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Notes on Contributors

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Innocents under the Gun. Walter Gordon Merritt is a writing lawyer with a special interest in the law and philosophy of labor relations.

Taxes for Revenue Are Obsolete. Beardsley Ruml, Chairman of the Federal Reserve Bank of New York, is an audacious thinker in the new world of social fiscal policy.

Gaunt Prophecy. John Rustgard's writings are increasingly brief and now almost entirely confined to private circulation. See note at the end of his article.

The Gentlewoman from Illinois. A speech by Jessie Sumner is an uncomfortable event in the House of Representatives.

Why We Can't Buy Full Employment. Bradford B. Smith is one of the brilliant young economists on the conservative side.

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

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American Affairs

GARET GARRETT, *Editor*

JANUARY, 1946

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VOL. VIII, No. 1

Review and Comment

By the Editor

THE CURRENT spectacle in the economic hipodrome is a tableau of frozen acrobatics. It may be there for some time or it may end suddenly. A figure in tarnished tinsel representing Collective Bargaining is held aloft by Wage Price Policy, whose muscles are taut and seem about to snap from the strain of standing in a forked position with a bare foothold on each of two contrary-minded animals. One animal is Deflation and the other is Inflation. They are tied together by their tails, and their muscles, too, are tense as they lean in opposite directions with all their weight. This amazing pyramid is balanced on Price Level, which is a tight rope across what appears to be a terrible chasm. The thrill of it for the audience lies in the fact that the pose must hold and nothing can move until something happens—and nobody knows what will happen. Collective Bargaining is in great danger, certainly, and would be unable to save herself, but she is limp, perhaps unconscious. The only sounds are from Wage Price Policy, who keeps exhorting those who are chasing a pig around and around the edge of the chasm—and from the pig. The pig is Profit; and the meaning of this part of the spectacle belongs to superstition. It is believed that if the pig can be caught and sacrificed, one of the contrary animals may be appeased and relax a little, which will give the chasm time to fill up in a miraculous manner, according to the prophecy of the court Economist. The idea about the pig is that his squeals are propaganda, that he is too fat, and that in any case he is immortal, so that although he may be sacrificed and eaten up, still he will live, perhaps not privately in the flesh any more but in spirit as an everlasting social possession.

ANALYSIS of the tableau is as follows. The first of the two contrary propositions, tied together by their tails, is that wage rates must rise, else there will be deflation; the second is that prices must stand still, else there will be inflation. The argument as to wages is that unless the hourly rate is raised to compensate for the loss of overtime

pay the national peacetime payroll will be less than the wartime payroll, which means that there will be a shrinking payroll, and a shrinking payroll is deflationary. Therefore, there must be the same wage for fewer hours worked in order that the peacetime take-home pay shall be comparable to what the wartime take-home pay was. How much this would increase the wage cost of peacetime goods is a matter in dispute; but be it much or little, it must not be added to prices, for fear of inflation. If a higher wage cost cannot be added to prices, what will become of it? It must be absorbed by the employer; he must pay it out of profit. From this it follows—if one is obliged to make sense of it at all—first, