remove the roadblock to greater investment in the tools of production.

## TOO MUCH PRODUCTIVITY?

The great productivity of our economic machine seems to be a source of worry to some people. How, they ask, can we consume the vastly increasing output of goods produced by the marvelously improved machines and techniques of industry? This so-called problem was stressed some time ago (quite a while before Galbraith became concerned about our "affluence") in a special supplement in the socialist journal of opinion, *The New Leader*. This well-edited journal is really no longer socialist but has become a "liberal" and labor publication.

In this supplement the author, Oscar Schnabel, says that the problems rising from increased productivity cannot be "solved exclusively by ever-increasing consumption." He then goes on to make the amazing statement that "we must start by recognizing the fact that in peacetime we do not necessarily need full use of our economic capacity."

The *New Leader* article is significant only because it substantially reflects new liberal and labor thinking. Labor leaders have been talking for several years of a thirty hour work week. We wonder just who are the "we" in the author's mind when he says, "We do not necessarily need full use of our economic capacity." Does he mean the sixty million taxpayers whose declared incomes are less than five thousand dollars a year? Does he mean the millions of families to whom an additional few dollars a week would make a tremendous difference in favor of a better diet, better clothing, and better housing? The idea that "we" have all we need, is to say the least, curious.

Increased productivity in the economic system is like the fine performance that results from glowing health in the human system. Can we have too much health? Can we have too much productivity? What is the proposed cure for this imagined ailment of high productivity?

Two solutions are offered. (1) Cut down the number of working hours to give workers more leisure. (2) Establish a new government agency which, the author says, might be called the "Federal Reserve Labor Board, which will evaluate how much labor is necessary for all the needs of our growing population at rising living standards." In other words, a new bureaucracy with a new master plan to tell managers and workers how many hours shall be worked and where!

But why this sudden concern with increased productivity per worker? One would think that this is a new phenomenon. Actually, productivity has been increasing at a fairly steady rate for three-quarters of a century—a progress which we can measure. It is highly doubtful whether the record in this decade will be far above that of other banner decades.

Although we have vast new industries and the beginning of atomic energy, we must remember that in the past there were also introduced dynamically productive forces, such as electricity, the automobile, the assembly line, the airplane, new chemical industries, and many others.

Decade by decade the average increase in productivity has been about two per cent per annum per worker, except during the 1940's when it was stepped up somewhat. Although there are serious flaws in the output-per-man-hour concept, which are discussed in the following pages, here is our record as measured by the National Industrial Conference Board:

| *Decade* | *Output per Man-Hour* |
|---|---|
| 1891-1900 | 100 |
| 1901-1910 | 123 |
| 1911-1920 | 146 |
| 1921-1930 | 196 |
| 1931-1940 | 234 |
| 1941-1950 | 281 |

The fruits of this increased output have been distributed to everyone in several ways: (1) Lower prices to the public and better quality. (2) Higher money wages for workers. (3) Decrease in working hours. We never needed any "plan" or "Labor Reserve Board" or any other gadget to do the job well. The process was worked out by means of the price system, free markets and competitive enterprise. The result has been the greatest productive system in the world and the highest standard of living in all the ages.

If we are to continue this remarkable record in the future, it would be well to heed the following course: (1) Do not give the entire increase in productivity exclusively to workers in special industries, as demanded by labor union leaders today, but let the general public participate, too, by means of price reductions. (2) Think of increased productivity as a benefit, not an evil, and do not prevent people by law from getting the benefits of increased productivity in money, instead of leisure, if they want it that way. (3) Avoid, like the plague, any government board to regulate productivity or to divide its fruits. (4) Instead of blueprints and "plans," let productivity be determined, as it always has, by profit incentive, investment, competition and free markets.

## WHO SHOULD GET PRODUCTIVITY GAINS?

It is the custom of labor unions to demand and get a substantial annual wage increase whenever contracts expire. The magic words "increased productivity" are supposed to justify these wage rises. There is no more widely used—or abused—word in the economic dictionary than "productivity."

Productivity may be defined as the relation between the *output* of manufactured products and the *input* of all factors necessary to produce these goods. Very often, however, productivity is measured only by the number of man-hours worked in manufacture. Thus, by a semantic trick, productivity becomes identified exclusively with *union labor* productivity. But such a definition completely misses the mark. Before workers in factories can turn out vastly greater quantities of goods with the same or less work, they need new high-powered machines and new techniques.

There must be a tremendous prior activity in research, planning and engineering—in the manufacturing of new machines, in making more power, in devising new methods. All of this requires large-scale capital investment and the use of savings. It is the input of *all* these items in the production process which is never considered by those who stress *union labor* productivity. Without the all-important preliminary factors, workers cannot produce more.

The use of man-hour productivity statistics is misleading in other ways. It counts the work of highly skilled factory workers for no more than the work of the lowest unskilled laborers. This sort of "lump" approach leaves much to be desired. Also, the only factor which is counted, according to the definition of the U. S. Bureau of Labor Statistics, is "output per man-hour of *production* workers . . . in manufacture." As production becomes more efficient there is always a decrease in the number of employees on the production line and an increase in the people engaged in research, engineering, planning, clerical work, and related activities. When productivity is measured by the work of *production* workers alone, the contribution of all of these people is eliminated.

There was a time when benefits from increased productivity of American industry were divided three ways. Workers got some increase in money wages; the public (including those not engaged in factory work) benefited by lower prices and better products; the entrepreneur received compensation for his initiative. But this policy has recently been thrown onto the scrapheap. Labor union leaders now insist on appropriating all of the increase exclusively for production workers in factories making basic products. In fact, during the past ten years they have gotten considerably *more* than the entire increase—thus forcing higher prices for everyone.

There is one way and only one way for workers to get a higher real wage, and that is by higher production. As workers and management jointly turn out more goods for every hour of work, the real earnings of the worker increase, as they always have, and the standard of living improves. There is no other answer to the problem. Labor unions cannot raise the standard of living of all the workers, and the fiat of the government never can do it. The productivity of industry is the only answer. The record plainly shows that the greatest single factor making for increased productivity is the increased use of machinery, plant, power, and tools employed in manufacturing. When the worker was backed by only $500 of investment in tools, plant, inventory, etc. over a hundred years ago, his real earnings were very low. *Nothing could increase these earnings substantially except an increase in capital investment.*

When that investment increased to about $14,000, as it approximately is today for each worker employed, real earnings of workers increased tremendously. During the last sixty or seventy years real earnings of workers increased about four and a half times despite the *decrease* in working hours from sixty-nine to forty hours a week.

No matter what government does or what policies labor unions pursue, they cannot raise the living standard of *all* American workers to any extent if the amount invested in machinery and equipment remains stationary or is decreased. That is why it is in the interest of labor to see that management makes good profits. Out of these profits industry is able to plow back much needed capital which is invested in new tools, new techniques, research and inventory—all of which are essential to produce more efficiently and thus raise the general standard of living. Labor must encourage the maximum investment in labor-saving equipment of all kinds, because that is the only way that labor can get a high real wage.

## WHAT'S WRONG WITH PLANNED OBSOLESCENCE?

Every few years American business has to answer criticism leveled at its basic institutions by some members of the academic fraternity who are not too happy about our free market, private enterprise economy. These attacks are usually promoted by a semantic trick—the coining of a word or phrase which gives a sinister meaning to some normal business development. "Oligopoly" is one of those words, which first appeared several decades ago. It means the domination of any industry by a few suppliers.

Most people have always noted that competition can be fiercest among a few big companies, but the critics shouted "oligopoly," and corporations which have grown big through public service are supposed to cringe at the charge. Events in the automobile industry (by definition an "oligopoly" dominated by Ford, General Motors, and Chrysler) caused widespread amusement over this supposed evil. The pint-sized imported cars, and the Rambler and the Lark, created a virtual automobile revolution, forcing the "Big Three" into the small car field to meet competition.

Are the three giants in complete control of the market, and can they treat the public any way they want? Ask any consumer who is ready to buy an automobile today and is being importuned by the big companies, each trying to offer something better than the other, each struggling to hold down its costs and prices.

Now business must meet a new attack. This onslaught was launched by the use of another phrase which makes good business practice sound as if it is reprehensible. American industry is accused of the evil of "planned obsolescence."

Plainly, the objective of those who attack business for this imagined evil is to undermine public confidence in the great industries of this country and to encourage government control in place of private enterprise. It is claimed that planned obsolescence results from two calculated policies.

In the first place, it is said, American manufacturers purposely produce shoddy products which will not last the consumer for long. Thus buyers will be forced to replace their purchases and industry will profit. It is hard to believe that any sensible person could give credence to such nonsense. The assumption here is that American business has produced the highest standard of living in the world by giving the consumer bad products. Every one knows that the field has always been open for any company to give the consumer what he really demands, if he wants special quality products. Thus manufacturers of quality products would be rewarded by the eager public. They would grow prosperous and replace those shortsighted companies who try to shortchange the consumer. The consumer is free to shop around as he pleases. Competition exists in every line of consumer goods. The patronage given to the quality manufacturer would undoubtedly crowd out of the market the producer of bad merchandise. In fact, this is precisely what has happened in American industry over the years.

Is it reasonable to assume that American consumers are dolts and do not know enough to buy good merchandise rather than bad? And if they are such idiots why do the new-day liberals have so much confidence in the functioning of democracy which is dependent upon the intelligence of American voters? If citizens show such poor judgment how can they select their representatives and pass upon public questions with any degree of intelligence?

But there is still another aspect of the charge against industry for engaging in planned obsolescence. This is the practice of many companies to frequently re-design their products in order to gain greater favor from the consumer.

Sometimes this change is a basic improvement in the product itself, sometimes it is just a restyling. New models of automobiles are offered each year incorporating both mechanical and style improvements. Little improvements each year add up to a big change over a longer period of time.

Kitchen equipment is being constantly made more serviceable and more attractive. New improvements in office equipment add efficiency and eye appeal. New designs in home furnishings of all kinds, as well as electric razors, clothing, and other products make life easier and more pleasant. The restyling of men's suits is a typical case of planned obsolescence, and of course women's styles which change seasonally represent the very acme of restyling for style's sake.

Is this bad? Those who coined the phrase and sneer at "planned obsolescence" would have us believe so. They say that all this is a "misallocation of resources"—resources which could be put to better use, in their opinion. They talk about "satisfactory old products" which do not "need" change and would be "serviceable" for a long time if wicked manufacturers did not plan to change things.

This controversy is important because the issue affects the very basis of private capitalism and free enterprise. Our system is geared to the desires of the consumer. Producers flourish or die as they serve the consumer or fail to meet his desires. This very competition puts industry on its toes, forces new inventions and gives us the kind of vigorous, dynamic, rich economy we have.

Of course if the American manufacturer and the consumer were less energetic we could all still make-do with the automobiles of the 1940's. If we want only "serviceable" products why have colored automobiles—why not just all black as they used to be? Also, how about the clothes of yesteryear and the icebox of several decades ago? Some may say that this is exaggerating the "planned obsolescence" point of view, but is it really? For once we begin to pay homage to "satisfactory old products" and talk about "exaggerated change" we will inevitably get a horse-and-buggy psychology. And once we begin to limit change who but a government authority will be empowered to say what is "exaggerated" change and what is not?

This gets to the very heart of the matter. If we are to have some kind of regulation of obsolescence, some government body or regulation will do it. The opponents of dynamic, unregulated change are really advocates of more government and less individualism in the economy.

How sound is the economic reasoning behind this attack? Any talk about misallocation of resources due to swift changes misses the point completely. Resources are not a fixed quantity. They are changing and developing all the time, and the vast resources of this country are due in great measure to the characteristically American dynamism and desire for change. People are willing to work harder to save and invest in order to get new things. Take away that desire for change and there would be considerably less resources to allocate.

In a country where there is no planned obsolescence and where resources are allocated by slide rule, as in the Soviet Union and other nations behind the Iron Curtain, the consumer takes what the government gives him—which is very little. If, as it is now said, the future belongs to the most vigorous, creative and productive nations, then the more obsolescence the better. Such a nation can produce more resources—for war if necessary and for peace—than a country that restrains the energies of its people and looks upon change as wasteful.

# 5–

# Wages and prices

*The price at which products are sold in the market and the wage rates which the producer must pay are, of course, very closely related. Together their influence upon productivity is a powerful one. If there is any doubt about this, the following quotation from one who is no admirer of private capitalism should be interesting.*

*Recently Nikita Khrushchev had this to say about wages, prices and productivity: "Of course it is possible to lower prices on products recklessly, but then where would we get the funds to develop the national economy further? Do you think God will send us new plants, factories and power plants? If we lower prices without considering the real possibilities or raise wages without taking anything into account, will this contribute to the development of our national economy? Of course not."*

## THE MAGIC FORMULA

The attempt to create mathematical formulae to solve our economic problems has turned into something of a mania in this era. We have become victims of the decimal point and the digit—employing precise mathematic formulae for many things which are not precise and cannot be solved mathematically except to our own detriment.

The most glaring evidence of this tendency is to be found in the field of productivity. Several decades ago it was discovered through research that increased *production per worker* averaged a little more than two per cent annually over a long stretch of time. Harvard's famous Professor Schumpeter made much of this statistic in describing the strength of the capitalist system in his well-known book, *Capitalism, Socialism and Democracy.*

This two per cent figure was soon taken from academic circles and popularized by general writers on economics. It came to be regarded as an immutable law that worker productivity would increase about two per cent or more each year. People assumed that this could be applied to every industry and, in fact, every plant. In 1948 labor union leaders seized upon this magic figure and got General Motors to incorporate it in a labor contract guaranteeing automatic wage increases to its workers at this annual rate.

Then Mr. Walter Reuther said: "The General Motors pattern becomes one for industry!" It began being applied indiscriminately, and everyone expected to increase his earnings at the rate of at least two per cent per year regardless of existing conditions.

In the post-war world, labor union leaders were able to force upon industry wage increases far in excess of even the most optimistic estimate of productivity increases. Wage increases in that period ran at the rate of seven to ten per cent for many years and were never less than five per cent until 1960. These uneconomic increases in wage costs caused prices to rise and the wage-price spiral to continue.

What happens when a wage increase for productivity is granted in an industry where there is an actual decline? There are many such instances. Between 1939 and 1947 Department of Commerce reports indicated an actual productivity decline in nineteen industries out of the limited number examined. They included slaughtering and meat-packing, sixteen per cent; lead and zinc mining, thirty-one per cent; footwear, four per cent. In recent years there always existed similar disparities in the productivity record of various industries.

When automatic increases are given to workers in these and many similar industries on the basis of increased productivity in all industry, it simply means that the higher cost of production is frozen into the retail price. During an inflationary period the consumer pays these increased costs without question. When the inflation abates he curtails his buying of those products and unemployment results.

In an interesting analysis of industry productivity, Dr. Jules Backman of New York University concludes that "although the long-term annual rate of increase in productivity for the entire economy has averaged about two per cent in most years, the actual change has deviated widely from this average. In many years output per man hour has actually decreased (for example, in 1933, 1937, 1946 and 1947). Great irregularity in the rate of gain has been characteristic."

### A BAD FORMULA FOR PAY INCREASES

When General Motors introduced the "annual improvement"—or productivity-pay increase in its wage formula in 1948, the move was widely hailed. Charles Wilson, then president of General Motors, advocated that this pay increase be given by all industry—and even by agriculture!

At that time I published a criticism of this scheme under the title "Dissenting Opinion," pointing out its inflationary impact. In reply to a letter from Mr. Wilson disagreeing with my conclusions I said, "If your policy should be applied to the United States generally, as I have pointed out in my articles, the result will be detrimental not only to industry itself but also to the consumers of this country."

Events have certainly justified early fears about this formula. The annual productivity increase turned out to be an automatic prescription for raising wages and prices, and for consequent inflation. The 1958 recession highlighted the danger inherent in this kind of agreement. When we needed lower costs we got higher costs. When the public demanded greater values to attract its savings it got less value because prices went up.

The annual productivity increase in wages is based on the assumption that the national average increase in productivity per worker of a little over two per cent per annum over the previous half century should be employed by every business, every year. The fallacy lies in trying to create a precise mathematical statement applicable to every industry and to every business, when as a matter of fact, no such formula can be devised.

What we really need is the opposite—variation from industry to industry, from business to business, and flexibility in all costs and prices. This becomes evident when we consider the plight of industries which might be tied to a productivity wage-increase when there is an actual decline in productivity. There have been many such instances.

As explained in the previous chapter, the Department of Commerce reports for 1939-47 show an actual productivity decline in nineteen industries out of a large group investigated. As recently as 1956-57 there was either a slight decline or no increase. The average, over a half a century, can be misleading if applied today.

No business can survive on a national average. It must live by its individual costs, its individual productivity. If its productivity declines for one year or two and it is nevertheless forced to increase wages, the result can be disastrous for that particular company or that industry.

A disturbing comment on this matter was made by the Committee for Economic Development in its study, *Defense Against Inflation*. Discussing productivity it said, "Wage rate increases in particular industries should not be determined by increases in output per man-hour in those particular industries, but should reflect the increase in national output per man-hour."

The avowed intention of the Committee for Economic Development is to prevent inflationary above-average increases for all industry. But the net effect of its statement is to indorse productivity wage increases in industries where none should be given. The trouble here is in trying to patch up a rigid, fallacious, and harmful formula. The formula should be repudiated.

Basically, increased productivity results from the use of better tools, more power, new inventions, improved managerial ability and many other factors. For instance, in 1948 approximately 5.3 million automobiles were produced by 650,000 workers—about eight cars per worker, while in 1957, 6.9 million cars were turned out by 625,000 workers—about eleven cars per worker.

What caused this sharp increase in productivity? Wasn't it the vast investment of capital by the auto companies in better tools and improved production techniques which cut down the labor required to produce each automobile?

Capital investment must be compensated in one way or another. Sometimes an industry has to pay more to raise the capital necessary to provide better tools of production for workers. Or, due to intense competition, an industry may have to pass on its entire productivity increase in lower prices to the public.

Workers generally have always benefited from increased productivity by way of lower prices and improved quality in all things they purchase, as well as by their own fatter pay envelopes. Any attempt to place progress in a strait jacket by devising a pat mathematical formula for dividing up the results of greater productivity will simply handicap industry, retard progress, and penalize the public.

## AS IMPOSSIBLE AS SQUARING THE CIRCLE

It is just as necessary for a nation to choose its objectives carefully as it is for an individual to do so. Since resources are not unlimited, we cannot have everything we want. This simple principle may sound trite, but it needs to be emphasized at a time when we pursue objectives which not only negate each other, but actually tend to destroy each other.

Currently this country is pursuing three conflicting policies. The first is the policy of automatically increasing annual wage-rates, regardless of business conditions and regardless of productivity. The second is the goal of achieving full employment. Third is the hope of maintaining an honest dollar —a dollar of stable purchasing power, so that the worker, the pensioner and the saver are not robbed over the years.

It is just as impossible to achieve these three objectives simultaneously as it is to square the circle. Something has to be sacrificed and the public will have to make the choice.

The fiction has grown up that the only way for workers to improve their condition is to get higher wage-rates each year no matter what business conditions may be. Plainly this is not true, because for over a century of tremendous progress in this country, this policy did not prevail. Progress in those years was accomplished by vast capital investment in new machines, plant, and techniques of production. A great part of the increase in productivity was distributed to the public in the form of lower prices and better goods. All of it did not go to workers of particular industries, which is the case today.

The effect of the union demand for automatic wage increases can be seen in the following brief bit of history. In 1956 average hourly earnings in manufacturing increased 5.3 per cent while output per man-hour increased no more than half that amount. Unit labor costs increased nearly 3 per cent. This trend continued in 1957 when costs per man-hour increased more than 5 per cent.

Wage rates were still rising rapidly in 1958 despite a deepening recession. As the cost of manufacturing a unit increased

—whether shoes, or washing machines, or autos—producers added to their selling price. Then came the inevitable result —consumers did not clear the market of goods at prevailing prices. Production fell off and unemployment therefore increased.

A rise in the price per hour for workers in highly organized industries does not always mean a larger *total* of earnings for all workers. Quite the contrary. When hourly wage and unit-cost of manufacture get too high the result is unemployment and lower *total* wages. This is the fruit of the AFL-CIO policy, which is a sure-fire policy for creating unemployment. And so policies No. 1 and 2 destroy each other.

How do the above objectives square with the policy of maintaining a stable dollar? They do not. They undermine the dollar and spark a continued inflation. This is the way it works: When excessive, high wage-rates produce inevitable unemployment and lower production, the public demands that the government do something. That "something" turns out to be inflation of the money supply which eventually leads to higher prices for everybody, thus causing more of the very disease it was supposed to cure.

Arthur F. Burns, formerly President Eisenhower's chief economic adviser, made a recommendation about this matter in his book, *Prosperity Without Inflation.* He advised "a declaration by the Congress that it is the continuing policy of the federal government to promote reasonable stability of the consumer price level, as well as maximum employment, production and purchasing power" (now part of the Employment Act of 1946). If the present law is to stand, it would certainly be a good idea to make the change suggested by Dr. Burns, if only for its psychological effect.

But as a matter of cold fact, any attempt to promote "reasonable stability of the consumer price level" in the face of mounting wage costs would mean restrictive monetary policies which would cause unemployment. Politically this is unpalatable. So as a practical matter, if we want to preserve the purchasing power of the dollar, we will have to curb uneconomic wage rises. This means modifying the present monopoly power of the big labor unions to get almost any wage level they demand. That is the heart of the matter.

If the country insists on achieving full employment and rising wage rates regardless of conditions, it will be choosing inflation whether it means to do so or not.

## ADMINISTERED PRICES AND ADMINISTERED WAGES

A little more than two decades ago when it was quite popular to pin responsibility for the Great Depression on big business, Professor Gardner Means contributed a handy weapon for the purpose. He invented the idea of "administered" prices.

These are prices, according to Means, which do not respond quickly to supply and demand but are made by executive order in big industries such as steel, agricultural implements, and automobiles. The term administered prices could never be easily applied, as its originator, Dr. Means, admits today, and the suspicion grew over the years, that the term did not represent a sound economic concept, but rather a political stick with which to beat the business dog.

Any distinction between "market" prices and "administered" prices is difficult to make, because such a distinction is a matter of time-lag and degree. Some prices change more rapidly than others, and few change by the minute or the hour as they do in commodity markets. A physician's price per visit does not change quickly nor does the price of prepared food, or furniture, or clothing, or household equipment, or countless other products. All are market prices, yet all can be considered administered prices according to the old definition.

The phrase "administered prices" is supposed to describe those prices which do not respond quickly to supply and demand. They are assumed to be set by executive order—in defiance of market forces—in big industries with few producers. (The only "pure" competition according to the original theory is among products that cannot be "differentiated"—for example, lumps of sugar or kernels of wheat.)

Just about the only items which respond instantly to supply and demand are commodities traded on the Commodity Exchange which fluctuate in price every few minutes or every hour. Does the price of a can of food, a loaf of bread, a pair of shoes, a suit of clothes or almost anything else the consumer buys change every day or even every week? Yet every patron of a supermarket or department store knows that these items are fiercely competitive and quickly adjust price to the market. So do the heavy items such as steel, aluminum, automobiles, and the rest, although their adjustment may be slower and price concessions are disguised by such devices as absorption of freight rates, undercover discounts below list price, and so on. The market is everybody's master.

The proponents of "administered prices" do not accent the one definitely administered price which conditions all other prices—the price set for hiring workers. This is fixed not by market conditions but by the power of union leaders, and often by threat of violence.

The weakness of employers to resist because of a lop-sided law is plain. When wage costs are forced up, a demand that the producer reduce his prices is simply a demand that he sell his inventory under replacement cost. Only a producer in dire straits would do that.

Administered wages, it should be noted, are the result of our labor laws which encourage industry-wide bargaining and monopoly unionism. The effect of these laws can be readily seen in any supermarket or department store. Items sold in these stores come from thousands of small and medium sized manufacturers, very few from the largest corporations who can defy the market for any length of time and "administer" their prices. Yet here we have a steady rise in prices. Consumer food prices keep moving up. Prices in this category are influenced largely by administered wages which necessarily become part of the consumer's price tag—and not by decisions arbitrarily made in the big executive offices, regardless of supply and demand.

In the field of services, which account for more than half the total National Product, it is administered wages that set the pace. The structure of freight rates, railroad, bus and airplane fares, utility rates, and countless other service charges are all locked in by the wage structure.

And the interesting thing is that in the smaller services—ranging from hairdressing to dry-cleaning—prices are steadily increasing although it would be rather foolish to talk of "administered" prices in these highly competitive businesses which are conducted by tens of thousands of small companies.

It is difficult indeed to define an "administered" price, but it is quite evident that administered wages are the law of the land. Since wages constitute more than eighty per cent of the price which the consumer ultimately pays, isn't this the point at which the problem of rigid prices must be attacked?

## THE OPEN CONSPIRACY TO FIX PRICES

One cannot discuss prices these days without paying some attention to an important case which was decided in the courts early in 1961. Leading manufacturers of electrical equipment, including the two largest, General Electric and Westinghouse, were convicted in a federal court for conspiracy to fix prices. The companies were fined $1.7 million and some of their important executives were sent to jail.

Many questions that demand answers come quickly to mind about this case. Where, during the long period of illegal activity, were all the high-priced lawyers who receive big fees from these companies to keep their practices within the law? But suppose these manufacturers had done precisely what the government lawyers say they should have done—competed ruthlessly on price. Small competitors like Federal Pacific Electric and ITE Circuit Breaker might have been forced to the wall. Is there any doubt that GE and Westinghouse would then have been accused of violating that section of the Sherman Act which says that no company shall "monopolize or attempt to monopolize"? It is ironic that under the present interpretation of the law, corporations have been haled into court for (1) making prices too low; (2) holding their prices too high, by agreement with other companies; and (3) not varying prices.

One thing is plain: the magnificent record of these important companies in improving the welfare of the American people was all but forgotten overnight by a large segment of the public, which chose to remember only that they had violated a section of the law. In this case the severe penalty was a partial forfeiture of public confidence.

But all this reveals only a small part of the problem. Why did so many people become so emotional and incensed? Was it because a law had been violated? This hardly seems reasonable. After all many provisions of the "law of the land" are violated every day—and violations are often scantily concealed, if indeed they are concealed at all. But the very people who so righteously joined in the humiliation of GE and Westinghouse have not been conspicuously concerned about *all* such violations. In fact they condoned many of them.

For instance, the law specifically says that no employer should be forced "to employ or agree to employ any person or persons in excess of the number reasonably required to perform actual services." Yet everyone knows that this law is violated every day of the year. This violation is euphemistically called "featherbedding"—and the public pays for it. Further, the law is clear about penalties for the use of violence. Yet as Congressional committees have clearly shown, outrageous violence has been used in strikes like that against the Kohler Company. But this, too, has been condoned. To those who insist that the law of the land should always be honored, the fact that the guilty have not been convicted in court is merely a shoddy, legalistic excuse.

Has the reaction against GE and Westinghouse been so violent because of the ethical question involved? Certainly it is true that price-fixing is a crime against the public. In a free enterprise system, which depends upon prices as a major guide and regulator, the freezing of prices at an artificial level is dangerous. That is why intelligent people must be against *all* price-fixing.

But is this the thinking of those who heaped violent abuse on GE and Westinghouse? It seems doubtful. While they lash out at price-fixing by some business organizations, they look benignly on the vast *open conspiracy* to fix prices which is slowly driving the country towards inflation and worse.

Take the government price-fixing of commodities. The Kennedy administration recommended a rise in the price of corn from $1.02 to $1.20 a bushel. The public will pay for this in the form of higher prices for meats. President Kennedy says, let the farmers fix their own prices for a variety of crops, and if they are able to wangle this through Congress their price-fixing schedule will become government enforced. This is price-fixing on a grand scale. The public will be bilked as never before.

And if anyone becomes concerned about the viciousness of price-fixing (as he ought to be), how about directing his attack toward the iron-fisted price-fixing which is legally imposed by labor union leaders in behalf of their union members? After all, there are only seventeen million union members out of a total of sixty-seven million workers. The price-fixing which union leaders impose is translated into cost increases for everything we buy. Since price-fixing is such an evil, shouldn't we have a better balance between the power of management and the power of labor unions so that union leaders will not be able to impose almost any price they demand?

It is no ethical defense to say that some price-fixing helps a large segment of the population—such as farmers or union members. It will hurt a much larger segment—the rest of the nation.

Disapproval of the actions of General Electric and Westinghouse is certainly in order. But could it be that a great part of the violent reaction against these companies is really antagonism to big business crudely expressing itself? And deeper than that, isn't there some evidence of hidden anticapitalistic bias (surprisingly fashionable in some intellectual circles) which seizes every chance to belabor American business?

## PRICING OURSELVES OUT OF THE MARKET

In searching out causes for our economic and political problems, it is curious indeed how the search often leads to the very same cause even though the problems themselves seem, on the surface, to be only distantly related. The big problem, of course, is our periodic recessions. Connected with it, and contributing to it, is the progressive loss of foreign markets for many of our products. A third problem of great economic importance, but which also carries international political overtones, is tariffs.

Even a casual analysis will reveal that a basic factor affecting all three of these areas is our mounting cost of production. We are pricing ourselves out of foreign markets; and we are pricing ourselves into a tariff wall.

Our cost-of-production mounts too high. This is a major cause of recessions. Rising labor costs have far outstripped the rise in productivity, despite the unprecedented addition of cost-cutting, labor-saving tools of production. Between 1939 and 1956 average hourly labor cost in manufacturing increased 215 per cent, while the output per man hour increased nearly fifty per cent. The result was that cost-of-production per unit of goods—whether a pair of shoes, an automobile, or a can of vegetables—just about doubled. This trend continued through 1960. Some of the increased cost was absorbed by producers. Most of it had to be passed on to the consumer, or producers would have had to go out of business.

When, in 1957, price rises began to account for three-quarters of the dollar increase in Gross National Product, the inflation had to be restrained. When billions in new bank credits were not forthcoming to sustain the mounting price levels, a recession was under way and there were soon over five million unemployed.

The positive influence of excessive wage costs in creating unemployment is basic, and has been indisputably proved and analyzed. Its importance was emphasized in this century by the eminent von Mises before and after World War I. Then came Jacques Rueff, head of the Treasury of France, who analyzed British statistics prior to 1925 and established a direct statistical relationship between excessive wage rates and unemployment.

His analysis was later confirmed by Sir Josiah Stamp who tested Rueff's conclusions for the years following 1927 and found them to be ninety per cent accurate. In 1933-34 there were published *The Theory of Unemployment* by the noted British economist, A. C. Pigou and a fine study entitled *The Theory of Wages* by Paul H. Douglas, who later became Democratic Senator from Illinois. It will surprise many people that Mr. Douglas agreed with the theories of Jacques Rueff and Josiah Stamp. In his book Mr. Douglas says, "If wages are pushed above the point of marginal productivity the decrease in employment will normally be from three to four times as great as the increase in hourly rates so that the total income of the working class would be reduced."

All of these accounts substantially agree that unemployment responds quickly to changes in wage costs. They concluded that when there is unemployment, a decline of even one per cent in wages would uncover many more jobs. The effect of wage rates on unemployment has also been interestingly treated by Professor F. A. Harper in a study entitled *We Can Have Any Level of Employment We Want.* He elaborates the point that the level of unemployment is related directly to the height of wage rates above the normal, free-market level.

Our high-cost production drastically affects our foreign trade, with resulting political repercussions. When foreign producers increasingly outsell us in our home territory, the clamor naturally grows for more tariff protection.

Effects of our high-cost production on the tariff problem were cited by Roger Blough, Chairman of the United States Steel Corporation. He pointed out that a reel of steel wire which is generally used for steel fences is now shipped from Dusseldorf, Germany, by sea, freighted to Cleveland by rail, and then hauled by truck to the warehouse where it costs the jobber $40 a ton less than the U.S. product.

Imported cast-iron soil pipe is laid down in California for $75 a ton less than the American price. Of course, foreign countries will always be able to undersell us here on *some* items, and that is certainly not bad, because we should be able to undersell them in their own country on other products. This is the essence of sound foreign trade—each country making progress on what it can manufacture more cheaply and better. But unfortunately we have been losing ground on too many basic items, because of our high cost structure.

When it comes to selling our own products in foreign countries, here, too, American producers are at a growing disadvantage. Our private exports are declining because foreign producers are increasingly outselling us. "There is an inexorable rule which can never be defied nor escaped for long," says Mr. Blough, ". . . it is a fundamental law of business and every businessman knows it. That law is 'compete or die.' There is no other choice."

So whether we must compete against foreign merchandise or whether we need to clear the market of our own robust production and thus increase employment, it is essential to maintain a realistic, non-inflated cost-of-production. If the unit cost-of-production goes up instead of down, we will be in trouble and unemployment will grow.

Plainly flexible wage rates—flexible both ways—would be in the best interests of everyone, including workers themselves, because it would lead to full employment. But the least we should settle for is that wage rates should not rise for a while. Continued increase in productivity would then lower the cost of making each unit, and we would have a chance of slowly increasing employment and the general level of prosperity.

### A SPECIAL CASE OF GOVERNMENT PRICE-FIXING

When the price of anything is fixed by a government agency, there is bound to be trouble. The reason is that politics and the prospect of votes become a determining factor. The control of rents in New York City is a typical case. Although government price-fixing of rents which used to be a national problem is now confined to one locality, it deserves special attention in any study of prices.

Whenever a plan is proposed for even partial decontrol, or for a slight adjustment of some rents nearer to the market price, a violent protest is registered by those affected. This may be only natural but often it is ironic. For instance, those who occupy some of the most luxurious apartments on Park Avenue become indignant at the thought of paying a little more rent. Yet they are the first to protest against price-fixing in their own businesses.

They know how inflation has zoomed their own costs. Nevertheless they want to hold the apartment house owner in a vise, and they ask him to contribute a subsidy to their own rent payments. Why?

The important point is that it is in the public interest to make a plan that would eventually abolish *all* price-fixing of rents. Nothing like that is being officially proposed. The city is now divided into the favored few who live in rent controlled apartments and "all others."

The all others include young married couples with growing families who need larger apartments. These apartments are often occupied by only one or two people who continue to hang on to them because of the great price advantage.

As long as there is rent control, there will not be enough building of lower-priced or moderately priced apartments. Builders know that their new higher-priced units cannot compete with the cheaper, rent-controlled space, which their prospective tenants occupy.

While decontrol is essential, great hardship would be suffered by many families if it came about overnight. People can not adjust themselves to such a major change, which involves a large part of their total income. What we need is a plan that would eventually do away with *all* price fixing of rents. Two essential principles of such a plan are: (1) It must take place gradually so that the adjustment for tenants is not too sharp. (2) It must permit all apartments to slowly achieve their market price.

In line with these principles, we would suggest a plan which was debated in several state legislatures. It was proposed several years ago by economist Henry Hazlitt. The plan is a simple one. Let the Legislature pass a law permitting all owners of residential property to raise their rents by a small, fixed percentage in any one year (say four or five per cent of whatever figure is agreed upon). That's all. No if's, and's, or but's. No time limit. No qualifications.

What are the advantages of this plan? First, it would permit tenants to adjust themselves very gradually to prices which they will ultimately have to pay under the free market. The change would take place over years, not over months. Over the years some owners might continue to raise their rents under this plan, while others would not be able to get much more than present rents for their space.

Apartments would gradually drift back into circulation as they approached the market price. Since it is never politically feasible to abolish controls on dwellings unless their fixed rental approximates the true market rental, the above plan would automatically move toward decontrol.

Unless we are prepared to say that all dwellings are public utilities and must be price-fixed forever, we will ultimately have to arrive at some way of bringing all dwellings into the free market. If there is a better plan for accomplishing this, we haven't heard about it.

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# Profits and employment

*Since private capitalism depends upon incentives to encourage maximum individual effort, profits become a very important factor in increasing productivity. For profits are the major incentive for business.*

*In our system, which is based upon competition, high profits can accrue only to those who meet the demands of consumers by being efficient in producing goods and services and highly responsive to change in consumer preferences.*

*If the economy is to be vigorous and thriving, producers of goods and services must earn substantial profits. This is in the public interest—not only in the interest of the producer.*

## PROFITS MUST RISE TO INSURE EXPANSION

The Kennedy administration is pledged to get this country "moving ahead." It is on record as promising to reduce unemployment, create higher real national income and expand the economy. If this promise is to be fulfilled, we can make this fairly reliable forecast. The hoped-for expansion in production, jobs, and national income can take place only if there is a substantial increase in corporate profits over the level prevailing in early 1961. The $550 billion or $600 billion economy will not be possible with corporate profits at $21 billion or $22 billion—or anything like this low total.

The idea of higher corporate profits will be frowned upon in some quarters. It is a strange fact that the word "profit" does not get a favorable reception with an important segment of the American public. In the United States, which has the most successful economy in the world and is based on the profit-and-loss system, this negative public reaction is a tribute to the success of Marxian theorists and left-wing propagandists. They have persuaded many people to accept unknowingly the labor theory of value and to look with suspicion upon a mainspring of our own great system—corporate profits.

In his book *Economics*, which is the most widely read textbook on this subject in the United States, Professor Paul A. Samuelson, of the Massachusetts Institute of Technology, says, "Any sampling of public opinion shows a fairly widespread hostility toward profit. A scientist recently asked a random sampling of businessmen if they tried to maximize their profits. To a man they all denied this firmly, perhaps because they pictured a profit maximizer as some kind of chiseling extortionist or miser."

This observation (from a Kennedy task-force head, who can hardly be accused of being partial to profits) is certainly revealing.

The grip of this anti-profit philosophy upon industry is shown by the attitude of labor leaders like Walter Reuther. Sometime ago he said, "We are in trouble because big business is taking a disproportionately large share of the fruits of our developing economy." Anyone who understands the elementary facts about our economic system knows that Mr. Reuther's statement is sheer nonsense.

In the last six months of 1960 corporate profits ran at the rate of about $22 billion annually, while compensation of employees was $297 billion and total national income was about $419 billion. The $22 billion did not all go to investors. About half of it was paid in dividends and the other half is plowed back into industry. Can any reasonable person consider this modest sum "a disproportionately large share of the fruits of our developing economy"?

Also, it should be plain to anyone, including intelligent labor leaders, that we cannot get more jobs, a higher standard of living and increased production unless the low total of corporate profits is raised considerably. Industry expansion requires enormous capital investment. In the past ten years the vast sum of $300 billion was spent by United States corporations on plant and equipment. If this country is to progress even more rapidly in the next ten years corporations may have to spend $500 billion or more.

Only under the incentive of rising profits will business spend this vast sum for more and better tools which will produce products at lower cost, raise everyone's standard of living, and give more jobs. It is in the workers' interest and the public interest—not alone the corporate manager and investor—that corporate profits should expand.

Over ten years ago, in 1950, corporate profits totalled $22.4 billion—somewhat higher than prevailed in 1960 and early 1961. Yet in 1950 national income was only $242 billion (compared to $419 billion in early 1961) while compensation of employees was only $154 million (compared to $297 billion). The entire economy was operating on a lower scale. Also, it is pertinent to note, in practically every year except the recession years of the past decade, corporate profits have been higher than today. So while the country expanded, while production increased and the real income of those working in industry advanced, corporate profits did not keep pace.

Just what factors will cause profits to increase in the future is not quite certain—although there are now some strong indications. Will volume expand and profit margins increase due to the natural upswing of the business cycle? Or will inflation temporarily cause the same result?

Another possibility is that this administration will see the light and sponsor a program of genuine tax reform. This could be a mighty force in stimulating business expansion and providing necessary capital for investment. The answers to these questions are not clear now. But Mr. Kennedy's State of the Union message and Economic Report lead to a strong presumption of government spending and inflationary deficits which will give an added "kicker" to the cyclical recovery which began in 1961.

However, one thing is sure. More jobs and an expanding economy must go hand in hand with higher corporate profits. This expectation—plus the practical certainty of more inflation—were major forces in the stock market rise of early 1961. It is an interesting fact that government economists did not expect this rise. In fact, in the first few months of 1961 leading figures of the Kennedy administration proclaimed the coming of a deeper recession.

## PRODUCTIVITY AND UNEMPLOYMENT

It is often claimed that unemployment is the result of too much productivity. Machines throw men out of work, it is said. The history of this idea goes back to the early eighteenth century, when armed bands called Luddites roved the English countryside, destroying the new textile machinery which they claimed was the cause of their unemployment. There is no doubt that automation can cause a temporary imbalance in the supply of certain kinds of labor. But this is not a basic cause—in fact, improved technology is the cause of more, not less, employment.

Why, then, is the rate of unemployment in the United States so high? This question must be answered realistically not only because of the human beings involved and because it has a direct bearing on United States spending and inflationary policy, but also because it is a black mark against the present functioning of our economic system.

In times of even mild recession in this country, such as

1957-58, and in the 1960-61 downtrend, unemployment rises to about seven per cent of the labor force. But even in good times unemployment has seldom gone much below three per cent of the labor force. These statistics must be considered in comparison with the fraction-of-one-per cent unemployment in advanced western European nations during good times, and the very low rate of two per cent in Europe's recent brief recession periods. Why, people ask, is the American unemployment figure so high?

There are three areas in which we can look for an answer. The most popular explanation is automation. To be sure this has been stepped up rapidly in recent years, but we have always had a high degree of automation—especially since the beginning of the assembly-line technique in manufacturing immediately following World War I. Countries like Germany and France have also modernized their plants and automated at a very high rate in recent years. In fact, their technological advances in many industries are greater than ours. While automation is a temporarily disturbing factor it does not seem to be the cause of the generally high unemployment statistics in this country. There are other important reasons.

Another place to look for an answer is in the statistics themselves. In comparison with most European countries, our unemployment statistics are highly inflated. In many of these countries an unemployed person is defined as one who is registered with a government agency as unemployed and receives unemployment insurance. In this country the definition is quite different. We arrive at our unemployment figure by taking a sample of 35,000 households out of the entire country once a month. In the investigation an unemployed person is defined as *anyone fourteen years old or older who says that he is looking for a job*. Many older people, sixty-five or seventy, who decide once again that they would like to earn some money but cannot find a job immediately are listed as unemployed. So are housewives who also decide that they want to increase the family income, but haven't worked in perhaps ten or fifteen years. So are fourteen-year-old boys who decide to leave school, get working permits, and try to find jobs. Thus our high unemployment figure depends substantially on mere definition.

The Bureau has changed its definition on several occasions—as in 1954 and 1958—so as to add perhaps a million people to the unemployed list. In 1954, for instance, it was decided that anyone who had a job to which he was waiting to report within thirty days was to be considered unemployed, although until then such people had not been classified as unemployed. All of these factors tend to raise our unemployment statistic to an unrealistic number.

As an instance of the problem about statistics on unemployment, let us take January 1961. Out of 5.4 million listed as unemployed, 3.2 million were receiving unemployment insurance in January. This is really the basic unemployment figure. Also, we must consider the fact that of the total unemployed only 1.3 million were out of work for fifteen weeks or longer, and 2.2 million had been seeking work for less than five weeks. These statistics help to place the total figure in its proper perspective.

But even taking the statistical manipulation as one cause of the high total figure we must still look elsewhere for another reason. It can hardly be doubted that the continual uneconomic wage increases in leading industries and the height of wage rates in these industries is a basic structural cause of unemployment. It is the consumer who ultimately pays the wage bill, since over eighty per cent of the price of a finished product is attributed to labor cost as it is processed to the consumer. The price of anything has an effect upon the quantity that is purchased. When wage rates get too high in any industry, there is an adverse effect upon employment.

You will recall that excessively high wage-rates as a cause of unemployment was noted by Senator Douglas in the passage we quoted from his book *The Theory of Wages*, which he published when he was still purely an economist and not yet in politics. Such a statement—from such a source—is so significant that it is worth repeating again: "If wages are pushed above the point of marginal productivity the decrease in employment will normally be from three to four times as great as the increase in hourly wages so that the total income of the working class would be reduced." This is also the observation of Rueff and Pigou, as previously noted.

If money wage-rates would hold the present level for a period of a year or two while productivity increased, there is little doubt that the unemployment figure would decline substantially. This being so, the administration program of raising the minimum wage rate to $1.25 (such a minimum raise must unquestionably raise *all* wage rates) is certainly a blow at employment.

### UNEMPLOYMENT IS NOT A MYSTERY

A basic cause of recession is the fact that costs rise too rapidly and get out of balance with selling prices. Industry then needs higher productivity, which is achieved during a recession by reducing costs wherever possible—especially the cost of labor, which is the largest manufacturing cost. When business gets a little better, employers are wary about reestablishing the old high costs. They hire new help slowly.

The first thing that happens is that regular hours worked by employed labor increase. At the low point of the 1957-58 recession, the average factory work-week was 38.3 hours. In December 1958 the work-week was 40.2 hours which was the highest in almost two years. Thus those factory workers who were employed earned more money but there was no rush to hire new workers. Also there was an increase in overtime work.

Employers, not being certain about continuing an increasing volume of business in the future, manufactured their orders by paying more for overtime to their present workers. In December 1958 overtime work increased by .2 hour to a total of 2.7 hours. These two factors—increased regular hours plus overtime pay—accounted partly for the fact that unemployment decreased rather slowly during the first seven months of recovery in industry. This follows the traditional recovery pattern.

But continuing high unemployment suggests that there is a more fundamental cause. If all factors were in proper balance, we should not have had over five million unemployed in 1961 when national income was the highest in history, and people were spending more money on personal consumption expenditures than ever before.

Beyond doubt the cause of high unemployment is directly related to the successive wage increases and the high cost of hiring labor. This should be no surprise, since everyone knows that the mounting price for anything is a natural bar to its increased use. This applies to the price of labor as well as the price of anything else.

The average cost of hiring factory workers increased from $2.05 an hour in April 1957 to $2.12 an hour in December

1958. Most of this increase took place during a recession while unemployment was increasing to a high point of 5.4 million.

It certainly is not unreasonable to assume that large-scale pay increases when business was in a downswing contributed greatly to swelling the ranks of the unemployed. *Total* wage payments for *all* labor (and, therefore, employment) would be much higher today if unions did not demand and get wage rates which restrict employment and thus decrease the total paid to all labor for more jobs. Those who insist on getting undue wage raises are actually exploiting the people who are thrown out of work.

It has long been known that there is a direct relationship between the height of wage rates and the total of unemployment at a particular time—between the price paid per hour to labor and the amount of labor-time which employers are able to pay for and still operate profitably. In many industries higher costs cannot be absorbed by productive gains, and prices must go up, or the factory will have to close. The price rise in turn affects the public's power to buy in increased volume and the lack of additional orders is reflected in continuing high unemployment.

There is really no mystery about the matter. If we are unwilling to curb the power of monopoly unions to get excessive wage increases, then our people will face large-scale unemployment even in prosperous times.

# 7–

# Government intervention

*Whenever there is some trouble in any area of the economy, the simplest solution to many people is "Let the government fix it." Yet the record is plain for everyone to see—every time the government uses its money or its power to favor this group or that it sets in motion a train of events which causes even more serious trouble and imbalance in many other related areas. Over a period of years the net result is such a web of supports, subsidies, interventions and controls that it is almost impossible for a nation to find its way back into a dynamic system of really free enterprise. The following pages detail just a few of the many instances of bungling government intervention.*

## THE RAILROADS: HOW TO CRIPPLE A GREAT INDUSTRY

Any history of American industry should certainly have a chapter on one of our most important assets—the railroads. Although railroads compete keenly with truck, plane, pipeline, and ship transportation, they are regulated by a United States government commission, in addition to state regulatory agencies, under a definition which considers them a monopoly.

Today more than fifty per cent of the nation's freight is shipped by nonrail transportation, yet railroads are given the same kind of anti-monopoly treatment they got in 1920 when the present Transportation Act was passed. The net result is a sad example of what happens when the prejudices, politics, and opinions of government commissioners guide an industry which must meet fierce competition.

Here is an industry that employs more than 1,100,000 people, has a net property value of over $25 billion, and contributes a large slice to the national income. In case of national emergency, such as war, railroads must carry over eighty per cent of the increased traffic, as they did in World War II.

If the Soviets had such a railroad system as ours, they would tout it throughout the world as one of the great accomplishments of industrial genius. But instead of protecting and nourishing this great asset, the United States has restricted and harassed this industry so that it cannot possibly achieve its full potential in serving the nation.

In 1957 railroads earned a little less than 3.6 per cent on their assets, on the basis of valuations approved by the Interstate Commerce Commission. Currently the rate of return is even lower. Naturally enough, such an industry cannot attract the capital necessary to increase automation and improve efficiency. Although nearly fifty-two per cent of railroad income goes for wages and salaries, when unions win a wage increase the ICC often does not permit offsetting revenue increases. In his statement before a Senate Committee, Professor Jules Backman of New York University pointed out that the ratio of net railroad operating income to total operating revenues in 1958 was lower than it was at the bottom of the depression of 1932.

Plainly the railroads are in trouble. Unlike other competitive businesses, railroads are restricted by rules intended to apply to a monopoly, which they clearly are not at present. In addition, their competition—such as the trucking industry—is partly subsidized by publicly maintained roadways, while railroads not only maintain their own roadways but must contribute to the taxes which subsidize their competition.

One railroad spokesman summed up their position by asking for "freedom from uneconomic burdens and freedom to compete equally." They ask for a measure of flexibility in their prices—such as prevails in other industries. For instance, Seaboard Railroad president John Smith testified that during the twelve years when the Florida vegetable traffic was doubling in volume, railroad percentage of that traffic declined from seventy-seven per cent to thirty-one per cent. His road was not permitted to compete for the vegetable traffic.

Railroads wanted to meet truck competition by lowering their rates, but the ICC denied this plea for many years. Railroads realize that often the way to more net profit is to decrease their prices, not to increase them. They want, within limits, to have the same rights as other industries in meeting competition.

Among other important proposals which have been suggested by railroad spokesmen to put them back on their feet are the following:

(1) Direct the Post Office Department and the ICC to allow full cost in carrying mails, plus a reasonable profit. Today they are carrying this freight at a loss. (2) Limit government competition in parcel post service. Confine parcel post to small packages. (3) Eliminate the three per cent federal transportation charge on freight. This charge is not made to other transportation lines, and acts to the detriment of the railroads. (4) Eliminate the ten per cent federal transportation tax on passenger railroad tickets. This was a wartime measure meant to discourage travel. (5) Permit consolidation and merger of lines for sake of economy and efficiency. (6) Allow railroads to diversify their transportation services —to operate some bus lines where necessary and to engage in shipping too. (7) Allow the railroads to depreciate their property on a realistic basis, taking into account the full cost of all assets.

Unless railroads are given relief they will get into deeper trouble and demands will grow for subsidies, government credit pools to finance necessary equipment, and other government intervention. All of this would simply put the government deeper into the railroad business, which would be a catastrophe. Even so, it would not get at the root of the trouble.

There is some cause for hope that after all these years of talk the Senate subcommittee on Surface Transport will propose something constructive which Congress will act on. Its Chairman, Senator Smathers, has indicated an understanding of railroad problems and sympathy for them in their present plight.

The real question is will Congress and the ICC act in time? This seems to be a race between bankruptcy for the railroads and prompt action by the government to give them "freedom from uneconomic burdens and freedom to compete equally."

## THE STEEL INDUSTRY: A 'MOMENT OF TRUTH'

If government intervention in the railroads has been disastrous, it has been nearly as bad in the steel industry. When the country faced a crippling steel strike in October, 1959, Vice President Nixon decided to bring all power of the government to bear upon the companies to settle on terms favorable to the union leaders. Unwilling to deal with the real issue —labor monopoly power—Mr. Nixon decided on the next and always inevitable step—government intervention. As a result of government pressure the steel industry was practically forced to grant uneconomic wage increases which inevitably raise prices and thus make steel less competitive both in this country and abroad.

Popular fictions die hard. Long after facts become clear, a popular misconception may continue to dominate public thinking. The misconception particularly persists that excessive wage increases wrung from the producer are paid for by him, although it is clearer each day that nothing could be further from the truth. The proven fact is that the public pays the bill—the employing industry is just an intermediary which handles the money.

In the long run, wages must be a fairly fixed percentage of any industry's sales. When cost of production rises steeply, companies must either retrieve most of that payment or go out of business. In major industries, profit margins are never big enough to absorb substantial increased labor costs. Stiff competition from other industries and from low-cost producers abroad sees to that.

December 1, 1960, was the "moment of truth" for steel when the big rise in employment costs took place—with another increase scheduled for October 1, 1961. Over the life of the three-year steel contract, employment costs are scheduled to rise about 3¾ per cent annually—a total of more than eleven per cent. In addition, steel will be faced with increased costs for raw materials and services.

The wage increases were scheduled in the face of one of the most drastic declines in production and employment in the steel industry's history. Already hard-pressed by foreign competition, how could the industry absorb such increased costs, as the union leaders demanded? The following figures show percentage payments for the year 1958 (a normal year not influenced, as was 1959, by a strike):

| | |
|---|---|
| Paid to employees | 38.20 |
| Materials and services | 42.30 |
| Taxes | 7.80 |
| Depreciation cost | 5.40 |
| Dividends paid | 4.30 |
| Retained for investment | 2.00 |
| | 100.00 |

The above figures explain why steel prices must rise when employment costs increase over eleven per cent in three years, and other costs go up too. Such increases, if unrequited, would knock out most of the dividends paid, cripple the industry's reinvestment in modern plant and machinery and cause widespread bankruptcies.

When the operating rate of steel is low, smaller companies like Crucible Steel, Colorado Fuel & Iron, Acme Steel, Sharon, and many others have deficits or border on red ink. They will be in serious difficulties if their increased wage costs are not reflected in their selling prices. Do we want to eliminate such independents and concentrate still more of our total production in the giants of the industry?

On a long term basis the independents' profit margin is only three cents in each dollar of sales—far below the industry total. How can such companies increase employment costs 3¾ per cent annually and still stay in business—if they do not increase their prices? It is well to remember that there is no common pot out of which profits are taken. Each company, small or large, must earn its own.

If steel prices rise, how will the industry compete internationally? During the past two years over 6.6 million tons of steel were lost to American producers, both here and abroad. The business went to foreign companies. Over 50,000 American workers lost their jobs because of competition from abroad. If the gap between prices of American and foreign steel products continues to widen, the impact on American employment will be even greater. Incidentally, this is typical of what is happening in many American industries. John L. Lewis recently estimated that a thousand American companies have built plants abroad, which now employ a million foreign workers.

It is a blow to American industry and to job opportunities for Americans that increased labor costs should take place during a recession. It is this kind of annual automatic wage rise, regardless of conditions, which tends to push the United

States into periods of substantial decline. When costs should be falling they rise. When prices should be going down they go up.

This raises a major question. Is it wise for labor union leaders to force American industry into this position? Wouldn't labor union members be better off if their pay did not rise so steeply and fewer workers lost their jobs? Also, wouldn't they be better off if spiraling wages and prices no longer robbed their pay envelopes of legitimate earnings?

Finally, wouldn't our national growth be more solidly based if market factors were permitted to operate in a free climate instead of being subject to government intervention, which always forces industry to raise its costs and raise its prices? Whenever the government intervenes it does so in behalf of some powerful organized group—and against the interests of the general public.

## GOVERNMENT INTERVENTION ON THE FARMS

The government always enters like a lamb—and then dominates like a lion. The present farm program is a case in point. It started from much smaller beginnings in 1938 when the second Agricultural Adjustment Act was passed. This covered only three crops—corn, wheat and cotton—and support for these commodities was limited by law from fifty-two to seventy-five per cent of "parity."

Even New Dealers of those days thought that this was ample aid for farmers. Yet today, the government is supporting six basic crops and partially supporting a dozen others at much higher parity prices.

The fact is that the economy is being choked by this government-in-farming policy. The government now has invested over $9 billion in corn, cotton, wheat, peanuts, rye, butter, barley, sorghum, and a lot of other products. It has commandeered warehouses, buildings, caves, and old ships to store them, and storage costs alone amount to a million dollars a day.

No matter what rules are made to limit acreage for growing, human nature will beat the game by intensive farming and crop increases. Farm productivity has advanced one hundred per cent since 1940. About eighty per cent of the benefit of government subsidies goes to about twenty-five per cent of the farmers in the country—the farming "giants."

These vast farm producers get government money for (1) not growing farm produce, (2) storing farm surplus, (3) for growing any of the twelve major crops and selling them to an agency of the government. Republican Senator Williams of Delaware told the Senate in 1958 that three farm corporations had been given more than $3.4 million in supports—which, he said, was "greater than the total [subsidy] amount received for all crops produced by the farmers in Delaware, Maryland, Pennsylvania, and New Jersey."

For not growing crops large sums are awarded, such as the $322,000 given to the John W. Baughman Farms Company. For storing surplus crops big companies received more than $2 million each, and one, the Cargill Company of Minneapolis, got over $13 million. If Congress should try to limit payment for crop support to $50,000 to any one company, the law will easily become a dead letter by big farm organizations splitting up like an amoeba, each receiving the limit.

It should be noted that not all farm income is subsidized. That portion of farm activity which is free—hogs, cattle, fruit, vegetables, and so on—is quite prosperous and very flexible. The government-supported section is the troublemaker. And what is the net result of government-subsidized farm products? First, it means higher prices to the public, as well as higher taxes. High corn and wheat supports mean higher hog and meat prices at the supermarket. Second, it means that farmers are not as concerned with the *quality* of their products—when they grow for government storage bins. For instance, there has been a tremendous increase in the growing of "yellow-belly" wheat of inferior quality. Why shouldn't farmers grow it when they get a top price for each bushel from the government?

Third, farm subsidies create tremendous surpluses which are a national and international problem. Farm products like wheat must be "dumped" abroad. Good neighbors, like Canada and Argentina complain that we are disturbing their markets, which is true. Finally, of course, pouring billions into unneeded crops adds to the government deficit which is financed by banks. This means more inflation and still higher prices.

Since these are the bad results of a policy which is now bankrupt, the mystery grows why such policies are supported by legislators representing industrial areas. Also, why does the AFL-CIO always throw its weight on the side of high price supports for farmers? This is plainly against the best interests of the worker.

AFL-CIO publication #41 says, "Through their legislative activities, unions have consistently championed measures to improve governmental benefits for various groups of citizens, without regard to whether the beneficiaries are union members or not." Since subsidies must be paid either by taxes or by the cruelest tax of all, inflation, why do workers' representatives support this?

Whenever government tries to cure an economic problem by manipulating prices it is bound to create still greater problems and even greater dislocations. The country—including farmers—will be a lot better off when subsidies are abolished and farmers grow crops for the market and not for government warehouses. We can only hope that eventually common-sense will prevail.

## HOW DOES PRESIDENT KENNEDY STAND ON FARM POLICY?

President Kennedy has one standard formula for meeting every economic problem regardless of cause. He insists on more federal government intervention. The net result is that he would substitute government activity and controls in many areas where industry at present is successfully operating under free individuals in a free market.

Nowhere is this more clearly evident than in his farm policy. This subject may seem remote to the city man but it affects his pocketbook and his living in many important ways.

As background for this discussion the reader should know that sixty-five per cent of farm income today is not under government control or subsidy. This segment happens to include the most prosperous and successful of all American farmers. The free market area comprises over 250 individual products. Thus, when President Kennedy says, as he did in campaign speeches, that the farmer is helpless if the government does not control his products and subsidize him, he is completely refuted by the facts. And if the proposal for "supply management" of farm products and "full parity of income" for the farmer is to be implemented, then all farm products in the United States now in the free area would pass under the strictest government control.

Authority for this statement and the analysis to follow is taken from a memorandum by True D. Morse, Acting Secretary of Agriculture under Eisenhower, and some forty economists and statisticians in the Department of Agriculture who analyzed the plan in October 1960. In a campaign speech, Mr. Kennedy said, "Parity of income prices under this definition can be calculated by the United States Department of Agriculture without difficulty." The department proceeded to do so and here are its findings:

1. Three-fifths of American agriculture, which has hitherto been relatively free—livestock, poultry, fruits, vegetables and other products without control—would be brought under government control. Increased administrative costs alone would be more than $250 million a year. It would be necessary to hire about 50,000 additional employees with tremendous powers of enforcement.

2. It would be illegal for a farmer to sell any commodity having a national quota when he had no market certificate to cover the quantity involved. Therefore black markets would thrive as they did in the days of rationing and price control during the war.

3. The American people would get less meat per capita by at least ten per cent than was available in the rationing period of World War II.

4. Marketing of major items would have to be cut back as follows: wheat 38-46 per cent; cotton 35-50 per cent; hogs 25-30 per cent; cattle and calves, 14-17 per cent. Businesses which supply agricultural communities would suffer greatly.

5. Indicated price increases at retail for major commodities would be as follows: meat per pound—choice beef from

82 to 98 cents; pork from 57 to 81 cents; chicken from 42 to 64 cents. Other products—a loaf of bread 20 to 21 cents; a quart of milk from 25 to 30 cents; a dozen eggs from 51 to 79 cents.

The Department of Agriculture experts said "the effect on our foreign trade and our entire foreign policy would be disastrous. Practically all our foreign outlets of farm products would be lost which in 1959-1960 totaled $5 billion." Furthermore, protectionism would be given a stimulus. A wave of protectionism and high tariffs would seriously undermine United States foreign relations.

Based on conclusions of experts in the United States Department of Agriculture, the proposed Kennedy interventionist farm program would be disastrous. This policy of "Let the government do it" is usually a way of getting into an even worse mess.

## THE CONSUMER LOOKS AT TARIFFS

One of the oldest forms of government intervention known to rulers and parliamentary heads of government is tariffs. The Mercantilists who dominated economic philosophy more than two hundred years ago advised this as one of the main weapons in their arsenal for maintaining economic nationalism. The use of high tariffs continued until modern times, when the benefits of a freer exchange between nations, first expounded by Adam Smith, became the objective of economists and some statesmen.

In discussing tariffs it should be remembered that this is only one form of government intervention. And it must be confessed that it is not the most important, even though its effects are detrimental to the nation as a whole. The employment of government subsidies in agriculture is at least as bad, if not worse. And of course government intervention in supporting an artificial wage structure by legally protecting labor union power results in an imbalance which pervades the entire economy.

Nevertheless tariffs are an important intervention. It is unfortunate that recently labor union leaders have renounced their traditionally liberal anti-tariff policy and have joined their former opponents, leaders of some industries, in demands for still higher tariffs.

In the light of this history it might be well to quote here one of the simplest and most effective explanations of this matter ever written. The author is a great nineteenth century French economist, Frederick Bastiat, and his essay is entitled *How to Work More and Have Less:*

"Do you remember how Robinson Crusoe made a plan on his desert island?" asked Bastiat. "Since he had no saw, he used his ax to cut down a tree. Then he chopped the trunk of the tree, first on one side and then on the other, until he reduced it to the desired thickness. This plank cost him fifteen days of labor. In addition, he dulled his ax and consumed much of his food supplies. Now here is a footnote to that story that is not generally known. Just as Robinson was striking the first blow with his ax, he saw a plank thrown by the tide upon the seashore. His first impulse was to run and get it, but then he stopped and reasoned as follows.

"If I get that plank, it will cost me only the time and trouble of going down to the water's edge and carrying it back up the cliff. But if I make a plank with my ax, I shall give myself fifteen days of labor. In addition, I shall also dull my ax, which means that I shall have the job of sharpening it. Also, I shall have to replace the provisions that I consume during my labor.

"Now everybody knows that labor is wealth. So it is clear that I would be doing a disservice to myself if I accepted that free plank. I must make sure that I always have work to do. Now that I think of it I can even make additional work for myself by going down and kicking that plank back into the sea!

"Now you might think that Robinson's reasoning was absurd. Nevertheless, it is the same reasoning that is followed by every nation that uses tariffs and other restrictions against trade in an effort to make more jobs at home. The nation rejects the foreign plank that is offered in exchange for a little work, in order to insure more work by manufacturing its own plank at home. Such a nation even sees a gain in the labor of the customhouse officials—much like Robinson's decision to return to the sea the present it had given him.

"If you think of a nation as a collective being, you can't find an atom of difference between the reasoning of the tariff advocates in real life and the reasoning of Robinson Crusoe in this fable."

High tariff defenders make the fundamental error of looking at only one side of the coin. But there are two sides to it—exports as well as imports. Advocates of higher tariffs gloss over the employment to American labor and the profits to American industry derived from the production of goods in this country which are exported to foreign purchasers.

Although 1959 was not favorable for our foreign trade, we nevertheless had merchandise exports of $16.2 billion of American-produced products. In 1960 our exports were $19.5 billion. If we curtail this activity what will happen to the jobs and profits resulting from our producing for export? After all, foreigners cannot buy American goods if they do not earn dollars by selling their merchandise to us. Japan, for instance, which competes keenly with American producers in the United States, was nevertheless the number three buyer of American goods last year. Even in a bad year like 1959 our merchandise exports exceeded our merchandise imports by about one billion dollars. In 1960 the spread in our favor was $4.5 billion.

Finally, it must be remembered that every dollar saved by an American consumer who buys a cheaper imported product is a dollar spent for some other necessity manufactured right here. One American manufacturer's loss becomes another's gain—but the consumer and the nation get an advantage. Just how terrible is this situation on balance, and why should believers of freer trade get panicky?

A striking example of the needlessness of many current fears is provided by the showing of United States exports and imports on finished manufactures—a type of trade which we often hear is so much to our disadvantage. In the twelve months ended September, 1959, our exports were $9.2 billion and our imports $4.8 billion, so we had an excess of exports of $4.4 billion. Is this a cause for panic? In every major classification we import some goods while our factories make substantial exports. For instance:

| MACHINE TOOLS | |
|---|---|
| Exports | $156 million |
| Imports | 30 million |
| Net Exports | $126 million |

| AGRICULTURE EQUIPMENT | |
|---|---|
| Exports | $141 million |
| Imports | 112 million |
| Net Exports | $ 29 million |

ENGINES AND PARTS

| | |
|---|---|
| Exports | $232 million |
| Imports | 5 million |
| Net Exports | $227 million |

CONSUMER GOODS
(Excluding foods and textiles.)

| | |
|---|---|
| Exports | $890 million |
| Imports | 876 million |
| Net Exports | $ 14 million |

Now let's take a classification where we have a lot of trouble: Even here our export trade is substantial. The figures read:

TEXTILES

| | |
|---|---|
| Exports | $434 million |
| Imports | 591 million |
| Net Imports | $157 million |

In steel mill products we have a similar situation. We import more than we export. But our exports are substantial.

STEEL MILL PRODUCTS

| | |
|---|---|
| Exports | $165 million |
| Imports | 291 million |
| Net Imports | $126 million |

If we want to wipe out our imports we will have correspondingly to wipe out exports, which produce jobs and profits. This would not make much sense. Our imports are profitable, as Professor Gottfried Haberler of Harvard recently pointed out. "If factors of production are shifted from the inefficient industries, which can be kept alive only by skyscraper duties, to efficient export industries, real national income per head, real wages and salaries will go up." After all, that is the objective of economic policy, to make real income go up.

A case can be made for increased protection where national defense is involved. We may be in dire need of products of certain industries in the future, and we do not want to be left high and dry if a crisis occurs. But to throw a higher tariff wall around the United States only means lowering the real income of the American people.

Tariffs, which are briefly discussed here, are not the only form of government intervention which lower the standard of the American worker. Whenever the government intervenes in economic affairs it distorts economic factors and causes an imbalance. The consumer pays for this in one way or another. In any survey of government activity along these lines primary consideration must be given to our present labor laws which constitute the most important of all forms of interventionism. They affect the entire economy in significant fashion and therefore the following chapters are devoted exclusively to discussion of this problem.

# 8–

# Labor unions in a free society

*In a free society people have a right to join together to promote their ideas and their legitimate objectives. The right of free association should not be denied. Therefore, it is plain that the free association of men into a labor union is protected as a constitutional right. But this is a far cry from the conditions we have today. Labor unions are no longer voluntary associations. The law compels workers to join them if they want to earn a living. Furthermore, unions have been legally endowed with vast monopoly privileges accorded to no other group in society. It is practically impossible to sue unions in courts. The National Labor Relations Board acts as plaintiff, judge, and jury in most labor disputes.*

*It has been cogently argued by Dr. Sylvester Petro, Professor of Law at New York University, that the only solution to this tangled web is to repeal all special union privileges and place labor unions under the common law, to be judged by the regular law courts like everyone else. Unfortunately, public opinion does not seem ready to accept this solution now or in the near future. Until the public gives indications of understanding the wisdom of such a solution, believers in individual freedom should throw their weight behind legislation which counteracts the monopoly power of unions and enlarges the area of freedom. Such a law is the right-to-work law, now legal in nineteen States. Similar laws on other labor matters may be proposed in the near future.*

*The objection to such solutions is that they are tentative, but in this less-than-perfect world we must often accept tentative solutions. At any rate such laws enlarge the area of freedom.*

"Liberals have accused the conservative of ordering his beliefs to the world of his grandfather, but they have lately done no better than order theirs to the world of their fathers." So writes Professor Charles E. Lindblom in his book *Unions and Capitalism.*

One of the subjects which he says needs a new analysis is that of unionism. Now the important thing to remember is that Professor Lindblom speaks as one of the new liberals. In fact, both his theoretical position and his practical approach to current problems have always received hearty approval from the new-liberal press and from those who lead the new-liberal movement. Professor Lindblom is not sure that private capitalism as presently conducted is the best system; he thinks that strong unions are essential in this industrial era, and he fears disturbing their position too much. In a word, he reflects the doubts and prejudices of the latter-day liberal. Therefore his analysis of unions should carry conviction to many people who would ordinarily brush off such a criticism as prejudiced.

Professor Lindblom says frankly that modern unionism and the capitalist system are incompatible. He doesn't distinguish between "good" unions and "bad" unions, but simply declares that the guiding short-run principle of every union is still cogently summed up in the famous phrase of John Fitzpatrick of the old Chicago Federation of Labor—"All we can get."

Unions today get plenty because since Fitzpatrick's time they have built up a monopoly which employers cannot resist. The very success of the union movement will make capitalism impossible, says Dr. Lindblom, because it will destroy the basic mechanism by which a free enterprise system lives. It destroys the regulator of our economic society.

This regulator is the competitive price system, which serves several important functions: (1) It permits the economic allocation and use of scarce resources. (2) It permits the individual free choice of occupation. (3) It is a mechanism for producing what consumers want at prices they can afford to pay. If competitive prices are distorted, then the capitalist system cannot function; it breaks down.

But the trouble, says Dr. Lindblom, is that unions, as they achieve monopoly power, play hob with the free price system. "The union is a monopoly because it can and does raise the price of labor to levels which will, in a competitive price system, inevitably cause waste, unemployment, inflation, or all combined."

As the price of labor is forced up and employers buy less of it for producing goods, unemployment increases and the government itself is forced into inflationary measures to solve the unemployment problem.

Unions look upon wages only as a share of income. But, in the words of Dr. Lindblom, a wage "is more a cost of production than it is a share of income." Everyone pays wage costs. Dr. Lindblom then explores the existing restraints upon the exercise of union power, but he finds them sadly lacking.

It must be remembered that there does exist plenty of restraint upon the employer in the form of competition and the legal penalties which enforce competition. It is this very restraint—competition—which causes the employer to resist union demands for uneconomic higher wages. He doesn't want to lose his business to his competitors because his prices are too high.

But there is no restraint, except self-restraint, which operates against union demands for wages so excessive that they must cripple the price system. Fear of unemployment is no deterrent—as is evidenced by the actions of coal, railroad, steel, and other unions. The law is certainly no deterrent—indeed today it generally encourages unions to make even greater demands.

When monopoly unions finally dominate an industry, there develops a kind of syndicalism. In that case, as Dr. Lindblom points out, the workers and the managers come to agreements which shield them from the competitive forces of the market. Many unions such as coal, railroads, clothing, photo engravers, and others have tended this way. The agreements thus arrived at concern the workers and the owners, but do not take into account the interest of unemployed workers or consumers.

That is the path along which modern monopoly unionism is driving us. It must be specifically understood that the attack being made here is against the present laws under which unions operate and *not against the functioning of labor unions*. This is a most important distinction, which should be kept in mind during the following discussion.

An obvious solution to the problem is to restrain the power of the unions. But Dr. Lindblom with his modern liberal prejudices refuses to come to this evident conclusion. Having made his devastating analysis, he practically wrings his hands in public and says there is no solution. He refuses to follow his own logic. As a modern new liberal, he cannot suggest any move which would curb the power of union leaders, for giving coercive power to these leaders has been part of the basic ideology of new-liberalism since 1932. But his analysis of the relation of modern unionism to capitalism is a devastating one.

### BLAME RACKETEERS OR UNION POWER?

Even more devastating are the facts about union power exposed by the 1957 inquiry of the Senate Subcommittee on Improper Practices in Labor and Management. The findings of the Committee under its chairman Senator McClellan were shocking, and the committee began to be called simply the labor racket's committee. Many citizens who normally support the labor unions' bid for increased power were distressed by its findings and sickened by the evidence. But the interesting fact is that Senator McClellan's service to the public rested upon something quite different than he intended.

The real effect of Senator McClellan's summarizing statements was to prove that the present legal power of unions is so great that it can be and is a public menace. For example, he declared, "The economic factors involved are tremendous. Such power (placed in the hands of persons affiliated with racketeers) is a danger to the welfare of the nation." We would like the reader to read this statement eliminating the words within the parenthesis. The power possessed by unions to endanger the welfare of the nation can be exercised by power-hungry men who are labor union leaders just as easily as it can be used by racketeers.

It is the existence of the legal power which is dangerous. The function of the law is to prevent anyone from abusing power over others. If racketeers get control of a business corporation they can ruin the stockholders but they cannot ruin the country, because in a corporation they would instantly run afoul of laws restraining their actions. The law does not depend on the individual's sense of ethics. It prescribes certain actions regardless of whether he is a well-intentioned person or an evil one.

But no such restraint exists for labor union leaders and their organizations. And many people who are sincere friends of labor unions know that the possession of almost unlimited power eventually causes a public reaction. At another point in his statement, Senator McClellan, talking of the actions of racketeers who control unions, said "They have a strong impact on the economics of our industry and can make or break small employers by their tactics." In discussing union charters, he said, "The union charter is a private certificate to do business . . . these charters were used as instruments for the commission of extortion from employers."

The McClellan committee report was filled with accusations like these: "There has been widespread misuse of union funds . . . destruction of financial records and canceled checks has been rife . . . there has been a lack of democratic procedures in unions . . . international unions have flagrantly abused their power . . . locals under trusteeship have been plundered . . . rank and file efforts to throw off shackles have been ignored, rejected and sometimes met with violence . . . gangsters and hooligans have successfully infiltrated labor unions, sometimes at high levels . . ." The enumeration of abuses of human freedom seemed nearly endless. Many citizens who were certainly not anti-union began to ask why the law permitted any private organization to have such monopoly power that it could successfully be used to extort payments from legitimate business under fear of reprisal. Senator McClellan described the "victimization of the union membership;" often, he said, union members "don't even know that they are in the union." Yet such organizations have the power of life and death over many a business, and over the lives of countless men and women.

There was also the disclosure that unions can get a stranglehold on large geographical areas. Senator McClellan pointed out that in New York State, the biggest and richest labor area in the country, the Joint Council is important because of "its policy making function, the centralization of power in the hands of a small group, its control over the grants of charters, and the right to strike. . . ." The Senator pointed out that if anyone got control of this group plus the International Longshoremen's Association, they "would have a stranglehold over the Port of New York, the next step would be the entire Eastern Seaboard and the St. Lawrence Seaway." A tieup could then be made with the West Coast Longshoremen's union.

Confirming Senator McClellan's fears, Harry Bridges, well-known pro-Communist leader of the West Coast labor movement, said that if the teamsters and the two dock unions can get together, "an economic squeeze and pressure can be exerted that puts many employers on a tough spot and furthermore puts the United States Government on a tough spot." And there is Jimmy Hoffa, who has plans for tying together all the transportation workers into one huge, monopolistic union which could bring to a halt every wheel that turns in the United States.

This kind of monopoly power is frightening. It is the privilege of no other group in our society. The question which many are now asking is this: Should the law permit *any* organization to possess so much power that it can wreck industry, ride roughshod over the public and threaten the government itself?

### INDUSTRY BARGAINING: A TOTALITARIAN IDEA

Consider for a moment the appalling consequences of a nationwide strike—for example, the steel strike of 1959. In addition to 500,000 steel workers, over 275,000 other workers were laid off.

Twenty thousand soft coal miners—about twenty per cent of the total—were idled. Sixty thousand railroad workers were sent home on furlough. Automobile companies laid off 75,000 production workers, with wage losses estimated at $1.5 million a day. President Eisenhower asserted that the nation's health and safety were threatened and that our missile program was being seriously affected. There was no doubt in any reasonable mind that the nation faced a crisis.

Consider, too, the other side of the coin. The government got an injunction to force people to go back to work when, according to their union leaders, they did not want to work. Every believer in a free society must be disturbed when the government uses its coercive power to deprive the individual of his basic right to work or not to work as he sees fit. Yet under the present law the government has no alternative. It cannot see the country grind to a halt because of a strike. So, in addition to the economic crisis, the principle of freedom suffers a severe blow by a nationwide strike.

Why does all this happen? There is one reason, and only one. The laws passed by Congress have forced it to happen. Congress has made it *inevitable*. We suffer these crises only because a *nationwide* union of workers faces practically all the producers in an industry at the same time to argue about wages and working conditions. If the workers of an individual company—even as big a company as United States Steel—were striking by themselves, we would not have a national crisis.

Congress, over the years, has approved and fostered monopoly in unions. It has protected these industry-wide monopolies with special privileges. The Norris-LaGuardia Act made them practically immune to the age-old remedy of a court injunction to protect the rights of other individuals. Union leaders are not answerable in the courts for excesses committed by them or by their members.

The very concept of a nation-wide union opposed to a nation-wide group of employers is a totalitarian one. It is the concept of the corporate state made odious by Mussolini. It has in it the essence of Hitler's ideas. It runs contrary to the democratic precept that power should be fragmented, and problems should be solved locally wherever possible. If these economic issues were fought out in individual companies or plants, there would be no movement towards the corporate state, and a free society would not be menaced.

In the early days of the Wagner Act (1937-1940), the impetus toward one big industry-wide union was promoted by the Labor Board, whose function was to certify the bargaining unit. Under the influence of early New Dealers, the board denied existence to many fine half-century-old unions —such as the International Harvester Union—and forced them to join the CIO. The totalitarians of that time knew what they were doing. They wanted one big industry-wide union.

When such an economic behemoth is created, it is only natural for employers to refuse to be picked off one by one, and to huddle together for bargaining. Thus we have two tremendously powerful national forces facing each other. This inevitably leads to the assertion of the only other force which could control both of them—that is, the United States government.

All of this leads some people to urge compulsory arbitration, which means that both workers and managers would be under the thumb of the government. It has been asserted that if government had this power it probably would not be forced to use it at all. This is far from the truth. In every country in which compulsory arbitration has been tried, the government always has to step in. One side or the other thinks it will be advantaged if this happens—so it inevitably happens.

"Arbitrators" do not arrive at *economic* decisions. They make *political* decisions, even if subconsciously. They always try to parcel out "justice" by perpetuating the historic relationship of one group of workers—say the automobile—to any other group of workers—say steel. But wage relationships and price relationships must change if a society is to be dynamic. Compulsory arbitration throttles a dynamic society.

If the country doesn't want to embark on the dangerous sea of compulsory arbitration, and if it wants to avoid tragic national crises such as we have had, then it must both assert the democratic principle of free collective bargaining by companies or plants or some such combination, and it must make unions obedient to restraint of law and responsible for their actions, just as corporations are.

### WHY ARE LABOR UNIONS ABOVE THE LAW?

Dave Beck is long since finished as head of the Teamsters' Union. And Congress even passed a law (Landrum-Griffin) to guard against the stealing of pension funds by union officials. To be sure these are steps in the right direction. But they cannot get at the heart of the union problem any more than the application of a mustard plaster can cure a functional disease of the body. The fact that no attempt is being made to curb the monopoly power of unions and their status above the law breeds gangsterism, extortion, violence, disregard of elementary personal rights, and other anti-social actions.

Whenever the question of sound public policy is raised in relation to labor unions, the false charge of "anti-unionism" fills the air. But encouraging such a discussion is not anti-union. It is, instead, pro-public. The concept of the Rule of Law—which antedated the concept of the Rule of the Majority in Ancient Greece—is of paramount importance in a democracy.

Among those who realize the danger and who lend a powerful and much-respected voice to defending the Rule of Law is Roscoe Pound, Dean Emeritus of the Harvard Law School. He is beyond doubt the outstanding legal scholar in the United States, honored throughout the world. His conclusions cannot be brushed off lightly.

In a special study entitled *Legal Immunities of Labor*

*Unions* Dean Pound presents a formidable argument. He cannot be accused of being anti-union—he is pro-union. He states flatly, "As Anglo-American law stood at the end of the formative period of American law . . . there resulted a legal system which put the worker in a condition amounting almost to subjection." Then came the rise of unions. The pendulum swung over to a point where the law granted to unions immunities not given to any other group—immunities formerly granted only to the king, or nobles, or the clergy, or land owners, or some specially favored group.

After analyzing these immunities Dean Pound says, "With the foregoing history of legal immunities and privileges in mind, we may compare the substantially general privileges and immunities of labor unions and their members and officials to commit wrongs to person and property, to interfere with the use of highways, to break contracts, to deprive individuals of the means of earning a livelihood, to control the activities of the individual workers and their local organizations by national organizations centrally and arbitrarily administered beyond the reach of state laws, and to misuse trust funds—things which no one else can do with impunity. *The labor leader and labor union now stand where the king and government and land owner . . . stood at common law."* Dean Pound's argument is that there is a legally effective remedy against every individual or group in society, but there is no legally effective remedy against great wrongs done by labor unions. The remedy of injunction, available against everyone else, is practically taken away from the public.

The union is not liable for the acts of its members in the course of a labor dispute. Every kind of violence goes unpunished. Contracts between unions and employers are practically unenforcible upon the unions. Section 301 of the Taft-

Hartley Act sought to remedy this condition, but the Supreme Court has nullified the law for all practical purposes.

Says Dean Pound, "The situation remains what it was before the enactment of Section 301 of the National Labor Management Act." Employers are barred from access to the courts and must apply to the National Labor Relations Board.

And how does the National Labor Relations Board function? In contrast to other agencies of government which are supposed to protect the public interest (such as the Federal Trade Commission and the Interstate Commerce Commission) the National Labor Relations Board has "acquired a function of upholding immunities of labor organizations and their leaders at the expense of the public," says Dean Pound.

Under seven different headings Dean Pound outlines the immunities of labor unions under the law—under Torts (civil wrongs), Contracts, Restraint of Trade, Duties of Public Service, The Right to Work, Racketeering, and Centralized Power and Irresponsibility.

What remedy does he suggest? It is essential, he says, to give a more precise and limited meaning to the idea of "labor dispute" and "labor practices." He suggests that "we look upon activity of unions outside of their proper sphere and injurious to the economic order just as we look at such activities of other organizations."

Collective bargaining is one thing, monopoly practices are quite another. No organization in society can long remain immune from laws which control everyone else. Dean Pound's analysis will be hotly discussed. But one thing is sure, no one can brush it off lightly, nor will anyone be able to smear this great legal scholar, who is simply defending the public interest.

Another significant essay is one by Professor Edward H.

Chamberlin of Harvard, *The Economic Analysis of Union Power.* A quarter-century ago Professor Chamberlin's earlier work, *The Theory of Monopolistic Competition* was a manifesto of the new liberalism, and was widely seized upon by those seeking an excuse to berate business and attack whatever level of profits existed as "too high" and "unjustified." When the author of such a theory now writes in a new essay that there is "abundant evidence that unions today have too much economic power" and that "the public interest requires that steps be taken to reduce it," even the new liberals may be inclined to go along with the analysis because "ipse dixit"—the Master himself has said it.

"Traditionally," says Professor Chamberlin, "wages have always been a competitive share. The term monopoly has been restricted to businessmen and to profits—so much so that it seems strange indeed even to speak of monopoly wages. Such a term, however, is in many circumstances technically correct, and monopoly power in the hands of labor is in fact beginning to be analyzed as such by theorists who are not enemies of labor at all, but merely interested in the pursuit of truth."

Dr. Chamberlin brings his analysis right up to date when he says, "To deal with a wage-push inflation by monetary or fiscal policy is certainly not to deal with causes. It is rather an attempt to create a counter-push by squeezing businessmen so that they will in turn squeeze labor. . . . It risks economic contraction, to say nothing of major industrial strife. An obvious alternative is to diminish in some measure the degree of economic power in the hands of unions so that the pressure may be reduced at its source."

Does this mean breaking up unions? Not at all, says Professor Chamberlin. "Unions, like business corporations, are here to stay. But also like business corporations they can be subjected to social control." Professor Chamberlin realizes that, regardless of logic, many people insist on defending the monopoly power of labor unions for misguided humanitarian reasons and out of prejudices formed years ago by conditions which no longer exist. But he says, "Those who are really concerned with the lot of the underprivileged in our economy will hardly be impressed by the claims of the trade unions sector. Today's underprivileged are to be found elsewhere." They are to be found among the pensioners, the older people, civil service employees, and the forty-seven million other non-union employees.

At the end of his analysis, Dr. Chamberlin declares that legislation to correct abuses revealed by the McClellan committee (such as the Landrum-Griffin law) is only a beginning. Then he concludes, "If the above analysis has shown anything at all, it is that the public interest requires the imposition of major restrictions on the monopoly power of unions." This power is employed not so much against business as against the public itself.

## FEATHERBEDDING: UNION PRIVILEGE AND THE LAW

The Congress of the United States has expressed itself in no uncertain terms about featherbedding. In the Labor Management Relations Act passed in 1947, Congress declared that no employer should be forced "to employ or agree to employ any person or persons in excess of the number reasonably required to perform actual services."

This is supposed to be the "law of the land" just like any other law on the statute books. Yet every intelligent person knows this law is a dead letter. It is violated every day without penalty of any kind. It is a significant fact that so-called liberal organizations which so vigorously defend the "law of the land" in other matters have never raised a finger to support this law. In fact they will give you a thousand reasons why it should not be observed.

When Congress passed the law it expressed the deep-seated conviction of Americans that payment for useless jobs forced upon any employer is not only immoral, but is extremely wasteful of our economic resources and unfair to the rest of the public. It is a practice which makes the country poorer and is paid for out of the labor of everyone who works. Yet, as everyone knows, American industry is shot through with featherbedding.

It exists in steel, transportation, automobiles, publishing, entertainment, and practically every major industry. How the statute is evaded would make an interesting case study for which, unfortunately, this book has little space. It is evaded by "agreements" made by the coercive power of big unions, by legal calisthenics of new-liberal judges when they interpret the statute words "reasonably required," and by state "full crew" laws which evade the federal statute under the guise of providing for the "health and safety" of the community.

The public is beginning to understand the economic consequences of featherbedding. When the Steelworkers Union fights to preserve thousands of unnecessary jobs which add to the cost of manufacturing steel it is, in fact, decreasing the real earnings of every worker in the United States. If, as steel union leader David J. McDonald said, steel industry proposals to eliminate featherbedding "would remove as many as 100,000 steel workers from the industry over the next year or two," then the amount of waste is far greater than anyone imagines.

When railroad union leaders fight to preserve useless jobs which now cost over $500 million each year, they are fighting to increase the cost of every ton of steel, or case of food, or pair of shoes, or suit of clothes, used by American workers. This is called featherbedding, but it is really a euphemism for a tax upon all people who work for a living. If wage payments in any industry must be divided among a large number of unproductive, featherbedding workers, then the income of each productive worker will be that much less. Featherbedding workers are carried on the backs of those who are productive. They drag down the weekly income of each man and woman who works. When labor-saving devices and more efficient techniques are introduced, the workers' real income always increases. Why, then, should workers, as individuals and as labor organizations, sabotage labor-saving devices which increase everybody's income?

Involved here, too, is another important problem—the matter of growth. It is important for us to make progress as rapidly as possible. No featherbedding is tolerated in the Soviet Union. The Soviet managers understand very well that useless workers or "featherbedded" jobs undermine productivity and retard national growth. In the race with the Soviets, featherbedding in this country serves as a ball and chain around us.

### PUBLIC PAYS THE BILL FOR FEATHERBEDDING

Most people do not realize the staggering cost of featherbedding both to national progress and to their own families. Extra costs for no work make everything more expensive.

Useless work paid for by employers is accumulated in each individual consumer's price tag. The employer merely acts as the consumer's agent in making payments along the way.

How costly to consumers is the price of featherbedding? In railroad transportation alone as I have pointed out, it is estimated to take over $500 million yearly out of consumers' pockets. Railroad rules, mainly based on conditions of half-century ago, call for firemen to be placed on Diesel engines when there are no longer any fires to be tended.

Freight train crewmen must get a full day's pay for traveling 100 miles—passenger trainmen after only 150 miles (now just a few hours a day). Today the New York to Chicago run takes sixteen hours, yet railroads are compelled to pay nine basic days' pay to each engine crew position on this trip—because it took nine days fifty years ago!

In home building and manufacturing, the list of expensive make-work is endless. At least twenty per cent of the cost of building a home is due to this kind of waste. This means that a buyer overpays at least $4000 on the price of a $20,000 house. And this $4000—which is included in the mortgage-loan—goes on earning interest over a twenty year period.

The specific techniques that cause this waste are, by now, quite familiar. There is a limit on the number of outlets which any electrician may install on a given day, while carpenters may not hang more than a limited number of doors.

Plenty of money could be saved if threaded pipes could be delivered for installation, but this would be a violation of union rules. Pipes must be threaded on the job. In many areas paint brushes may not be more than four inches in width, and the use of sprayguns for painting is forbidden. Bricklayers who used to lay a thousand bricks a day are not allowed to lay more than five hundred.

When housewives buy vegetables they must pay extra for the "helper" who must be hired by the Jersey truck-gardener when he delivers his produce in New York. The helper gets $14.82 a day and is there because the driver must not touch a crate. Anything trucked into New York from New Jersey must pay tribute to Jimmy Hoffa's Teamsters Union. They insist upon having one of their members drive every truck that goes over the George Washington Bridge and into New York—at a special fee.

When a worker buys a newspaper his cost includes "bogus." This expressive word explains union rules which demand that every local advertisement sent to a newspaper in matrix form with type already set must be reset by typographers, proofread, and corrected—and then destroyed!

Finally, when the consumer pays $8.80 to see a play or musical on Broadway, he is paying for plenty of featherbedding. Play-producing costs have skyrocketed because superfluous electricians, stage-hands and musicians must be paid for. In the case of a Victor Borge one-man show (without props) patrons had to pay for the presence of four idle musicians and eleven idle stage-hands—just to comply with union rules.

But how can all this happen, the reader will ask, when the Taft-Hartley Law forbids featherbedding? It says that no employer should be forced to "employ or agree to employ any person or persons in excess of the number reasonably required to perform actual service." What is "reasonably" required? Judges often perform curious feats of legal calisthenics answering that one, and have actually legalized featherbedding instead of forbidding it.

The only real answer to the problem lies in denying overwhelming power to any union. It is plain that if a union cannot have sole and complete power over an industry or a business, it cannot possibly enforce the featherbedding rules, which, while pretending to defend the rights of union members, actually attack and exploit every productive worker, union or non-union, in the country.

## UNION POWER AND WORKERS' RIGHTS

In 1959, after the shocking revelations of the McClellan Committee, the American Civil Liberties Union reversed a seven-year-old policy and asked Congress for legislation to protect the constitutional rights of workers who belong to labor unions. Under federal law, workers can be compelled to belong to unions if they want to hold their jobs. The ACLU urged a "bill of rights" for union members. It took the ACLU a long, long time (since 1937) to defend the individual's civil liberties where unions are involved.

Many people will ask, where was the Civil Liberties Union during the years when a mountain of evidence regarding the most flagrant violations of workers' rights piled up? During that time the ACLU maintained that "self-regulation" was the answer to these problems. Yet year after year Congressional committees placed before the public (ACLU directors must surely read the newspapers) the deplorable story of men deprived of their constitutional rights by autocratic labor leaders.

In many unions "self-regulation" was merely a euphemistic expression for the autocratic domination of workers by those in control. Intimidation, violence, and even murder were used. The ACLU itself has admitted that "many unions expressly forbid distribution of circulars or organizing groups within the union, and few courts frankly repudiate the oppressive use of such clauses and openly protect the civil liberties of union members."

Better late than never, but the ACLU gets no badge of courage for its very tardy action in defense of civil liberties. The tide of public opinion turned long ago. When it was unpopular in new-liberal circles to be against the demands of union leaders, the ACLU did not raise its voice for a bill of rights for the individual.

The ACLU now wants to guarantee these rights, including "the right to speak freely at meetings, the right to criticize union officers and union policies, the right to form opposition groups within the union, the right to free and open elections, and the right to an accounting for union affairs." If the ACLU wanted to achieve these objectives, why didn't it support the labor law amendments proposed by Senator Barry Goldwater? His proposals protected the individual and had teeth in them. The ACLU has long been known for its definite stands on specific legislation, but in the case of workers' rights it supported only "general principles."

Now that the ACLU is at last reconsidering some of its basic positions, it would be appropriate if it issued a new statement on right-to-work laws. As a commentator back in 1954, I tried to get the ACLU to take a position on the issue. For seventeen years it had been a vital question, but the ACLU answered that it hadn't got around to considering it yet. Then—a few months later—it finally came out with a statement—it was *against* legislation guaranteeing the right of any man to work without paying tribute to any private organization.

In justifying its position at the time, the American Civil Liberties Union said, "There are wide and vitally important areas involving questions of freedom that lie outside the scope of civil liberties. Among these are freedom of access to jobs and freedom of public contract . . ."

At that time I asked the ACLU how freedom of access to jobs could be outside the scope of civil liberties, based upon its own record. Hadn't this organization vigorously protested industry discrimination in giving or continuing jobs on the basis of race, creed or color? Didn't the ACLU support the New York State Law against job discrimination in industry? If it is right to include jobs in the area of civil liberties in one case why not in the other?

The ACLU chose to overlook many compelling statements by the courts supporting the Libertarian principle, including that of the Supreme Court in the Case of Yick Wo vs. Hopkins. "The very idea that one man may be compelled to hold his life or the means of living at the mere will of another seems to be intolerable in any country where freedom prevails, as being the essence of slavery itself."

As for protecting "freedom of contract"—mentioned in the ACLU statement above—everyone knows that wherever a union has exclusive control, such "freedom" is a joke! When employers (especially small business) are forced to accede to extortionate demands because union leaders can shut down a business or an industry, and by violence and intimidation prevent other workers freely taking jobs in a struck plant, it is twisting words to call this state of affairs "freedom of public contract."

The ACLU can be a powerful force for protecting civil liberties, provided its directors do not confuse this simple objective with attainment of "social gains" or "progressive" legislation or other similar ideas usually very prominent in new-liberal ideology. Since it took the ACLU more than twenty years to demand a bill of rights for workers in labor unions, perhaps it is now ready to reconsider its untenable stand on right-to-work laws.

In asking this question, one may bear in mind the significant statement of Franklin Roosevelt during the coal strike in 1941. He said that although ninety-five per cent of miners belonged to the union, *"the government will never compel this five per cent to join a union by a government decree. That would be too much like Hitler's methods toward labor."* After all, the right of a man to go to his job is the most basic of all civil rights. The American Civil Liberties Union should be the first to defend it.

## BELONG OR STARVE

A statement was made in England by Charles Geddes, Chairman of the British Trades-Union Congress some time ago which puts to shame the double talking of advocates of civil liberties in this country. Mr. Geddes' statement also set a standard in labor statesmanship that could be profitably followed by American labor leaders.

He said, "I do not believe the trade union movement in Great Britain can live for very much longer on the basis of compulsion. . . . Must people belong to us or starve whether they like our policies or not? Is that to be the future of the movement? No, I believe the trade union card is an honor to be conferred, not a badge which signifies that you have got to do something whether you like it or not. We want the right to exclude people from our union if necessary, and we cannot do that on the basis of 'belong or starve.' "

In America, nineteen states have passed Right to Work laws which state that membership in a union shall not be a pre-condition for holding a job. A worker can belong or not belong as he chooses. Isn't it strange that the leader of the Trades-Union Congress in Britain endorses this principle whereas the pro-union group in this country attacks as anti-labor those who favor right to work laws?

The fact is that Mr. Geddes had hold of an important democratic principle—the principle of voluntarism. He wants to get rid of compulsion and permit workers to choose whether they shall join a union or not.

How would such a principle affect unions in practice? It might well put them more on their toes, and it certainly would make them more responsive to their members. Union leaders in this country are afraid that it will weaken their personal power. Mr. Geddes in Britain has more faith in the union principle and believes it will strengthen the unions. Anyway that is not the vital point. The real issue is one of basic civil liberties.

A basic civil liberty is involved in the individual's right to work whether he joins a union or not. Hitler and Mussolini dragooned men into organizations by controlling the bread they ate. If ever there was a civil liberty question this is it.

Some who advocate compulsory unionism do so because they are against what is called the "free-rider." But the "free-rider" analogy doesn't hold water. Suppose a group of businessmen band together and win tax concessions or other advantages by means of lawsuits or through negotiations. Wouldn't all business (and not only those who belong to the private business group) be entitled to come under the rule? Or suppose the American Civil Liberties Union (a private organization) wins certain rights for individuals. Aren't those benefits available to all people and not exclusively to the members of the ACLU? Finally, what about workers who resent the way their interests are handled by their own union leaders? They can't resign from the union or they would lose their jobs. Many workers honestly believe that their job security is threatened by certain union demands.

Trade-Unionist Geddes, in raising the question "must people belong to us or starve?" has pointed up an issue of civil liberties which no group calling itself the American Civil Liberties Union can possibly avoid.

After the turn of the century in this country a workman could not get a job unless he signed a "yellow-dog" contract. This contract bound the worker not to belong to a union. This mode of coercing workers was abolished by national and state legislation. The worker became free, and his freedom was guaranteed under the Norris-LaGuardia Act. But now we have a revival—in reverse—of the old "yellow-dog" contract. The worker is forced to belong to a union or he cannot hold a job.

It has long been held a truth that the basis of both economic and political life for free men is the principle of *voluntarism*—the principle that voluntary action on the part of citizens in their daily lives is necessary for the maintenance of a free society. This is the opposite of the principle of *compulsion* which is the basis of a totalitarian society. It certainly seems reasonable to apply the principle of voluntarism to the daily work of the average citizen. According to this view a citizen should have the right to work or to quit work without being accountable to anyone but himself for that decision.

Labor unions have a function to perform. They should be able to perform their function of protecting workers' rights, trying to improve working conditions and bargaining for better pay without resorting to compulsion upon the workers. Like any other sound organization which is voluntarily organized, unions should be able to grow and prosper through the *willing* support of their own members. Their principles, their good management and their achievements should be able to gain a larger membership for them. They should not have the power which they now possess, to say "Belong or starve."

# 9–

# Inflation

*The late Sir William Beveridge, originator of Britain's Full Employment measure and a leading Labor Party economist, when he was near the end of his life poignantly pointed up the penalty which inflation inflicts upon people. He said that over a long lifetime he had "saved enough thousands of pounds to feel happy for my future." But, he said, "Our plans for useful old age are going haywire. I am in danger of living longer than I can afford to live." He went on to remark that "the destruction of the value of money is spreading widespread poverty among all who are trying to live on savings or fixed pensions."*

*This is but one aspect, although an important one, of the cruelty and danger of inflation. Its consequences are so pervasive that it affects the very foundations of an economic system. For one thing it discourages savings—for why should people save if the dollar is rotting away? And why should they buy the bonds of the United States Government if they are to be paid off at some future time in dollars that buy a lot less? Finally, inflation tends to make a nation of gamblers. People who are sure that the dollars they earn will buy a lot less in future years will try to get rid of their dollars and speculate on any kind of equities.*

*Despite the dangers of inflation there is a great deal of confusion about its cause and the way it works. The following chapters attempt to throw some light on the subject.*

## INFLATION NEED NOT BE INEVITABLE

The buying power of the dollar is determined not only by the quantity of bank money plus currency in existence at any time, but is also greatly influenced by another factor, people's expectations of what their dollars will buy in the future. When savers become convinced that their dollars will be debased and will buy less in the future they naturally want to transform them into some piece of real estate or stock, or they think it better to spend them immediately. Idle cash balances are then depleted. The turnover of bank deposits (velocity of money) increases. Inflation begins to gallop instead of creep.

An increasing number of people in this country are coming to believe that long run inflation is inevitable, that the dollar will continue to buy less as the years roll along. This very belief, as it becomes more widespread, creates the danger that the present creeping inflation may be transformed into a gallop. This fundamental fact—the importance of expectations and their effect on people's actions—is never taken into consideration by the advocates of creeping inflation. They assume that people will always be dumb and even though government policy is plainly one of continued inflation they will always have faith in the buying power of the dollar.

No one can predict with any degree of certainty where an inflationary force will strike. It may go into commodities as it did in the early 1920's. Or it may flood the real estate market as it did in the 1926-27 period. Or again, it may rush into the stock market as it did in the 1928-29 period. When fear of inflation finally affects the housewife and wage-earner with small savings, it pushes up cost-of-living items. Today while the general price level is advancing at the rate of 1 to 2 per cent a year there is convincing evidence that inflation is operating vigorously in the stock market again. Stock prices have soared not only because people expect corporate earnings to be somewhat higher, but because they want a refuge for their dollars.

Currently it is government deficits and repeated excessive wage increases which are behind the inflationary force. When people note wages rising steadily far in excess of any increase in productivity, they suspect that retail prices will begin to rise at a later date. When people with savings in the bank note the record of continued government deficits and expect more deficits to come, they get wary about holding dollars or government bonds. Their general fear of galloping inflation in the future is accentuated when they hear Administration spokesmen say that government must use its power to give us all the good things of life.

There are three ways to offset public belief in the "inevitability" of inflation. One is to support the Federal Reserve whenever it has the courage to make anti-inflation moves. It should be plain now that if the Federal Reserve had not acted in boom times to make credit a little less plentiful and interest rates a little higher, inflationary pressure would have been considerably greater today. The Federal Reserve in the past has not always acted as cautiously as it did in 1958 and 1959.

It deserves support against the inflationists who generally greet every move of monetary restraint with shouts about "tight money" and "hard money."

Secondly, there must be public pressure for less government spending and a balanced budget. If government deficits are monetized by the banking system, inflationary pressure will be bound to grow. Aroused public opinion can be effective in decreasing the proposed deficits. We can now see how dangerous were the schemes for an across-the-board $10 billion tax reduction plus increased government spending proposed in 1958 in order to stop a business decline. Business recovered without that dangerous additional inflationary push.

The third step to counteract the feeling that inflation is "inevitable" requires an amendment to an Act of Congress. Dr. Burns and others recommend that the Employment Act of 1946 should be amended to include the maintenance of a stable dollar as a goal of national policy. As the act now stands, it says that it is the responsibility of the federal government to "promote maximum employment, production and purchasing power." There is no word in this act recognizing the paramount importance of a stable dollar. Left and new-liberal spokesmen have often pointed to this act as a command to every administration to spend any amount and to inflate to any degree in order to achieve brimful employment. The words "full employment" are nowhere mentioned in this act. But it has been widely misrepresented to say this and to mean it.

The objective of a stable dollar added to that of "maximum employment, production and purchasing power" would give meaning and direction to the original objectives. Since the act says that its purpose is "to foster and promote free competitive enterprise and the general welfare" the addition of a stable-dollar objective becomes essential. Free competitive enterprise and the general welfare cannot thrive without an honest dollar. The practical effect of such an amendment would be to stiffen the spines of the Federal Reserve and Administration officials to pursue a sound, balanced policy. Then they can meet the inflationist pressure with more confidence.

Inflation is not inevitable. Government officials make it, and government officials can curb it. But in order to block it effectively they need public support whenever they courageously stand for sound money and against inflation.

## WHO MAKES INFLATION?

President Eisenhower expressed a widely held view when he said at one of his press conferences that "there are two types of inflation," and went on to explain that "one is just cheapened money-deficit spending—borrowing from our children, from the future, and printing money against that . . . this naturally brings rising prices because the money itself is cheaper."

The President was describing a primary type of inflation which everyone recognizes as our own war and post-war kind. Between 1940 and 1945 government debt increased by $216 billion (a greater part of which was transformed into checkbook money at commercial banks). Government deficits continued intermittently until January 1961 when the public debt stood at $290 billion. This vast outpouring of new money expressed itself by radically pushing prices upward.

The second kind of inflation the President described as follows: "Then there are also rising prices brought about by the efforts of people to gain a bigger portion of the results of our productivity. . . . If you continue going up too rapidly in one area, say the labor area, then prices go up and finally you get to a point where you simply can't keep things in order."

Here Mr. Eisenhower was really describing the *result* of inflation of the money supply—rising prices—not inflation itself. If the level of all prices rises continually, that increase must in due time be supported by an inflated money supply.

At times the money inflation of the recent past continues to push prices upward. When its force stops, the banking system must create an infusion of new money which will support the higher prices or they will not hold.

The banking system is able to create new deposits with the aid of a lenient policy by the Federal Reserve Board. The Federal Reserve can decide either to increase or decrease deposits, and it can implement such a policy in various ways. When the United States Treasury needs money, the Federal Reserve Board pursues a policy which permits the commercial banks to expand their investments in government bonds. When there are no Treasury deficits to be financed, and when the Federal Reserve wants to inaugurate a policy of commercial credit expansion, it follows a similar expansionist policy. Thus in either case it can cause an increasing money supply.

There is another point which should be noted. Even during a credit inflation, producers cannot get any price they want, because competition generally holds prices down. We have seen how manufacturers of television, textiles, electrical appliances, and many other producers have had to reduce prices in order to sell their goods, even during inflation. But while competition holds prices down among producers, this is not true among labor unions. Here the law encourages and protects monopoly. Small business cannot resist union demands and big business can offer only mild resistance.

The wage bill rises automatically each year, regardless of whether there is a corresponding increase in productivity or not. According to Roger M. Blough, chairman of United States Steel, three-fourths of every wage increase in steel since the war was not earned by increased productivity. Therefore prices had to rise.

Mounting labor costs and rising prices would eventually price some people out of their jobs unless more money were introduced to support the higher wage-price structure. This is precisely the sequence that has occurred—the banking system has consistently inflated the money supply in order to redress the harmful consequences of automatic wage increases which must be granted regardless of productivity.

The United States is not alone in facing this problem. Other nations have the same difficulty. The situation in England during the post-war period was even more serious than that in America. For a long period during the rule of the Labor Government the pound depreciated on the average of five per cent a year. Instead of placing responsibility where it belonged—on the Central Bank and the Government—many people looked around for a scapegoat. Even the venerable weekly *London Economist* succumbed to a new kind of witch hunt. In an editorial it made a blanket accusation against practically everybody except the guilty persons. It said, "The real lack is courage. . . . There is a lack of courage in the boards who acquiesce in inefficiency in order to avoid trouble and who give the inflationary spiral another vicious turn upwards with seven, eight, or even ten per cent increases in the dishonest and futile hope that this really will be the last time.

"There is a lack of courage in the trade union leaders who . . . are willing . . . to allow their followers yet more vigorously to push them from behind. There is a lack of courage in the individual . . . who refuses to discountenance, denounce, or do anything about it."

But in blaming everybody for the inflation, the *Economist* really failed to fix the responsibility at all. The truth is that only the Treasury and the Central Bank can control the money supply and therefore only they can be responsible for continued inflation.

It is only fair to point out that these officials are subject to great public pressure to engage in monetary expansion, even though on many occasions they are apprehensive of such a policy. Nevertheless it must be recorded that they—monetary officials—are basically responsible for putting into effect the policies which cause inflation.

A very courageous and public spirited monetary official could earn the nation's gratitude by resigning his post instead of making vital concessions which he believes would be to the detriment of the country. This would have a powerful effect in the fight against inflation.

## WAGE RISES AND INFLATION

It is a common misconception that increased wages *always* mean higher prices and inflation. This is not so unless the government acts to inflate the currency in order to support uneconomic wage rises. Otherwise the result of such increases would be curtailed production and unemployment.

In Britain where repeated annual wage rises supported by continual monetary inflation caused consumer prices to rise on the average of five per cent a year for the years 1948-58, the result was not quite what the "purchasing power" advocates expected.

The late Sir William Beveridge, author of *Full Employment in a Free Society*, used to be England's most vigorous advocate of this theory. But he became sadder and wiser with experience, as the reader will note by reading his melancholy statement in the introduction to this chapter.

Lord Beveridge pointed out that the difference between the current type of inflation and others in the past is trade union action for constantly higher wages. "As they push up wages, all costs go up. After a year they find they are no richer. They even may be poorer. They ask for more."

Clearly, when a government inflates its currency to support excessive wage rises and adopts the "increased purchasing power" theory, it drives the country into either depression or inflation— both of which are dangerous.

### THE POLITICAL BASIS OF ECONOMICS

Everyone familiar with the problems of government today would, we believe, readily admit that the basic problems which demand solutions are economic. Even the conduct of foreign affairs and intelligent direction of the cold war or the nearly-hot war also, to a great extent, rest upon economic factors. In the world of today military strength is essential in treating with the communist world, and military strength requires money. Certainly all the other problems which concern elected officials—the problems of prosperity and recession, of monetary policy and fiscal policy, and all related subjects—are economic in their nature and require economic solutions.

But having stated this we have stated only half the truth. Democracies being what they are, the very essence of any solution becomes political as well as economic.

For instance, the Government of the United States is certainly in the long run responsive to the demands of its citizens. It is they who vote in one policy or vote out some other. And it is upon their wisdom that the institutions of a free society must rest. One can hardly distinguish between the political and the economic solutions in the modern world. They are intertwined, and no government can pursue sound economic policies without support in the political sphere—in the sphere of votes, elections, and public opinion.

It is no exaggeration to say that the facts about the causes of inflation have been known and discussed for more than a generation. As early as 1911, when most economists said there could never be another big national inflation such as occurred in France after the Revolution, von Mises said that that danger was imminent. He pointed out that the Central Banks of Europe had the power to increase the money supply, which is the determining factor in inflation. If we do not want continuing inflation it is necessary to restrict the power of the banking system to manufacture money which can go into the hands of individuals and businesses and be used to force prices higher.

This fact is made abundantly clear by analysis of what has happened in the United States in the past three decades. In 1939 the total of demand deposits and currency was $36 billion. In 1961 it is approximately $143 billion. During this period of time the buying power of the dollar has been cut slightly more than half.

But let us come to a closer range. Between 1947 and 1952 there was a nineteen per cent increase in the quantity of money. During that period our consumer price index increased almost twenty-five per cent. From 1953 to 1958 the Federal Reserve Board restricted the rate of increase in the quantity of money to nine per cent. As a result, during that period there was an increase of a little less than nine per cent in a consumer price level, which was about one-third of the rise of the previous period.

It should be noted that there is rarely an *exact* relationship in the brief period of time between the rise in the quantity of money and the rise in prices, as there was in the 1953-58 period. But that there is a relationship there can be no doubt.

Those who search for *new* reasons for inflation often point out that there is little correlation between the annual increase in the money supply and the annual increase in prices. It is true that sometimes—as between 1955 and 1957—prices rise but the money supply remains stable. The reason is that there is a time-lag in the effect of money upon prices. Sometimes that time-lag extends over a period of years. The U.S. rise in prices in 1956 and 1957 can easily be accounted for by the increase in the money supply in previous years.

The validity of this thesis has been persistently stated for the general public by Mr. Henry Hazlitt and others who have consistently pounded this theme over a period of many years. Professor Yale Brozen of the University of Chicago concisely summarized the position when he wrote: "First of all, inflation is not possible and will not occur without an increasing quantity of money. Second, the quantity of money will not increase unless the Federal Reserve either provides extra money, or makes it possible for banks to increase the stock of money by providing them with more reserves or by cutting required ratios. Third, the Federal Reserve increases the stock of money primarily as a result of the pressures exerted on it to assist in financing governmental deficits and secondarily to assist the Treasury in refinancing maturing debt when the demand for funds is strong and the Treasury would have to offer more attractive interest rates to get the money from non-inflationary sources. In essence, the only way we are going to avoid inflation in the future is by avoiding deficits in government budgets."

It can be argued that a budget deficit need not be inflationary. If the government should borrow from its citizens, instead of creating new bank deposits at the commercial banks, there would be no increase in the money supply. But the fact of the matter is that when a large deficit is created the Secretary of the Treasury, as a practical matter, has no choice. Should he attempt to borrow from the public any such additional sum as $10 billion or $12 billion in a year, the result might well be serious recession. Here for instance is a resumé of the borrowing of industry and local government in the year 1957.

| | | | *1957* *(in billions)* | |
|---|---|---|---|---|
| CORPORATIONS | | | $12.8 | |
| *Bonds* | | $9.9 | | |
| Privately offered | $3.8 | | | |
| Publicly offered | 6.1 | | | |
| *Stocks* | | 2.9 | | |
| Preferred | .4 | | | |
| Common | 2.5 | | | |
| TAX EXEMPT BONDS | | | | |
| (State, Municipal, County, etc.) | | | | |
| *Long Term* | | | 7. | |
| *Short Term* | | | 3.2 | (30 days to one yr.) |
| Mortgage Debt | | | 11.6 | |
| Total | | | $34.6 | |

From the above list it will be seen that industry and local governments borrowed nearly $35 billion in this year. Suppose the Treasury had insisted on raising $12 billion in addition to $35 billion. Assume furthermore that the Treasury took the course of offering these bonds to businesses and individuals. It is plain that if this happened in a year of recession or of partial recovery some of the vital activities financed by the borrowing of the sums listed above would be seriously curtailed.

The political effects of such a move might well be catastrophic. Those in charge of the government would hardly wish to face it. Furthermore it must be pointed out that any attempt to raise so large a sum within a year would demoralize the bond market. It is easy enough to say that government bonds ought to seek their own level at such a time. They should certainly do so in the long run. But if the government should bid against private corporations for $10 billion of new capital funds in a year such as 1957 or 1958, the result might be to choke off private activity and cause a serious business realignment with attendant high unemployment.

*The point of all this is that once a big deficit is created, the fat is in the fire.* While it should theoretically be possible to raise this money from the people, such a course of action is practically not possible. The result is that the debt is monetized. That is, the banking system buys the debt because the Federal Reserve in one way or another expands the total of their reserves so that they are able to do so. Thus the debt becomes part of the money reservoir of the nation and this vast sum enters the economic bloodstream and becomes an inflationary force.

Clearly it would be common sense, therefore, not to create deficits. Yet it is almost impossible to curb them in this country. Why? Many people think that increased defense is the basic cause of our deficits. But this is not true.

In the year ending June 1954 total budget expenditures were $67.8 billion while in 1959 expenditures were $80.3 billion. How much of the $12.5 billion increase can be ascribed to major national security, and how much to other government spending? Without going back to the records, most people would guess that at least half of the increase or more is due to defense spending. This is far from the mark, however. The fact is that in fiscal 1959 major national security (including military services, foreign military aid and defense support, atomic energy, stockpiling, International affairs) totalled just about $300 million *less* than in 1954. No one can say that our spending binge has been due mainly to military costs.

There may be a crumb of comfort in the startling statistics above. It is plain that if the country has the will to stop inflationary deficits it can do so without affecting our military posture. The essential ingredient is the public's *will*—nothing else is involved.

One important reason behind the increases in government spending is the legislative appetite for subsidies. This country is currently spending over $6 billion on agriculture including subsidies to farmers, and the increase between 1954-59 was more than $3 billion. It is an interesting commentary on the political nature of our problem that the elimination of this one subsidy would be a major factor in solving many of our difficulties today. While there is a good deal of public complaint about the matter, very little can be done quickly because the farmer is still considered the ward of the government. He must be protected by Federal subsidy, and in this objective he has as his ally the leaders of the AFL-CIO. This alliance between labor unions and farm pressure groups is indeed a strange one.

As new subsidy plans are adopted, the $80 billion budget will soon be history and we will be up in the $100 billion stratosphere, with prices pushing upward just as vigorously.

But there is still another basic reason for continuing government over-spending and deficits. The reason derives from the fact that the government is committed to maintain high employment regardless of how high wage rates are pushed by the power of monopoly unions. When the height of wage rates causes a recession and increases unemployment, there is naturally a great deal of political pressure upon the legislators and upon the administration. A demand is made for the government to step in with inflationary action at the slightest sign of a downtrend.

The conclusion is that we can never solve our basic economic problem of inflation until we get at its political causes. The economist is accurate enough in saying that the increase of the money supply is the cause of inflation, but the economist is also correct in stating that the way to avoid inflation is to avoid deficits in government budgets. These two statemens are irrefutable as economic facts, and behind them are certain political realities.

Until the American public is willing to put pressure upon its legislators against the practices which cause inflation of the money supply, the heart of the problem cannot be reached. Politics and economics are intertwined.

# 10–

# Looking into the future

*In making decisions about economic matters—in fact about all matters—a powerful factor which guides people is their expectation of what the future will bring. It is only natural for people to act* now *when they believe that such action can take advantage of some event they expect to happen in the future. This discounting of the future has many ramifications. It affects buying of all kinds—buying of commodities, services, stocks and bonds. Expectation of the future is also a most important factor in determining how inflation works.*

## EVERYONE HIS OWN ECONOMIC FORECASTER

Today any man can be his own economic forecaster. Information, statistics, and theories—formerly known only to a few experts—are spread before him daily in the press.

It was as late as 1934 that national income statistics were first published by the Department of Commerce and studied by a handful of economic experts. National income studies had been originated by the National Bureau of Economic Research in the 1920s and finally the Bureau loaned its expert, Dr. Simon Kuznets, to a government agency which developed this series further.

Whereas a generation ago no one knew statistics on national income, investment in new plant and equipment, business inventories, building, and so on, today everyone can follow this information closely in his daily newspaper, or through many special services. Today the rise and fall of the gross national product (referred to by the knowing citizen as the GNP) is discussed more frequently than the price of wheat used to be before World War II.

A generation ago only a handful of technical experts in Wall Street had heard about the Dow Theory as a method of predicting the trend of stock prices. Today the Dow Theory is common knowledge. We have become a nation of economic pulse-takers and thermometer-readers, and it is interesting to speculate on the effect which this widespread information and resulting judgment may have on the pattern of events to follow. It is reasonable to assume that the pattern must be changed somewhat, since so many people with so much information express their judgments in various markets in an attempt to take advantage of events they think are going to happen.

The stock market is a case in point. Followers of the Dow Theory were eagerly watching in 1960 to see whether the rail average would confirm the industrial average in a downside penetration of its former major resistance area. According to the theory that would mean continued decline. Many of these people sold stocks in expectation of the event. Then it happened. On Thursday, March 3, the rail average plunged through the previous low point of 146.65. Next morning a two-column headline in a leading New York newspaper read *Bull Market Ends 10 Year Reign.* Those who followed this scare headline expected a long and deep bear market. The industrial averages did dribble down about seven per cent over the next seven months, but then turned around in October and started to climb and in 1961 the Dow-Jones industrial average reached a new high. Many who sold stocks in March had to replace them at much higher levels.

Many newspaper readers consider this theory to be a fact, although they are not generally acquainted with the detailed working of it over the years. On many similar occasions such a signal had been given—but the predicted bear market lasted only a few days or a few weeks. Those who sold stocks actually sold near the bottom.

For instance, a prominent Dow Theory interpreter sent out his market letter on October 26, 1957, saying that the market "has developed the configurations of a primary bear market pattern." This interpretation was validated by the Dow Theory when, on Oct. 7, industrials and rails jointly broke downside through their lows of last Feb. 12 (454 and 139). Everyone now knows that this predicted bear market didn't last long or go far. In fact, in the following few months a base was developed for one of the biggest bull markets in history.

Another example was the period after World War I. According to the Dow Theory, a bear market was confirmed on June 20, 1923, but the decline after that was only a little over four per cent and the bear market ended about a month later. In 1939 the predicted bear market lasted only nine days after confirmation by the joint averages with a decline of just a little over seven per cent.

It is frequently true that in a bear market the real damage is done *before* the signal is given. In view of the widespread dependence upon the Dow Theory and the general principles of chart reading, it seems evident that the pattern of the market is changed by the host of people who employ some common theory in an attempt to outguess the future.

Another—and a most important sphere—in which anticipation of the future counts heavily is public reaction to inflation. This important factor is frequently overlooked by economists who advocate a steady creeping inflation. They seem to forget that anticipation of the future enters into all matters, especially this.

Should inflation of, say, two or three per cent a year become an accepted government policy, it is evident from history that people will try to anticipate this decline in the buying power of their dollar. Prices for everything then will be discounted years in advance. Under these conditions the inflationists can of course always claim that we need still more inflation because the economy is not working well. Thus inflationists have always urged us to employ more and more of the hypodermic. History shows that they persist in this policy even when conditions become serious and a crisis is not far off.

Unfortunately for those who try to manage human affairs, people always attempt to anticipate the future by making economic moves today. The fact that we are dealing with the human mind is the basic reason why it is so difficult to reduce economic action to scientific law.

### FAITH IN NUMBERS

Although a large part of the public follows with breathless interest publication by the Department of Commerce of statistics on the Gross National Product, comparatively few know exactly how the GNP is arrived at, and what its limitations are. Many people are inclined to make broad assumptions about the GNP which are not true. For instance, it is generally assumed that if the GNP increased $20 billion then the country is precisely $20 billion better off. Also, it is generally thought a rise in the GNP means that the economy must be in a healthier condition simply because of that increase. Such implicit faith in these numbers is hardly warranted by the facts.

GNP is a concept of national bookkeeping. It is a measure of the national output of goods and services, represented by expenditures which are made in this country. Here is the GNP for 1960:

| | |
|---|---|
| Personal Consumption Expenditures | $327.8 billion |
| Gross Private Domestic Investment (Building, industrial, equipment, etc.) | 72.8 billion |
| Government Purchases (National, State and Local) | 99.7 billion |
| Net Foreign Investment | 3.0 billion |
| TOTAL GNP | $503.3 billion |

It should be noted that only the final products of industry are counted in arriving at the GNP. This means only products bought to be consumed and not to be resold. Thus the final value of bread bought at the grocer is counted, but not the value of the flour, milling, and other factors which go into making it; the final value of automobiles is counted, but not the steel or the plastics which go into their manufacture. This method prevents the counting of dollar values several times, but it is not always easy to determine when a product is for final use. The statistician's judgment enters into this decision and therefore GNP statistics can never be considered as scientifically correct.

The GNP represents expenditures for products and services. Thus any change in what people have to pay for, or any increase in prices which they must pay, will raise the final total of GNP. When prices go up, total expenditures go up and the GNP goes up. For instance, over half the rise in the GNP between the second quarter of 1955 and the second quarter of 1957 was due to price increases. Therefore, only half the money gain was a real gain. It is entirely possible for price inflation to account for *all* the gain in GNP—and even more.

The assumption that a rise in the GNP always indicates a healthy economy is frequently untrue. Important factors in the economic system might be tending toward dangerous imbalance, despite a big rise in GNP. For instance, a sharp climb of installment credit would contribute to higher GNP, but the fact that people are over-extending themselves and borrowing too much is certainly not healthy. Even sharply accelerated expenditure by business firms for new plant and equipment (financed by heavy borrowing at banks) may not necessarily be sound even though this, too, naturally contributes to a bigger GNP.

Then of course there is government spending. The more the government spends and the greater the deficit, the higher the GNP. But such deficit spending certainly cannot be considered as building a sounder economy. It can be seen that although the GNP may increase for any number of reasons, such increase does not invariably mean that the country is better off or healthier.

Some analysts point to one special factor, or to several special factors, as an indication of the strength and soundness of current prosperity. Some point to the capital investment in new plant and equipment by business, others to the strength of building and construction, and still others to the "unsatisfied needs" of the public and the power of consumer demand.

But it should be clear that not these factors in themselves but their relationship to each other—the balance existing in the economic system—is the real foundation of sound prosperity. An analogy can be made, for example, between an individual's physical constitution and the economic system. A man may be a giant in size with bulging biceps, but if one important organ—say his heart or his liver—is not functioning in proper balance with all the others, he will become weak, not strong.

Many businessmen make good judgments about the future of business by weighing basic factors and their relation to each other. How fast has expansion (or contraction) been going on? Are wage rates too high and their advance too rapid for business to bear? What about profit margins—are they being squeezed so as to discourage marginal production? And what about people's purchasing power—the relationship of prices to costs—is that being squeezed? A weighing of *all* factors is essential in making a sound judgment about the future.

In the economic system the important thing is not the size of the GNP. Rather it is proper balance. We must look to the balance of wage rates, profit margins, and productivity; of capital accumulation and credit demands; of credit supply, money supply, and interest rates. It is the harmony of all the basic conditions which determines the health and strength of the economy.

# 11–

# Government monetary and fiscal policy

*Lenin is reported to have said that the way to destroy a nation is to debauch its currency. Undoubtedly there is truth in this. It seems evident that those who have the power to regulate the money supply of a nation have the power to nurture or destroy it. In the following pages are discussed some of the principles which should guide monetary, spending, and taxing policy.*

## THE BROKEN REGULATOR

Everyone realizes the importance of commodity prices, such as those for butter, beef, shoes, clothing, and other products. But few people realize that the most important price of all is the price of borrowing capital, called the interest rate. This is so because the price of borrowing money has a powerful influence upon all other prices. It also has a bearing upon present business, and most significantly upon the future planning of all important business projects.

The interest rate gives the go-ahead or stop signal to those who are planning future business undertakings. If unhampered, it acts as a guide to efficient production, whose benefits are passed on to the consumer in the form of lower prices, better products, and a higher scale of living.

If the interest rate is artificially manipulated, then the main regulator of the economy is broken and business calculations of all kinds are distorted. When the effects of inflation subside many projects which formerly seemed attractive turn out to be unprofitable, and investors lose their money.

It is often wrongly assumed that only the rich profit from a rise in interest rates. In days gone by, when a few men of wealth loaned money to the numerous poor tradesmen and farmers, this may have been true. But today the rich are frequently far more in debt than the average person. Their equities consist of real estate, common stocks, and similar holdings. They have to borrow huge sums for the conduct of their business, and an increase in interest rates is keenly felt.

On the other hand when interest rates go up today the average citizen frequently has an advantage. For example, the interest payments on his savings are increased and his premium payments for life insurance in mutual companies decline somewhat because the higher interest rates give greater income to the insurance companies. A *natural* rise in interest rates, if it occurs, favors no one group or class—it favors *everybody* because it makes for a solid economic foundation.

The fact is that rich and poor alike benefit from a sounder, healthier economy which comes about when government does not try to manipulate interest rates to an artificially low level for what it mistakenly imagines is its own benefit.

### WHY NOT FORCE A 1% RATE OF INTEREST

There is a dangerous fallacy at the heart of the argument that government should manipulate interest rates (downward) for its own purposes. This artificial manipulation is proposed on the ground that it will decrease the total to be paid for interest on government bonds, and because "cheap money" will promote more active economic growth.

The dangerous fallacy is the assumption that the interest rate has no market significance, and therefore the federal government can use its vast powers to push the interest rate down to any point it desires without dangerous consequences. The cheap money advocates say that this policy should be pursued regardless of the intensity of the demand for money—and regardless of the supply of savings.

To create cheap money the Federal Reserve Bank is invariably employed as the engine of inflation. If the Treasury has a deficit, then it sells most of its new bonds to the banking system. If there is no Treasury deficit, then the Federal Reserve buys a sufficient quantity of government obligations in the open market, thus increasing the reserves of the commercial banks and inflating the total money supply of the commercial banking system.

But the really sound policy for the Federal Reserve to pursue is for it to *follow* the market on interest rates—not to lead it by its own powerful action. Interest rates should be the natural result of demand and supply at the grass roots. In this way the demand for money is equated with the total of savings.

But if, as some say, the interest rates should be artificially manipulated in favor of cheap money, and if the rate of interest has no real meaning, then why not drive the long-term interest rates down to one per cent, *or even to zero*? When the proposal is stated in these bald terms, the fallacy becomes evident. Under these conditions inflation would be rampant. Everyone would borrow for every purpose. Meanwhile, our dollars and our gold would flow out to countries abroad offering higher rates.

No price in the economy is as important as the price of borrowing money. The importance of the interest rate was stated a long time ago by the famous Swedish economist, Knut Wicksell, in his essay, *The Influence of the Rate of In-*

*terest on Prices*. He said, "If, other things remaining the same, the leading banks of the world were to lower their rate of interest, say one per cent, below its ordinary level, and keep it so for some years, then the prices of all commodities would rise and rise and rise without any limit whatever; on the contrary, if the leading banks were to raise their rate of interest, say one per cent, above its normal level, and keep it so for many years, then all prices would fall and fall and fall without any limit except zero."

Wicksell went on to say that this proposition could not be proved directly by experience, because the conditions of the experiment would never actually exist, since "other things" never remain the same. "My thesis is, therefore, only an abstract statement," he says, "and somebody, perhaps, will ask: what is the use of it then? But I venture to assert that it may be of great use all the same. Everybody knows the statement of Newton that, if the attraction of the sun were suddenly to cease, then the planets would leave their orbits in the tangential direction. This, too, of course, is only an abstract proposition, because the solar attraction never ceases, but it is most useful nevertheless; indeed, it is the very cornerstone of celestial mechanics; and in the same way I believe that the thesis here propounded . . . will turn out to be the cornerstone of the mechanics of prices."

This was written in a day when the gold standard was still respected, and to some it may seem farfetched in today's world of managed money. Nevertheless events in other countries, as well as here, give substance to Wicksell's theory that if interest rates are forcibly held down below the natural level of the market prices will continue to rise, even though they may at times have a temporary period of stability.

### MANAGED MONEY IS NO CURE-ALL

Everyone knows that monetary policy which is determined by the Federal Reserve and U.S. Treasury is an important factor in influencing the level of current business activity. But in many quarters it seems to be assumed that monetary policy is a cure-all. Money becomes the new gadget, so to speak, by which to solve *all* our problems. We are assured by many prognosticators that any business downtrend will be easily curbed by creating more and cheaper money.

This idea neglects several very important factors. One is that business may not want to employ the funds available if conditions are not right. Here it should be noted that the use of inflation in the 1930's proved no solution to our problem. Despite the inflation of the money supply recovery in business was never complete. As late as 1939 there were 9½ million unemployed out of a civilian work force of approximately 45 million. The truth is that other factors were at work —such as lack of confidence and fear of government action— which prevented the active use of the money pumped into the economic bloodstream.

Another factor which must be carefully considered is that we are not at the present time at the bottom of a big depression like that which gripped the country in the 1930's. Today the national income is over $500 billion instead of $65 billion. With figures of this magnitude it is apparent that it would take an inflationary effort of vast proportions to gain even a limited or temporary effect. What might have been tried with three billions of inflation in the 1930's would call for many times that sum today. So if the government is going to use inflation as a temporary stimulant, it had better be prepared to use a lot of it—and to face the ultimate consequences, since there is always a final reckoning.

This concentration upon the money problem overlooks the very simple fact that prosperity can be achieved only when there is a healthy *balance* among *all* economic factors. Money is tremendously important, of course, but it is true to say that money isn't everything.

If costs get out of line, a readjustment must take place regardless of whether money is cheap or not. The most important item affecting cost, as everyone knows, is the height of wage rates in key industries. Anyone who has studied the history of business cycles knows that when wage rates rise to uneconomic heights—and continue to climb despite a downtrend in commodity prices and industrial activity—a readjustment is called for. Strangely enough the height of wage rates is hardly ever mentioned in current discussion of recessions.

Another traditional reason for a readjustment is the unwise investment of capital—technically called malinvestment. Often plants are erected and businesses expanded in boom times when such projects cannot possibly pay off when more normal conditions return. Mistakes in a boom—and they are natural and frequent—must be liquidated if an efficient industrial machine is to produce a higher standard of living for everyone. So runs another important theory of the business cycle. Still a third theory concerns overexpansion of credit. A protracted boom induces many organizations to assume a topheavy debt structure. There usually is not enough real capital in a country to support this accumulated debt, and some of it must be liquidated.

Today most prescriptions for prosperity are based exclusively upon the government pumping more money into the economic system. Completely overlooked in this new formula for prosperity is consideration of all the factors that must come into balance in a healthy economy. Manufacturing more money looks like a simple solution of many current problems, but the very act of doing so raises more problems than it solves. It robs millions of people of their savings, and deprives pensioners, the elderly, and those on fixed incomes of their security. Inflation is far from becoming to any government which declares itself concerned with ethics and morality.

## MORALITY AND THE AFFLUENT SOCIETY

In the 1960 Presidential campaign leading "liberals" urged the American people to beat their breasts, confess their sins and elect new leaders who would lead the public to a higher morality. Sen. Frank Church, keynoter of the Democratic Presidential convention of 1960 adopted this line of argument when he accused the American public of "self-indulgence."

Arthur Schlesinger, Jr., Harvard philosopher and guide of the new liberalism at that time circulated a pamphlet entitled *Private Indulgence or National Power* in which he berated "private profligacy," and praised public spending. This attack followed the broad outlines laid down by Harvard Professor Galbraith in his book *The Affluent Society*.

Professor Schlesinger claimed that we are starving what he calls the "public sector." As I stated previously in this book, the implication of these words is that only the "public" sector contributes to the public welfare. This, of course, is ridiculous. Let us look at the record to get a long-term perspective. The facts stated here ought to be studied carefully because they refute completely the claim that government services have been on a starvation diet. The figures show that the government has grown like a weed, and that it is, in fact, eating up a large portion of the income which individuals earn. Here is the analysis from the National City Bank Bulletin:

| | *Mid-1920's* | *1940* *(in billions)* | *Late 1950's* |
|---|---|---|---|
| Federal cash expenditures | $ 2.8 | $ 9.6 | $ 94.8 |
| State and local govt. expend. | 7.7 | 10.3 | 48.8 |
| Gross national product | 97.6 | 95.6 | 463.8 |
| Percent: Govt. Exp. to GNP | 10.8% | 20.8% | 31.0% |
| Selected Public Expenditures: | | | |
| Social insurance benefits | | 1.2 | 16.0 |
| Highway expenditures | 1.8 | 2.2 | 8.7 |
| Public welfare and assistance | .2 | 1.3 | 3.8 |
| Police and fire | .5 | .6 | 2.6 |
| Health | .1 | .2 | .8 |
| Hospitals | .3 | .5 | 3.8 |
| Education | 2.2 | 2.8 | 16.8 |

At a glance the above figures show that talk about starving the public sector is sheer nonsense.

Government expenditures accounted for over nine per cent more of the Gross National Product in the late 1950's than they did in 1940. Take education, which is a very important factor. Public expenditures increased from a little over $2.8 billion to $16.8 billion in less than twenty years.

Practically all of this was done by state and local communities without federal aid. Over 680,000 classrooms have been built since World War II—more than half of those now in use. In 1959 total public and private educational expenditures reached $22 billion—nearly *triple* the amount spent only ten years before.

This is the most impressive record produced by any nation in the world. Note that hospital expenditures have increased from half a billion to $3.8 billion in less than twenty years, while spending for highways has increased from a little over $2 billion to $8.7 billion. Meanwhile social insurance benefits have climbed from $1.2 billion to almost $16 billion.

In the six years to 1959, 1,883,000 more people were added to government payrolls—a larger increase than took place in all wholesale and retail trades and larger by far than in finance, real estate, personal and business services combined. If we go back a generation we find that the government's cash take has multiplied twenty times while people's incomes after taxes have increased just four times. Isn't this in actual fact starvation of the *private* sector?

Over the shorter range, the following analysis is equally interesting. It indicates that during recent years the big increase in public spending has not been due to military spending and defense. Between 1954 and 1959 there was an increase of $11.4 billion in Federal spending. Most people would assume that this was due to defense measures, but this is not so. The record shows that all items listed, with the exception of major security, increased about $12.5 billion. There was a decline of a little over $1 billion in defense spending, which brought the total increase down to a little over $11.4 billion. Here is the record:

| | *1954* | *Change from 1954 to 1959* |
|---|---|---|
| *Major National Security | $47,872 | −$ 1,027 |
| **International Affairs | 765 | + 676 |
| Veterans' Services and Benefits | 4,256 | + 906 |
| Labor and Welfare | 2,485 | + 1,806 |
| Agriculture | 2,557 | + 3,835 |
| National Resources | 1,315 | + 376 |
| Commerce and Housing | 814 | + 3,064 |
| General Government | 1,239 | + 428 |
| Interest on Debt | 6,470 | + 1,108 |
| Allowance for Contingencies | | + 225 |
| Total Budget Expenditures | $67,772 | +$11,451 |

* (Military services, foreign military aid, and defense support, atomic energy, stockpiling, defense production.)
** (Including economic and technical aid.)

Plainly, the accusation of "private affluence and public poverty" is simply not true. It is merely a device for trying to channel more of everybody's income to Big Government, in which many of those who make the accusation have a vested interest.

## TAX REDUCTION

While those who wish to increase the affluence of projects under government direction work actively on behalf of their plans, curiously little is said about the taxes which must pay for these plans. Business which makes a profit, already pays fifty-two per cent to the government. Personal income tax rates rise to a confiscatory ninety-one per cent. The withdrawal of capital which could otherwise be used for investment in economic growth is obvious. Our economy is being drained by one of the highest tax levies in the world. Yet even during the last Presidential election this important truth was never emphasized.

It is no exaggeration to say that Mr. Nixon lost the opportunity to swing the election on this issue. On a television program Mr. Kennedy said that he would not hesitate to raise income taxes in order to meet "obligations" for increased domestic spending. Instead of entering a vigorous dissent Mr. Nixon agreed. Had Mr. Nixon grasped the issue and asserted to the American public that all tax rates *could* be reduced if the spending for Big Government were restrained, he might have won the election. He did not do so and the rest is history.

The first question that comes to mind when reduced tax rates are advocated is, what about the necessity of rising expenditures for defense? Barring a hot war, however, the figure most generally mentioned as needed for new military spending is an increase of several billion dollars. In a budget of over $80 billion, of which about half is for defense, isn't it possible to spend $2 billion more for military purposes and save that sum in the labyrinth of $40 billion of other spending? As previously pointed out, it has not been military spending in the post-Korean period which forced our budget up in those years. It was spending for welfare measures, spending for the civilian measures.

Two basic principles should guide a sound tax reduction plan. (1) It must apply increased tax income to tax reduction and *not* to more government spending. (2) It must be geared to the budget. If the budget rises above estimated income there will be no tax reduction in that year. Thus the country would be put on notice that legislators who vote for vast spending programs of all kinds would be jeopardizing tax reduction for everybody. Under these conditions Representatives and Senators might have second thoughts about spending projects.

But, many people will say, tax reduction would mean bigger Treasury deficits. This would mean more inflation and we ought to guard against it. But is that statement true? Mr. Roswell McGill, former undersecretary of the Treasury said, "Curiously enough a reduction in rates would produce more revenue for the Treasury. Business expansion automatically increases the government tax 'take.' In 1954, for example, tax reductions were estimated as likely to cost the government $7.5 billion of lost revenue. Within a little more than a year, however, previous tax collections had been surpassed by five billion. In another year, five billion more were added to the revenue." This record—more revenue as soon as the economy is relieved of any portion of its fearful tax drain—is the result of the last six out of seven tax reductions.

The purposes behind the tax reduction plan would be the following: (1) Provide relief from the oppressive burden of steep progressive income tax rates which severely restrict investment capital and are among the highest in the world. (2) Lay the basis for the more vigorous national growth imperative in a decade which must find thirteen million new jobs for the expanding population and in which each worker must be backed by more capital investment. (3) Increase job opportunities and cut down unemployment. (4) Stimulate people to work harder and business to expand more. (5) Make possible higher real wages.

To put this plan into effect it would be advisable to follow the general outlines of the nonpartisan Herlong-Baker bills (HR 3000 and 3001) introduced in the 1960 Congress.

These bills provide for a gradual tax reduction over a five year period. Tax rates would be compressed downward with reductions of over 50 per cent in the middle brackets, the top rate coming down from 91 to 47 per cent. The first bracket rate would also be reduced—from 20 to 15 per cent. Thus all individual taxpayers would get a minimum tax reduction over a five years period of 25 per cent.

Where would the money come from? Representatives Herlong and Baker pointed out that the natural growth of this country, projected over a five year period, would be more than sufficient to finance these reductions. Furthermore, there would be money left for reductions of the national debt. It is estimated that for every $4 billion increase of national income the Treasury would get $1 billion of extra taxes.

There is little doubt that the tremendous stimulation of tax reduction would improve business and increase government revenue. The reader will note this was not conceived as an election scheme to give a big fast tax concession with a view to catching votes. It is a well-thought-out plan based upon sound principles. The fact that it has political appeal is something which should have made this plan—or a similar one—most attractive for adoption by one of the major political parties. Since the Democrats talked of "greater sacrifices" to achieve the Welfare State, it looked like a remarkable opportunity for the Republicans to seize. But they failed to do so.

## *Confiscatory Tax Rates*

Even a casual appraisal of present tax schedules and the income derived by the Treasury would indicate the crying need for revision. Here are the last available figures (1957):

ESTIMATED DISTRIBUTION OF TAX RATES AND YIELDS
(Tax amounts in millions)

| *Net Income Bracket* | *Taxable Income* | *Basic Tax 20% Flat Rate* | *Progressive Tax (above 20%)* | *Progressive Tax* | *Total Tax* |
|---|---|---|---|---|---|
| To $4,000 | $131,654 | $26,330 | to 2% | $ 481 | $26,811 |
| $ 4 to 6,000 | 7,071 | 1,414 | 6 | 424 | 1,838 |
| 6 to 10,000 | 5,687 | 1,138 | 10 to 14 | 655 | 1,793 |
| 10 to 16,000 | 3,751 | 750 | 18 to 27 | 822 | 1,572 |
| 16 to 32,000 | 3,049 | 611 | 30 to 42 | 1,096 | 1,707 |
| 32 to 50,000 | 927 | 186 | 45 to 52 | 444 | 630 |
| 50 to 100,000 | 615 | 123 | 55 to 67 | 362 | 485 |
| 100,000 and over | 432 | 86 | 69 to 71 | 303 | 389 |
| | $153,186 | $30,638 | | $4,587 | $35,225 |
| Percent of total | | 87% | | 13% | |

It will be noted that the progressive tax rates which are added on to the flat 20 per cent tax quickly climb to an additional 71 per cent of income. An individual who makes $16,000 must pay 50 per cent of the last earned dollar, and then the progressive rates climb rapidly to a total of 91 per cent. Despite these confiscatory rates the *progressive* yield is only 13 per cent of total tax income. Eighty-seven per cent comes from the basic 20 per cent flat rate.

Thus it can be seen that the steeply progressive rates could be radically reduced without substantial loss of income to the Treasury. In fact, Treasury income would soon be higher, since reduced rates would increase incentive and stimulate activity and income.

Another fact to note is that nearly 80 per cent of tax revenue is derived from taxable income up to $6000. If low-income taxpayers were more aware of this fact, pressure on Congress for economy would be greater, and we would not have a climbing budget. Finally, the reader should note that in the highest income brackets total confiscation of income would yield little more than present revenue. The reason is that present taxes are so high there is little left. For instance, if the government actually confiscated all income remaining to taxpayers whose annual income is $50,000 a year or more, the Treasury would collect about $173,000,000 hardly enough to run the federal government for a few hours. The reason is that these incomes are already subject to confiscatory taxes. And if this ridiculous policy were pursued, the government would kill the goose that lays the golden eggs.

Instead of more spending and more deficits, instead of more government aid to this group or that, instead of more extension of the all-powerful Welfare State with less initiative, less income and less freedom for the individual—how about reversing the process by a planned tax reduction?

But it should be realized as long as the Federal Government continues to spend on many new projects and create Treasury deficits with abandon there is little hope for tax reduction. More important still, as long as this policy continues there is little hope of our having a sound dollar.

## PROTECT THE DOLLAR BY A GOLD RESERVE

At the present time the dollar is protected to some extent by a law which provides that the Federal Reserve System must maintain a specific gold reserve. This provision of the law which requires gold backing for the dollar restrains the Federal Government's power to manufacture money.

What's wrong with the administration's proposal to cut the last link between the United States domestic dollars and gold?

Why not eliminate the legal gold reserve requirement entirely, and convert it into a hundred per cent paper dollar? This is the basic question raised by the Multer bill (HR 6900) which proposed to eliminate the twenty-five per cent gold reserve against deposits and notes of the Federal Reserve Bank, now required by an act of Congress. This bill was introduced in the 87th Congress.

To the average man this sounds like a remote and academic matter. It doesn't seem to have much bearing on his daily life. The fact is that this bill has a powerful bearing on the value of the dollars he earns and saves. While the proposed law may seem purely technical, it actually would mean an encouragement to inflation and a threat to the buying power of the dollar.

The present twenty-five per cent legal gold reserve means that about $11 billion in gold (out of our total $17.4 billion supply now held by the United States Treasury) must be retained as gold backing for the American dollar. This means that foreign central banks (and foreign nationals operating through these banks) can convert the dollars they own into American gold only to the extent of the remaining $6 billion. Therefore any substantial outflow of gold, such as one or two billion dollars in a year is now a cause of grave concern, because such a sum represents a large percentage of the gold available to meet foreign demand.

The consequence is that the present twenty-five per cent legal gold requirement acts as an automatic brake on the money-managers' power to inflate. When gold flows out they are under pressure to modify the policies which cause the gold outflow. And, basically, what causes a steady and substantial loss of gold? It is, purely and simply, the threat of domestic inflation. This is caused by the government's deficit spending and by an inflationary, easy-money policy of the monetary managers. So the present twenty-five per cent gold requirement acts as a warning that inflation is undermining our economy, and it also acts as a brake upon it. It is a discipline which politicians and money managers do not like.

Advocates of the Multer bill say that it will halt the outflow of gold. They reason that foreign owners of dollars will be reassured and will not want gold if they know that our entire $17 billion supply is available to them. But, instead, we would be lulled into a false sense of security. We would feel relief from the pressure now existing to correct the deficit in our international balance of payments. Part of this deficit would undoubtedly be called for in gold but—and here is the important point—we would be inclined to do little about this outflow until our gold stock was dangerously diminished. Instead of being worried about a one billion dollar outflow we might not get concerned until our gold supply is in grave danger of disappearing.

If there were no law requiring a gold reserve, there would be no automatic restraint against the issuance of vast quantities of dollars. But, advocates of the Multer Bill say, under the present law the twenty-five per cent gold coverage requirement can be suspended in an emergency. True enough. But there is a vast psychological and practical difference between this provision and a new law which announces to the world that there need be no gold at any time behind the American domestic dollar, and that the dollar is purely fiat currency.

Also, they say, our money-managers will never go to extremes in inflation because they are sensible and patriotic men. Unfortunately history records many tragic periods in which well-meaning and patriotic managers debauched their country's currency when automatic restraints were eliminated.

An example is the record of John Law who became Louis XV's Finance Minister. He introduced that monarch to the delights of paper money, free of gold reserve. Within five years the currency collapsed and John Law fled. Penetrating comments on this era were made by the great French economist, Charles Rist, in his essay, *Gold and a Return to the Ideas of John Law*. This and other essays of Rist have recently been assembled in a book entitled *The Triumph of Gold* with an excellent introduction by Philip Cortney.

In an appendix is printed a talk by Allan Sproul advocating our divorce from gold. He says, "Discipline is necessary . . . but it should be the discipline of competent and responsible men . . . not the automatic discipline of a harsh and perverse mechanism." A similar statement was made in the French Assembly in 1793 by Deputy Martineau in his defense of printing the large quantities of currency called *assignats*. He, too, advocated the discipline of competent and responsible men instead of the discipline of gold. The *assignats* became worthless by 1796 and were burned in a huge bonfire.

One other point needs to be stressed about the Multer bill. If our gold reserve is not maintained we may well arrive at a time when our gold stock is exceedingly low and an international crisis develops. Then the life of the nation would be threatened. Gold is essential to buy from other nations the war supplies we need. To prevent our gold flowing out there is one very simple remedy—curb inflationary federal deficits and inflationary monetary policies and thus protect the dollar.

It seems curious that pressure to eliminate all anti-inflation restrictions on the money-managers comes at a time when federal deficits are growing and an inflationary cheap-money policy is advocated by administration economists as a cure for every economic ill. Plainly legal restrictions against inflation of the money supply are more necessary than ever. Measures like the Multer bill will not protect the dollar—they will undermine it.

The plan to eliminate gold reserve for the domestic dollar is related in its general intention to another plan now being discussed for *international* currency. The general purpose of the proposed Triffin Plan, and those like it, is to create an international superbank which would manipulate the gold supply (as well as the supply of other important curencies) so as to prevent a so-called "run on the bank"—that is, a run on the gold supply or currency of any major country. All these schemes were foreshadowed in 1944 when the press was filled with discussions of "Bancor" and "Unitas."

## "BANCOR" AND "UNITAS" ARE NOT GAMES

Have you heard about "Bancor" or "Unitas"? No, these were not games like Bingo or Canasta. The words were coined by the British economist, Lord Keynes, to describe a new kind of international currency which he proposed for the postwar world. You will be hearing considerably more about Bancor and Unitas units—or some other such words invented to describe this new currency. The Keynes scheme, which was rejected in 1944 because it was inflationary and undesirable for other reasons, has recently been revived. And it will be surprising if some such plan is not adopted within the next few years.

The reason for creating a new currency, the sponsors tell us, is that there isn't enough solid international currency which nations can depend upon. There is gold, of course, and this is supplemented by dollars and pounds sterling. Of course the German mark, which is very strong currency, or the solid Swiss franc, could be used. But there isn't a sufficient quantity of these currencies outstanding around the world. So the main dependence is on gold, supplemented by the dollar and the pound. The claim is made that these aren't sufficient for adequate foreign exchange. International "liquidity" is supposed to be very thin, and the money-managers talk about the danger of a crisis in the future.

Now if every nation, especially the United States and Britain, kept its house in order there would be no problem. If these countries did not inflate their currencies, and if, from time to time they didn't feel impelled to engage in restrictive measures which affect the flow and value of their currencies, all would be well. But they do not always observe the rules of economic health, and their currencies suffer. The main world reserve currency—the dollar—is in trouble, the future of the pound is somewhat uncertain. The complaint is made that there isn't enough gold. But billions in gold, which could be added to the useful stocks of central banks, are hidden in private hoards because people fear debasement of currency. So an attempt is made to get around these difficulties by an age-old prescription—manufacture a new currency which every nation in the world can use to its heart's content.

It is curious how this line of reasoning follows the historical record established by many nations. Whenever countries got into economic trouble in the past, the claim was generally made that the reason for the difficulty was that there just wasn't enough money in that country. The solution offered was that new money had to be created. This new money took the form of paper promise-to-pay. This happened in France after the Revolution, and it occurred in modern Germany and Italy, as well as in many countries in South America. The history of these adventures generally was that the new currency was manufactured in such quantity that it finally lost most of its value.

The new international plan proposes that the International Monetary Fund should be turned into a world superbank, an international central bank to serve national central banks. *The London Economist*, which seems to have close contacts with leading figures in this administration, says: "President Kennedy's task forces of eager young re-thinkers are known to have before them at least two plans . . . the Triffin Plan (which is fairly radical) and the Bernstein Plan (which is much less so). Any trained economist with ten minutes to spare can work out some other variant of the same general ilk."

The nub of the Triffin Plan is (1) Each country will deposit additional gold and some of its own currency with the new superbank (say twenty per cent deposit of a nation's total gold and foreign currencies). (2) The International Monetary Fund would use these deposits as a base to create more money—Bancor or Unitas units—which would be loaned to various nations. Thus there would be manufactured vast new credits which would circulate around the world.

How would these new credits be apportioned? There's the rub. The *Economist*, which is quite partial to this scheme says, "This might be an opportunity to give special large new drawing rights to under-developed countries—as the major part of a new scheme of generous world aid to them." Does this sound like sound banking or an eleemosynary institution?

How sound would currency be if it were based upon this kind of practice? The main point is that a central bank can be, and usually is, an engine of inflation. It manufactures money.

Here again the *Economist*, although favorable to the idea, admits that "once all countries feel less worried about their reserves, many would start expanding their domestic spending more voraciously; some might well expand themselves back into inflation again." If this happens, as it probably would, we would have a compounded world inflation.

But, the argument is made, sensible bank directors would not encourage such practices. Who can guarantee what the directors of this organization would do in the future when they are appealed to on the basis of "need," "world growth," "necessity for expansion" and all the other phrases generally used to cover up the issue of more money?

# 12–

# The United States faces the world

*When a jet plane can cross the Atlantic in less than three hours and when rockets may traverse this distance in a matter of minutes, the affairs of the rest of the world become of deep concern to the United States. Isolationism is dead—and that particularly means the policy of economic nationalism, which tends to isolate a country from the rest of the world. But while our economic policies must have some reasonable relationship with those of the leading industrial countries of the West, this does not mean that the spending of American dollars all over the world is a solution of all our major problems.*
*In the following pages we discuss some of the conditions which confront us and indicate the lines along which American policy should go.*

## END OF THE "AMERICAN ERA"

It is an old truth that nations often go down to defeat because their generals plan the next war on the out-moded assumptions of the last one. The same is true in the planning of political and economic national policy. While the stream of history changes its course the national managers are often completely unaware of it and proceed on their usual course.

It is essential for a new President to recognize that there has been a basic change in some of the fundamental economic conditions which heretofore prevailed in the post-war world. More important still, it is essential for him to be guided by this fact in his practical recommendations on economic matters to Congress. If he does not follow this course we, and the rest of the free world, will suffer economic and political crises.

What basic change has taken place? During the first decade and a half of the post-war era the United States was powerful enough to pursue its own policies without fear of consequences. In fact, the post-war era has been called "the American era" because it was dominated by the United States —its resources, its industrial and financial power.

During this period America could maintain any *monetary policy* it desired without fear of being harmed by international repercussions. We didn't have to worry about the outflow of gold, because in order to buy our goods foreign nations needed the dollars they earned. We could maintain any interest rate our money managers desired, and there would be no immediate penalty. The discount rate could be less than one per cent over here as against four per cent in Europe, but still there would be a net inflow instead of an outflow of dollars.

We could maintain any *spending policy* we wanted. Between the end of the war and 1961 we gave to foreign nations and international institutions $78.5 billion, but American spending for foreign aid had no apparent effect on the international position of the dollar.

We could maintain any *agricultural policy* that pleased us and "dump" the surplus abroad. We could maintain a ridiculous *labor policy* which gave complete power monopoly to unions. Thus wages could be forced up at the rate of eight to ten per cent a year, followed by necessary price rises. But still there were no obviously disastrous effects upon the economy of this country—nor was the rest of the world unduly disturbed, because the world at that time was pleading for our goods and services.

But all this is now changing. We have had our party; the American Era is over. The tell-tale evidence is that we have a balance-of-payments deficit and our gold has periods of flowing out at a frightening rate. Our economic policies must be altered to meet these dangers.

It should be emphasized that economic policy does not operate in a vacuum. Our decisions have severe repercussions not only in this country but over the entire world. Broadly speaking this occurs in two ways. The first is direct. If we subsidize the growth of unneeded crops, for instance, and then give away the surplus, we receive the enmity of export-ing countries such as Canada, Australia, or even Burma (rice). They claim we are destroying their trade by "dumping." Or if we raise our tariffs and place quotas on imports we gain the ill-will of our Allies for restricting the market for their produce.

Furthermore, if our internal monetary policy is inflationary and undermines confidence in the dollar and causes outflow of gold; if our labor policy is lop-sided so that wages and cost-of-production are forced higher and higher, and our goods are over-priced in all markets; if unsound practices here cause a balance-of-payments deficit—then we may try to cure the imbalance by a policy of pure economic nationalism. That is, we may restrict American travel and American investment abroad, clamp on exchange controls, establish high quotas and still higher tariffs on imports, and in short embark on an almost endless program of restrictions.

Restrictions of this type would build an economic wall around the United States. Such a policy would have wide political and even military repercussions. There can be no effective NATO or strong Western opposition to the encroachments of communism if each of the Allies pursues a policy of economic nationalism. The free flow of money and trade and people is essential to the success of the Western alliance.

American policies must now make sense or the political, economic and military effects will be immediate and painful. If we are to act as the international leader of the free world our economic policies must be geared to international factors. There are two courses open. One is the policy of economic nationalism, which has proven disastrous in the past. (Hitler's Germany, Mussolini's Italy and other totalitarian governments have been masters at this kind of thing.) As I have pointed out, it is a policy that leads to such measures as quotas on imported goods, mounting tariffs, an embargo on gold, exchange controls, prohibitions on travel and investment abroad. It is a proven road to disaster.

The other way is to curb inflation, eschew an artificial cheap money policy, moderate our spending, establish a better balance between the power of labor union leaders and managers so that cost-of-production will not rise excessively. In this way we can integrate the economy of the United States into that of the Western world. We can stimulate trade and commerce and give the needed economic health to the Western alliance.

## DOLLARS OWED ABROAD CURB OUR POLICIES

Early in the 1950's when Britain struggled annually to find the dollars she needed to settle her adverse trade balance, the well-known British economist, Sir Dennis Robertson, made this enigmatic statement, "Britain is cursed—or shall I say blessed?—with a balance of payments problem."

Of course, the "curse" consisted in having to do without wanted imports which couldn't be paid for, and of finding the gold or hard currency required to settle the foreign trade account. But the blessing-in-disguise consisted of the fact that the necessity for settlement forced upon Britain an economic discipline which made her in fact stronger and healthier. She was *compelled* to put her house in order. She was practically forced to modify her inflationary policies which caused her deficits. Thus, she was forced into laying the foundation for the resurgent Britain which the world soon saw emerging.

It has come as a shock to many Americans that we too are vulnerable to this "curse" and this "blessing." With a balance-of-payments problem we must modify those policies which affect the over-pricing of our goods, the outflow of our gold, and the value of our currency. We must halt the inflation. Only a few years ago many people would have considered it ridiculous for the United States to be faced with a deficit problem calling for such restraints. But our inflation has been a long time building up, and we are now reaping the result. In 1960 we had a deficit of $3.8 billion and we lost over $2 billion in gold. Similar deficits occurred in past years.

In early 1960 our gold stock was down to $17.4 billion and we had short term liabilities to foreigners of almost $21 billion. A great part of these liabilities could become claims against our gold upon immediate notice. So it was plain that whatever new policies we pursued, they must not frighten foreign holders into demanding gold for their dollars or there would be trouble.

In previous pages we outlined how our balance-of-payments deficit affects *all* our policies, and even has a direct effect on our foreign policy. But it is in the field of anti-recessions measures—so-called counter-cyclical policy—that our continued balance-of-payments deficit has a significant effect. It is generally assumed that this government can spend its way out of any recession regardless of the underlying causes. But such action, even if temporarily successful, would result in vast Treasury deficits which would be a red flag to all foreign dollar holders. They would rush to get rid of their dollars in order to buy gold or to convert them into other currencies. Thus the dollar would sink in international markets and there would be a dollar crisis.

Devaluation of the dollar could not be a solution to our problem. In order to offset any advantage accruing to us from such devaluation other countries would devalue also. Such a turn of events would mean world inflation and world chaos. Thus the end product of an American policy of trying to counteract the downward trend of business by continued inflation would eventually cause violent repercussions both here and abroad.

These are some of the factors involved in our balance-of-payments deficit. Unpalatable as it may be to Americans, we must realize that, like all other countries with whom we are closely knit, we are not complete masters of our own fate. Our deficit to the rest of the world prevents us from pursuing a unilateral inflation policy as a means of cure each time we face internal recession.

### CAN THE UNITED STATES MAKE A PROSPEROUS WORLD?

Two fallacious assumptions underlie plans which call for America to spend additional billions in order to bring prosperity to the so-called underdeveloped countries. The first assumption is that it is within our power to create a prosperous world if only we put up the necessary money. The second assumption is that the citizens of this country have plenty of money to pay for all these projects without harming themselves to any great degree. Any reasonable analysis will prove that both these assumptions are wrong.

The extent to which American citizens can finance prosperity for the rest of the world must be judged by an analysis of present cost of government to the average American. After all, it must be remembered that approximately eighty percent of total revenue derived from the personal income tax comes from those whose net income bracket is less than $6,000 a year. Furthermore, some of these are joint husband and wife returns and represent earnings of two workers. If many billions more are to be sent abroad, it is this salary and wage-earner group—those who are supporting a family on less than $120 a week—who must bear the brunt of it. Anyone who thinks that the major part of this money can be had from the highest income brackets is deluding himself. As was pointed out earlier, even if *all* the income earned by those making more than $50,000 were confiscated outright by the government, Washington would get an additional sum of only about $173 million. The reason is that these incomes are already subject to confiscatory taxes. And remember that such confiscation would make impossible the functioning of a free enterprise system. Therefore, it seems plain that any additional government spending for the underdeveloped countries will mean very great sacrifices on the part of all American workers.

Even the assumption that it is within our power to create prosperity for the world is completely false. Our capital aid at its utmost would be a mere drop in the total of the world's needs. The main factor in world prosperity is what countries can do for themselves to accumulate capital and create the internal atmosphere for dynamic growth through investment and enterprise. Today hardly a word is written about the primary responsibility of nations to provide for their own prosperity and growth by establishing economic and political policies which encourage (instead of discourage) enterprise and thrift internally and attract capital from the outside.

One of the most important arguments for stepping up American foreign aid spending by billions for this purpose is contained in a book by two Massachusetts Institute of Technology professors—Millikan and Rostow—entitled, *A Proposal: Key to an Effective Foreign Policy.* This book was widely used in bombarding Congress and in rallying the new-liberal forces to support a bigger foreign aid program. It was surprising, therefore, to find an issue of a journal of opinion which prides itself on its liberalism, *The Yale Review*, publishing a devastating attack on this book and its central thesis. The attack was by another author who occupies an important place in new-liberal circles—Irving Kristol. Mr. Kristol tears the Millikan-Rostow thesis to shreds and characterizes the book as a piece of shoddy scholarship, bad logic and worse economics.

The Millikan-Rostow proposal is for spending $2 billion a year exclusively in underdeveloped countries. If you think this is intended solely to help these countries and to give us some economic dividends you would be quite wrong. One of the purposes according to Millikan and Rostow is the moral one of saving our own souls, because we need a sense of "mission." We must have the "challenge of world development to keep us from the stagnation of smug prosperity." So, their argument goes, we should distribute American taxpayers' money abroad in order to improve the spiritual quality of our domestic life. Since approximately eighty per cent of the total collected by government as personal income tax is derived from taxpayers whose taxable income is less than $6,000 a year, this form of spiritual uplift might seem not only expensive but unethical to those citizens who can ill afford to bear it.

In giving out this money, the authors assert, we must favor only those nations which have a "plan," which have a "consistent national development program," and have a top bureaucracy ready to put their blueprint into effect. On this matter Mr. Kistol comments, "It appears that if any country wants to have the experience of unplanned growth along the lines of say Canada, or Australia, or other old-fashioned capitalist countries, Messrs. Millikan and Rostow are not going to have much patience with them." Apparently one of the purposes of the new Point Fourism, according to Millikan and Rostow, is to promote the growth of planned economies and socialism abroad.

According to the new formula we need expend no blood or tears but only money in order to survive and flourish. The assumption is made that Asian-African countries are bound to be on our side if we pour in enough dollars because they have "authentic human striving for the values of democracy." But, says Mr. Kistol, this is not so. Many of the nations strive for place, power, and prestige in the world order. Egypt could have gotten a great deal of economic aid from us but Nasser chose another course. Many of these countries hate us simply because of the natural human reflex to the fact that we are richer than they. We legitimize these emotions by acknowledging such countries as our responsibility.

If both India and Great Britain should double their national income in twenty years, the Englishman's real income would have increased by ten times as much as the individual Indian's income because the Englishman starts from a much higher base. So, under the most favorable conditions, the gap between Asia-Africa and the West would be even wider than it is today. This would accentuate, instead of diminish, international political and psychological problems. Since it is the intellectuals of the poorer countries who are articulate, they become even more resentful. They want more than an increase in the scale of living for their country. They want power and equality and prestige.

Finally, the theme upon which the Millikan-Rostow thesis rests—the theme of foreordained growth provided we pour the money in—has absolutely no basis in experience, as Kristol points out. The certainty of a 1.5 to 2 per cent annual increase in per capita income for these countries is not a scientific projection at all, but merely a manipulation of numbers. Whether a country can grow at that rate depends upon a vast complex of social, political, economic and even religious practices, habits and customs. It need not happen simply because two clever manipulators of abstract numbers present their so-called statistics as scientific certainty.

The subject of growth in so-called underdeveloped countries has been obfuscated and confused by general belief in several fictions. The first fiction is that a poor country—like India or Indonesia—cannot afford the luxury of free enterprise economics. The second fiction is that the growth of the welfare state and collectivist measures benefit the people. The third fiction (directly related to the other two) is that some inflation is essential to the maintenance of prosperity. The growth of these ideas and their implementation into laws have exacted a terrific price from every worker in these nations in the form of lower living conditions. The truth is the diametrical opposite of the above statements.

The truth is (1) the poorer the nation, the more it needs private capitalism, (2) collectivist measures and controls strangle production and thus cause a decline in the workers' scale of living, (3) inflation is the cause of depression, not prosperity. Sound prosperity can be achieved only with money of reasonably stable purchasing power.

The validity of these statements may be seen today in the policies of India, the key country of the Far East. Everyone in the free world wants to see India successful, for she is a counterweight to Communist China and a belweather for other countries of the East. The United States has come to India's assistance with massive economic aid. But how effective will this aid be?

## AN EXAMPLE: AMERICAN AID TO INDIA

A cogent example of the fallacies of indiscriminate programs of foreign aid is our aid to India. Our plans to assist India must be judged by more than the good intentions of their sponsors. The vital question is: How can India achieve a more prosperous status and a firmer political foundation? A great many friends of India—many of them prominent Indians themselves—now produce evidence to show that the present Indian policy of socialist planning is a tragic failure; and that the American program of government-to-government aid has proved a failure in substantially raising the depressed living standards of Indians.

This thesis was documented at an economic meeting at Oxford by Professor B. R. Shenoy, head of the Indian School of Social Sciences at Gujarat University in Ahmedabad. He pointed out that India can barely feed herself today, yet her agriculture is neglected. Only one Indian out of four or five can read and write, yet education is being neglected.

The socialist bureaucracy of India concentrates on plans for building heavy industry, most of which are wasteful of India's resources. Two-thirds of the capital investment goes into the so-called "public sector," and public officials make the conduct of private business almost impossible by a system of licensing which often degenerates into favoritism and graft. "The trend in Indian national income," said Dr. Shenoy, "seems to reflect the combined effect of these policies." He estimated an actual decline of 1.5 per cent for the year 1957-58, and because of the large population growth, "the Indian citizen at the close of two years of the second five-year plan was poorer than he was at the close of the first part." American money, said Dr. Shenoy, is not being constructively used to promote the well-being of the Indian citizen. In fact, it is being used to encourage a socialist regime which is ineffectual and wasteful.

Recently other important voices have been added to confirm Dr. Shenoy's statements. Dr. P. T. Bauer of Cambridge produced a study entitled *United States Aid and Indian Economic Development*. In it Dr. Bauer pointed out that the basic trouble is the resolution of the Indian Congress in 1955 which said, "Planning should take place with a view to the establishment of a socialist pattern of society where the principal means of production are under social ownership or control.

This 'socialistic pattern,' implemented by the second five-year plan, has resulted in many paradoxes, says Dr. Bauer. "There is massive expenditure on heavy industry regardless of cost and the prospective demand for its output, at a rate at least eight times expenditures for elementary education, when about four-fifths of the population are illiterate. . . . There is comparatively small expenditure on agriculture and restrictions on the movement of agricultural products, in the face of manifest urgent and indeed desperate need to increase agricultural productivity. . . . There are severe restrictions or complete bans on the supply of both imported and locally produced consumer goods in the face of urgent need both to raise living standards and to provide incentive to agricultural production for the market.... There is a neglect of roads.... There is an exclusion of private Indian and foreign enterprise and investment on a wide range of domestic and commercial activities despite urgent needs. . . ."

Much of this central planning has been done by way of inflation. About $3.3 billion of total government spending under the plan was to be covered by deficit financing. The result has been rising prices and financial crises. Indian intellectuals are beginning to attack these conditions and a new "Freedom Party" has been organized. It is headed by some of the most respected figures in India, including Minoo Masani, former Mayor of Bombay, Chakravarti Rajagopalachari, a former Governor-General of India, and a founder of the present Indian state, and Professor K. R. R. Sastry, former law dean of Rajasthan University of Jaipur.

All these Indian leaders tell us that our government-to-government aid is not helping the Indians to achieve a higher standard of living. What is needed, according to them, is a release of people's energies and a move towards a far greater area of free enterprise. American capital investment would undoubtedly follow such a move.

This realistic analysis of leading Indian statesmen and scholars is most revealing. It should lead American policymakers to re-evaluate some of their basic premises, and understand the fallacies of government-to-government aid for a nation whose own latent energies are dammed up by socialism.

### FOREIGN AID NEEDS A FULL-SCALE PROBE

Government spending for foreign aid is a major factor in our balance-of-payments deficit. We are sending too many dollars abroad. More foreign spending would only accentuate this problem. President Kennedy seemed to realize this when he said that our "foreign outlays must be examined in a new perspective . . . to insure that our budgetary decisions will be taken with full understanding of their projected impact on the country's balance-of-payment."

But how is this to be reconciled with another statement of President Kennedy's? "Our role is essential . . . in the construction of a sound and expanding economy for the entire non-Communist world . . . helping other nations to satisfy their own aspirations. The response must be towering and unprecedented, much as lend-lease and the Marshall Plan were in earlier years."

In view of the facts examined in the preceding pages, a proposal that the United States government provide "an expanding economy for the entire non-Communist world" is a frightening proposal. As yet no price tag to the American citizen has been placed on this program, but knowledgeable observers estimate at least an *additional* $2 billion to start. We would pay the lion's share of this despite other nations' contributions. What would happen to our balance-of-payments deficit under these conditions?

The words "foreign aid to underdeveloped nations" have become an emotion-packed phrase, but in view of authoritative reports received from abroad it is urgent that Congress take a good hard look at this "towering and unprecedented" program. The question that must be answered is this: To what extent are America's vital interests being served by a policy of indiscriminate government-to-government aid?

A dispatch from New Delhi, India, by Scripps-Howard syndicated columnist Ed Koterba highlights the importance of such an investigation. In this dispatch he told of an interview with "one of India's highest authorities." Plainly this could only mean Mr. Nehru or someone close to him, therefore his words are important. Mr. Koterba reported "The official gave us a blunt warning on how we are losing the tug-of-war in India with the Soviets."

But why are we losing if we are giving India aid worth billions of American dollars? "You," said the Indian official, "are trying to buy us with dollars. . . ." The official then went on to point out that the dollars we are pouring into India "delight the leaders of big business in India, but the big money brings resentment among the masses of the poor who keep on starving just the same."

This is a startling and depressing statement. The "authority" must know what he is talking about when he says that our vast expenditures bring "resentment among the masses." But what about the Soviet Union? Mr. Koterba says, "Their literature floods India and it appeals to the people because if offers them . . . food, shelter, a modest existence. It doesn't promise gaudy materialism that we are trying to sell." So the communists by their promises gain good will while we, with our gifts of dollars gain ill will. The interesting fact is that the Russians have given India nothing. They have merely loaned her a comparatively small sum at two per cent interest. This, plus propaganda, is the extent of Soviet aid to India.

To 1961 we have given over $1.6 billion to India and are committed to spend about $3.8 billion more. Now India is inaugurating another five-year-plan and insists that she will need a billion dollars in addition. Calls for more aid are coming from the East, the Middle East and especially from Latin America. In addition to all this President Kennedy now pledges that the United States will give even more extensive aid to communist countries behind the Iron Curtain.

Poland, for instance, has already received about half a billion dollars over the last four years. Yugoslavia got two million.

But apparently this is only a beginning. We are now going to relieve the Russians of pressure for more food and better living from countries which are her allies and which line up as our enemies in every conceivable policy test. These countries will hide from their own people the extent of American aid. The logic of aiding enemy nations is, to say the least, obscure.

It is interesting to note that since the war we have spent a total of \$78.5 billion in all forms of foreign assistance. That enormous sum does not include our military payrolls overseas or our government's administrative costs in thirty different countries. About sixty per cent of this sum went for economic assistance. Practically every country in the world outside of the Soviet Union has received some form of assistance—including communist countries like Poland and Yugoslavia.

Here are a few on the list: Afghanistan, \$98 million; Brazil, \$782 million; Cambodia, \$228 million; Egypt, \$208 million; Greece, \$2700 million; Indo-China, \$821 million; Jordan, \$194 million; Laos, \$261 million; Morocco, \$106 million; Peru, \$257 million; Poland, \$476 million; Yugoslavia, \$2000 million.

The United States has poured out billions and now the pace is to be stepped up despite our balance-of-payments deficit. Yet the reactions to our spending as outlined by Mr. Koterba by "one of India's highest authorities" is not unique. The same kind of reports have come from many other countries. Isn't it about time that we had a full-scale, country-by-country public investigation of the whole subject of American foreign spending?

And while we are taking a good hard look at our relation with the so-called underdeveloped countries, would it not be a good idea to pay some attention to an international organization which has a powerful influence in propelling this country towards a collectivist society. I refer to the International Labor Organization.

### THE INTERNATIONAL LABOR ORGANIZATION AND COLLECTIVISM

The AFL-CIO recently had some harsh things to say about the International Labor Organization, which is a subsidiary of the United Nations and a hold-over from the old League of Nations. Secretary of Labor Goldberg is now considering whether the United States should continue to participate in this organization. Leaders of American Industry, as well as many American government officials, have for a long time urged that we get out of the ILO because its policies are basically alien to the American philosophy. If, as many people hope, the administration decision is to withdraw, that decision will now be hailed almost unanimously.

The immediate cause of the AFL-CIO flare-up is the rendering of two reports by the ILO. One is on labor unions in the United States and the other on labor unions in the Soviet Union. We had no representative on the investigating group for the American report, and had nothing to say about its final version. The report from the Soviet Union, however, was guided by two communist nations on the committee as well as "an official interpreter." When it came out American labor leaders were shocked. Former Secretary of Labor Mitchell said, "The report gives the impression of praising the

Soviet regime and fully justifying the kind of subservient labor organization structure" which exists in Russia today.

Here are a few quotations from the Russian report; "Trade union bodies (in the Soviet Union) are elected democratically and are answerable only to the persons who elect them." The report praised Communist Party members as "a dedicated minority with a sense of purpose . . . which has given it such an enormous influence." The report added, "Links between the trade unions and the political party are not peculiar to the Soviet system." What the report very cleverly does is to equate labor unions in totalitarian Russia with labor unions in free countries. Distortions, half-truths, and untruths are on every page.

This report points up the basic conflict in the ILO. In 1954 communists entered this organization and there are now ten communist nations who vote as a block. They have ten times the voting strength of the United States. Delegates to the ILO are divided into three groups (1) government, (2) labor unions and (3) industry. Since all groups are controlled by the government in the Soviet Union, the ILO deliberations become ridiculous. Imagine Communist Party members sitting as representatives of free employers or free workers in a deliberative body!

In 1959 employers from forty-six free nations withdrew in protest from participation in ILO meetings. But the ILO goes on, making decisions on labor union matters for the world, and drawing up "conventions." These conventions are submitted to the individual nations and when adopted have the force of a treaty. In this country this means they are above domestic law. The United States Supreme Court has approved this interpretation. The ILO has adopted 114 conventions of which only seven have slipped through the American Congress.

For many years leading students of this organization have warned that its underlying philosophy is contrary to that of the United States. The ILO does not confine itself to labor matters. It has declared that "it is the responsibility of the ILO to examine and consider all economic and financial policies," in order to promote labor unions. This is precisely what it has done in many of its conventions.

Mr. William L. McGrath, a former industry member of ILO says this about their policy: "The underlying theme of ILO is always government regulation, government domination, government control, government direction, and government supervision; all leading, of course, in the long run to government ownership of industry, government price control, and government dictation as to jobs and wages."

For instance, it urges nationwide collective bargaining enforced by government decree. But it proposes laws on many other subjects. In 1952 it passed the "Maternity Protection Convention." This provided the rates of pay and leaves of absence for prospective mothers. It even goes into the matter of nursing the baby, and states specifically how these leaves are to be counted as working hours and paid for by the employer. In another field it passed the "Vocational Training and Agriculture Convention." This proposed setting up an apprentice system for young farmers, and assumed that wages in agriculture are determined on the basis of collective bargaining in the United States. In practically every convention the ILO assumes the collectivist viewpoint.

In the words of former delegate McGrath, "The fact is that there is a fundamental cleavage within the ILO. It hinges upon the issue of nationalization of industry, government regimentation and government control against private ownership of industry, freedom of the individual and freedom of competition."

Until now the AFL-CIO was an important factor in supporting this organization. Now that it, too, has soured on the ILO isn't it about time that the United States withdrew completely?

## THE PROBLEM OF EXPLODING POPULATIONS

Economists disagree on the solution of many important economic problems in the world today, but there is one subject on which there is nearly unanimous agreement. That is the role of overpopulation as the greatest threat to economic progress and the maintenance of political stability in most of the world. This issue cannot be avoided.

In 1960 President Eisenhower said, "There are 1.7 billion people who today are living without sufficient food, shelter, clothing or health facilities. Now they are not going to remain quiescent. They are just going to have an explosion if we don't help them."

Any economic help we are capable of giving for the improvement of the living scale of the 1.7 billion people residing in the rest of the world would be at best only a tiny part of their entire economy. It would be an infinitesmal sum compared with the income these people *could* create internally by sound economic measures. We should recognize that these over-populated nations must *themselves* create the conditions which will encourage their progress and growth. Most important of all these conditions is a healthy balance between their resources and their populations. Today the steady and enormous growth of their populations eats up any slight economic progress they might make.

Japan has proved that this problem can be successfully managed, and other thickly populated nations can follow her example. Japan's population increase now is less than one per cent annually—it was between two and three times that figure only two decades ago.

The balance between population and resources concerns far more than the food supply. Since Malthus in the nineteenth century discussed the tendency for populations to outrun the food supply, there has been a great rise in farm productivity. Nevertheless, there is still starvation and misery in vast areas of the world. Some countries do not grow enough in their own regions to support themselves, and they are incapable of procuring, transporting and distributing food from other areas with sufficient speed to save their starving millions.

But in addition to food there are all the other necessities and conveniences which people hear about and are led to expect as their own natural right. This so-called "revolution of expectations" has been fanned by nationalist and communist propaganda. When people are inflamed by promises that a political miracle will guarantee them an abundant life, and yet they continue to exist in direst poverty, their rising indignation presents a natural threat to world order.

It took about five thousand years—from the dawn of recorded time to mid-nineteenth century—for this planet to develop one billion inhabitants. It took less than another hundred years for the population to increase to *three* billion. But if present trends continue, it will require only forty more years before the world has *six* billion inhabitants. This is indeed a "population explosion" with frightening implications.

Practically every poor country in the world, from Mexico to India, has a population growth of between 2 and 3 per cent annually. While birth rates are increasing, death rates are decreasing due to modern methods of prolonging life. It is estimated that in India and other Eastern countries, where the death rate used to be thirty per thousand during good years and much higher in other periods, the death rate *today* is little more than half that percentage.

When the annual increase in population of any poor country runs between 2 and 3 per cent (the United States with its vast resources has a rate of 1.8 per cent) there is little hope that such a nation can improve its economic status substantially. Improvement in per capita income in the face of such a population increase would require enormous capital investment which is practically impossible to achieve.

It would be necessary for a poor country to save out of current consumption over 20 per cent of its production in addition to getting a substantial infusion of outside capital if it were to take care of its current population and also provide for such substantial additions.

Unfortunately too, another drag on improvement in most of these countries is the waste, inefficiency and mal-investment of socialist governments and central planning. Thus, despite any reasonable investment that the United States might make, nations in this category seem doomed to continue their struggle at the level of poverty unless populations are controlled and economic policies are changed.

It is ironic that the "population explosion" can, in great measure, be ascribed to the wealth-producing system of private capitalism which began to flower with the coming of the industrial revolution a little over two hundred years ago. Prior to that time, under remnants of the feudal system, vast population increases could not be supported by the creaky process of production and distribution then existing.

But with the coming of the industrial revolution, the market economy, and the development of private capitalism, the process of production and distribution was transformed. When more was produced, a tremendous growth of population followed. The fact is that private capitalism is so productive that it made the "population explosion" possible. Ironically, is this another sin for which private capitalism will be blamed?

There is no doubt that overpopulation brings in its train poverty and social upheaval. This is a problem which can only be solved by education in the so-called underdeveloped countries. But until progress is made along the lines of controlling population increases there is little hope of any substantial increase in the standard of living in those countries.

# 13–

# How free is public opinion in a free society?

*In this book we have outlined some of the measures necessary for achieving sound prosperity, and we have indicated that the highest degree of well-being can be achieved only where economic and political freedom exist. But the extent to which these conditions prevail in any nation which lives under a parliamentary form of government depends upon the attitude of the electorate. Administrations and legislators reflect the convictions and prejudices which are held for any period of time by the people who elect them to office. Freedom can prevail only where the people want it. And sound measures will be adopted in the field of labor, taxes and money only if such measures are supported by the people. Therefore it is plain that public opinion is the controlling element in a free society in the long run. And if that society is to remain free the channels which are open for informing and educating the public must remain uncontrolled. Is this true in the United States today, and just how free is public opinion?*

## A FREE SOCIETY AND PHILOSOPHICAL DETERMINISM

There is a vast literature on the subject of public opinion—especially in the United States where it assumes such great importance. It ranges from the theoretical formulations of David Riesman's *The Lonely Crowd* on through the writings of sociologists like Paul Lazarsfeld and down to the practical analyses of so-called public relations experts whose daily lives are devoted to manipulating and interpreting public opinion. In this discussion I would like to point out some of the basic fallacies which have been accepted as truth about the manipulation of public opinion, and indicate how the formation of public opinion in a free society takes place as a practical matter.

It might be well to start by a brief definition of terms. By public opinion is meant the attitudes, prejudices, and convictions of people towards the ideas and circumstances of their time. This opinion affects the buying of commodities and the way people live, and of course it is extremely important to producers of goods. Here, however, we are more concerned with its impact on political, economic, and social trends.

It should be noted that public opinion exists and even has some influence in a totalitarian state, although, like the iceberg, it is seven-eighths submerged. We know that the men in the Kremlin have their own methods of taking soundings of the criticisms and opinions of people in the Soviet Union. The totalitarian leaders want to know some of the unvarnished facts about the life and resentments of their people so that they may consider what policies are most apt to meet the current problem. Public opinion polls may be more public in a free society, but they nevertheless exist to a limited degree in the totalitarian state also.

A free society is the name given to the form which exists wherever the free market system and freely-elected parliamentary government prevail. The more limited these institutions are, the more limited is the free society. Certainly the United States and most countries of western Europe may be termed free societies. However, one must have reservations about the designations of countries like Spain and Portugal and some South American countries. As for countries like Cuba, free public discussion is nonexistent.

Perhaps the most important theory developed during the past quarter century in analysis of public opinion is the idea that public opinion is really not free even in a free society. Deterministic sociologists, philosophers, and other theorists have developed an elaborate set of theories to prove that we are all controlled like robots in our thoughts and expressions about practically everything. According to these analysts, people who suppose that we are free are really naïve.

It should be plain that acceptance of such a theory down through the various echelons of the intellectual world, and its influence upon the community at large, tends to undermine confidence in the free society itself. It creates cynicism and discontent with the institutions of private capitalism which are the very basis of political freedom. Should people become convinced that their preferences and opinions are artificially manipulated by business institutions and politicians they would naturally become resentful and regard both business and politics with extreme cynicism.

A leading figure in this theoretical approach is Mr. David Riesman whose book *The Lonely Crowd* has had a penetrating influence in the United States. It has even greater effect upon European intellectuals by impressing upon them the idea of intellectual poverty and conformity in American life. Although Mr. Riesman's analysis meets no standard of scientific accuracy, nevertheless his analysis has been widely adopted in the United States, and has influenced the rest of the world in its attitude towards this country.

The Riesman theory is that the people of the United States —and in fact in a great part of the western world—are now predestined by the character of their population growth to be what he terms *other-directed.* An individual in America, he holds, does not respond to the integrity of his separate inner life. In Riesman's own words, the United States "develops in its typical members a social character whose conformity is insured by their tendency to be sensitized to the expectations and preferences of others. These I shall term *other-directed* people, and the society in which they live one dependent on *other-direction.*"

So American writers and professional people, American businessmen, American workers think and do as is expected of them. They have little originality and little opportunity to express it. This urge to conformity, says Mr. Riesman, has been going on with increasing speed over many centuries—since the Renaissance and Reformation to be exact. Prior to the modern age people were "inner-directed," according to

Riesman. They acted nobly upon the promptings of their individually-directed minds and responded with rectitude to the dictates of their consciences. In Riesman's words, they "acquired early in life an internalized set of goals. But since the Renaissance there has been a gradual deterioration."

These two groupings by Riesman represent two caricatures, not two accurate descriptions of societies. A knowledge of history and of institutions which have influenced great masses of people, hardly leads to the conclusion that in the more tightly-controlled, religiously-dominated societies of hundreds of years ago individuals generally had the strength and independence of mind which Riesman describes. It is not credible that in those times when everybody's status in society was immutably fixed, people were more free and more vigorous in their thinking than they are in the society of today, which is a fluid, contract society. Yet this, in essence, is what Riesman tells us and what a good part of the world has come to believe. As the eminent economist, von Ludwig Mises, has pointed out, Riesman's complaint is that everyone today is not a Michelangelo or a Goethe.

Now it is perfectly clear that people have always been influenced in their actions and ideas by the good opinion, the customs, the traditions and the habits of their fellow men. People being what they are, they always will be so influenced. But are we less free now in our thinking and expressions than our forebears were five hundred years ago? Do fewer people break out of the ring of tradition? Is public opinion more bound by a rigid set of customs and ideas than it was in the olden days? Merely to ask these questions, I believe, is to answer them. While there is undoubtedly a tendency towards conformity, there is also evidence of vigorous dissent by large and important groups.

## IS FREEDOM OF THOUGHT AN ILLUSION?

In the field of economics, Professor Abba Lerner carries forward the Riesman idea. He indicates that people are not really free, and furthermore that it really doesn't matter whether they are or not. In an issue of *The American Scholar*, a journal of opinion published by the Phi Beta Kappa Society, Dr. Lerner says, "Money and the market are the institutions by which people are induced, or tempted, or bribed to do what is in the social interest. If this is control, it is subtle, a gentle even if very effective, form of control in which the controllees have the illusion of being controlled but free. One may argue that the donkey who follows the carrot (and who regularly gets one) only *feels* more free than the donkey who flees the stick (and who regularly gets that). But could it not be that this is all that is meant by saying he is more free? *Is not freedom, after all, essentially an illusion?*"

Thus, under Lerner's logic, truth becomes illusion and illusion becomes truth, and control becomes freedom and freedom becomes control, and what reason is there to fight for freedom? It can readily be seen how such a philosophy of doublespeak leads to popular cynicism and a movement towards totalitarianism, since freedom is supposed not to exist anyhow.

Just one more recent quotation from the academic world to indicate how far the modern intellectual has gone in denying that people are free, or that there is any degree of freedom in the formulation and expression of public opinion. I quote here from a book by Professor Edward Knight, a United States citizen now teaching at University College in Ghana, Africa. His book is entitled *The Objective Society*, and in it he says, "As for the 'free world,' no one who has passed a Sunday in a protestant community, or tried, apart from matrimony, to give to fornication the exalted and time-consuming place in his life which it richly deserves, or dared, if he is an academic, to say exactly what he thought to his students, no such person can suppose for a moment that he is a free agent . . ."

That this statement should appear in a book which is reviewed in the American press and is meant to be taken seriously is an indication of the bankruptcy of the "robot" concept of public opinion when carried to its logical conclusion.

One should not, however, get the impression that there is no opposition to the theory that ours is a "robot" society. In the academic world there are stirrings in the opposite direction, although they are not vigorous. It is important, however, that recently in *Daedalus*, a journal of opinion on the very highest level of American intellectual life, there appeared a symposium upon this question of freedom in modern society. Dr. Edward Shills points to a more optimistic view about how our modern mass society operates, "Mass society has aroused and enhanced individuality. Individuality is characterized by an openness to experience, an afflorescence of sensation and sensibility, a sensitivity to other minds and personalities. It gives rise to, and lives in, personal attachments; it grows from the expansion of the emphatic capacities of the human being. Mass society has liberated the cognitive, appreciative, and moral capacities of individuals. Larger elements of the population have consciously learned to value the pleasures of eye, ear, taste, touch, and conviviality. People make choices more freely in many spheres of life, and these choices are not necessarily made for them by tradition, authority, or scarcity. The value of the experience of personal relationships is more widely appreciated.

"These observations are not meant to imply that individuality as developed in mass society exists universally. A part of the population in mass society lives in a nearly vegetative torpor, reacting dully or aggressively to its environment. Nonetheless, the search for individuality and its manifestations in personal relations are distinctly present in mass society and constitute one of its essential features."

The above statement must not be taken as representing the dominant philosophy in public relations in the United States today. Quite the contrary. There are not many public opinion experts who believe that "the search for individuality and its manifestations in personal relations are distinctly present in mass society and constitute one of its essential features."

### THE "ROBOT" THEORY IN PRACTICE

Practically all the so-called experts on public opinion follow the Riesman theory about *other-directed* man who is supposed to dominate our time. These ideas have been elaborated upon by many writers in the field of public opinion, some of whom are in academic circles, but most of whom are not. Professor Clyde Miller, in his book, *The Process of Persuasion*, follows the line that people are "creatures of conditioned reflex." Therefore he reasons that whether selling soft drinks or a political philosophy, the most effective method is to cash in on people's conditioned reflexes. This is done by the use of "trigger words," symbols, and other similar devices. A great many so-called public relations experts are practical men who put theories to practical use. One such book which created a sensation in the United States was *The Hidden Persuaders*, by Vance Packard, and another work by the same author entitled *The Status Seekers*. These books developed the line of reasoning that people have an insatiable urge toward conformity. They seek those symbols of success which are valued by other people, to the exclusion of all other achievements.

Of course people often like to imitate those who they believe are better off than they. But the central theme of these books is that the urge to achieve "status symbols" is *the dominant force in modern life*. Individuality crumples before it. Against such a driving force the individual has practically no protection. One gets the impression that people are mere puppets to be manipulated by some master puppeteer. Writers like these seize upon some of the many innocent tendencies of ordinary people—such as that of dressing a little better, or sending their children to a better school, or trying to buy a more attractive automobile—and claim them to be exclusively symbols of the puppet mind. Almost every fact of life is twisted into evidence of the urge to conformity.

The fact is, of course, that people have a very wide freedom in forming their opinions, and they have a very decided urge to express their individuality. Many producers of goods find this out after bitter experience. The automobile manufacturers of the United States who have had to adjust their business to the impact of public preference for smaller, less conspicuous automobiles, can tell the believers in status symbols quite a bit about how expensive belief in the status theory can be. The little Rambler car—one of the most popular in America—is certainly no status symbol. It is an efficient piece of machinery and an inexpensive method of transportation, and the public has bought it—much to the chagrin of the largest automobile manufacturers in the country who until recently did not produce such a car.

Finally, a bit of advertising history must be recorded to indicate to what ridiculous lengths the puppet theory of public opinion has gone. Some practical public relations men developed a plan which became known as "subliminal" advertising. It was claimed that messages could be flashed upon a movie screen or insinuated into radio or television advertising so inconspicuously as to be below the margin of conscious identification. Messages were flashed—but the reader was not conscious of them. It was claimed that these messages, if repeated often enough, would induce people to buy certain products, to favor certain candidates for office, or to be favorable to certain ideas. For a time many were worried and even terrified at the implication of such massive thought control. But all of this turned out to be a seven-day wonder. One hears little more about it today. "Subliminal" advertising has gone to its grave like many other theories of complete manipulation of the individual's mind in a free society.

Despite all this, it must be clearly stated that ideas which exist in the mind of the public have, to some extent, been confirmed and shaped by basic factors. Modern man, like every other man, is in some measure the child of circumstance. He is undoubtedly influenced by the concepts of his time, the traditions and customs of the age he lives in.

### THE AREA OF FREEDOM

But it can be asserted that the modern individual's area of freedom in making decisions is a very large one, and often the shift of public opinion within that area can basically affect the course of events. There are many recent instances, but I will cite only one. In the year 1950 Mr. Robert A. Taft, who was the author of the Taft-Hartley Labor Relations Act, was up for re-election from the State of Ohio to the United States Senate. Ohio is as good a cross section of the United States as one can find. It includes large cities such as Toledo, Akron and Columbus, which have big industries and, therefore, are influenced by labor union activities. Also, there is a large segment of agriculture, which affects attitudes in that state.

In 1950 the so-called liberal and labor union slogan against the Taft-Hartley Act was "slave labor!" This, of course, was sheer nonsense and is today recognized as such. The Taft-Hartley Act merely balanced some of the responsibilities of management with a few equal responsibilities on the part of labor unions. These restrictions had not heretofore existed. But emotions ran high and the phrase "slave labor Act" was on everyone's tongue. It was generally believed that Mr. Taft, one of the sponsors of this Act, had no chance of re-election because the public was sold on the "slave labor" idea.

Taft courageously decided to go to the public and in simple fashion tell them the facts. His courage and simple honesty were in themselves appealing. Union members themselves must have become convinced of his logic and voted for him in large numbers, because he finally won the election by the largest plurality ever given to any office-holder in that state. He could not have done so without the support of the working people.

Here indeed was a minor turning point in American history. Had Taft been defeated, labor union power would have grown enormously, and the few restrictions imposed upon dictatorial union leaders might have been quickly repealed. The course of American economic history might have been changed. The fact that he won the election and that the American public slowly became more convinced that monopoly power on the part of labor unions should be curbed—these are important facts in the American record. To be sure, labor union power is still over-riding. But some small progress has been made, and that power has not increased—it has been slightly curbed.

This is only one instance of many which could be cited to indicate that American public opinion is not "puppet" but can be swayed by logic and appeal to reason. Despite all the "other-direction" to which the workers of Ohio were subjected, they voted in large numbers against what they were told was their own self-interest. They voted against the prevailing opinion among the leaders of the working communities they live in.

### MANY ORGANS OF OPINION

To varying degrees, on large and small scale, this freedom to form and express judgments is evident in the United States. The journals of opinion-making and opinion-expression are open. There are over 1,700 daily newspapers in the United States and over 8,000 weeklies and semi-weeklies. Radio and television stations practically blanket the country. Magazines with very large circulation treat current public and private issues in varying ways. *The Readers Digest*, with a twelve million circulation and perhaps four or five readers for every copy sold, has a definite right-of-center leaning. *Look*, on the other hand, with close to six million circulation has a different orientation, and *Life*, with its editorials and opinion moulding pictures, has still another point of view. *Life* has a circulation between six and seven million. Altogether there are about sixty million copies of the various magazines circulating in the United States, and there are many readers of each copy. This is in addition to the daily newspapers with their editorials and syndicated columns which represent a rainbow of opinion from the extreme left to the extreme right, though it is undoubtedly weighted left-of-center.

Through these media of opinion, plus many others, the public receives ideas on the issues of our time. Within very wide limits the issues before the public are not predetermined. Personalities, events and ideas, all jumbled together, affect the result of the shifting battle which goes on all the time. This battle is at the very heart of democratic government, and given certain checks and balances to prevent precipitant action, provides the sound instrument for final government action. It is a sign of health that the people are constantly assimilating ideas and re-evaluating their circumstances in the light of differing ideas.

Nevertheless, while the area in which people are free to form their judgments and express themselves is very great, it must be admitted that in a broad way people's attitudes towards current economic and social problems are plainly limited by the basic concepts which are dominant in that era—concepts are not pre-determined by any psychological or social laws, nor are they necessarily iron-bound or rigid for any great length of time. The basic concepts which guide people result from the interaction of ideas and events. Ideas are conceived and developed by intellectual leaders, and thus both shape and are shaped by events which follow.

In our lifetime we have been witnesses to a surprising turn-about in public opinion. The dominant ideas of less than half a century ago, which were based upon individual responsibility and personal freedom have been basically altered and in their place there have been substituted, to a great extent, collectivist concepts.

The change has been deep and broad, and it is to be observed in all the ideas and institutions of the western world. The welfare state in which a strong central government is dominant, is no accident. Even in the United States, which is supposed to be the most devoted of all countries to free enterprise, people tend to lean on government to set things right. Individual virtues such as thrift, rectitude, love of work, are not prized as they used to be. Ideals are not upheld either—in fact even the value of the ideal of liberty is questioned.

All of this results from the seminal ideas conceived by Marx and advanced in other fields by philosophers like August Comte with his philosophy of logical positivism, William James with his pragmatism, and John Dewey with his theory of instrumentalism and truth-as-experience.

It cannot be too strongly emphasized that basic concepts are formed at the very top of the intellectual ladder. Ideas propounded there later become practical programs promulgated by journalists, politicians and others. Keynes made a shrewd observation when he said, "Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Men in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back."

The deep-rooted ideas which guide public thinking upon individual problems are the ideas which are formed at the very highest intellectual levels. Unfortunately in this era, at these levels, the free-market, libertarian viewpoint is conspicuous by its absence. Therefore public opinion has veered leftward. It has become collectivist. Once these ideas have taken root, mass publications and television and radio proceed to clothe them properly for the public and popularize various aspects. But the original creation takes place in higher places, mainly in the academic world.

### ANTI-CAPITALIST BIAS

An example of how anti-capitalist ideology, conceived originally in high intellectual circles, guides public thinking, are the two surveys discussed in Chapter 3 which analyzed ideas popularly held by high-school students. We may assume that the majority of students reflect the opinions which are discussed in their homes, as well as in school. High school students are, of course, immature. But such ideas as they have are not picked out of thin air. The surveys revealed astonishing ignorance about the economic process in a free society. More alarming, however, was the fact that replies to pertinent questions were so strange that there would seem to be an indication of anti-capitalist bias.

The vast majority of students seemed to think that practically all the benefits of technological gains go to the owners of business and they saw no link between private incentive and the survival of the free enterprise system.

It is obvious that to get at the basis of such ignorance and prejudice one must go to much higher than high school and visit the sacred groves of Academe. Here one finds, with but few exceptions, that the faculties of economics, history, psychology and literature all lean away from the individualist, free-market viewpoint. As a matter of fact this uniformity of new-day liberal thinking has become so pronounced that protests have been made even in liberal circles against the new "orthodoxy," as in the article we examined earlier by Professor Cronin in the *New Republic,* where he urged a wide accommodation for all schools of thought and argued against what liberals themselves have called the "tyranny of liberalism." This "tyranny" practically excludes from the academic world all other ideas—even though represented by teachers whose reputation for scholarship is impeccable.

In view of this virtual coercion of opinion in our institutions of higher learning, and among intellectuals generally, is it any wonder that the entire country has become prisoner of the new liberal ideology? Is it any wonder that our journalists, authors, professional men of all kinds, and even many of our business leaders, have veered leftward and have little understanding of the principles which should guide a free society? Collectivist concepts are retold to the public in alluring fashion by a host of columnists, news commentators, and other opinion-forming people who have drunk deep at the fountain of collectivism.

I would emphasize that the continuation of this state of affairs is definitely not inevitable. If there is one thing that is certain, it is change. In the United States who could have foreseen, a half century ago, that the then dominant principles of the free market and individualism would be renounced as they have been? Is it unreasonable, then, to expect that the dominant principles of *today* may soon be forsaken or modified? Indeed the tide is already rising.

For example, the state of public opinion on economic matters today is certainly very different and in many essential aspects much farther from the left than it was ten years ago.

At that time the neo-classical viewpoint was practically never represented in journals in the field of economics. At that time the college student who claimed to be a traditional liberal was tarred as a reactionary. He found little support among his fellow students, and practically none on the faculty. He was generally ostracized. But today there is a vigorous body of dissent within the colleges. Individualists appear under one banner or another, and if one peruses the academic journals he will note more frequent articles which represent the individualist point of view.

The saving grace is that basic concepts themselves are subject to change. With that change there is generally a revision of public opinion at all lower levels. Such changes have taken place in the past and there is every reason why they will take place in the future. It is always difficult for those living in a particular era to assess the fundamental psychological changes which are taking place and affecting their lives. One needs perspective to judge such matters and this comes only with time. But there is much evidence that such a change may be taking place in our own society. The strength of the collectivist concept may be weakening at the very moment when it seems to be at its apex of strength. The desire for freedom and individual expression is very deep in the human mind and heart, and it is seeking to find expression even in an age like ours, which has been obviously collectivist in trend. Statism need not be the philosophy of the future when there is an increasing number of dedicated people fighting for freedom.

# Index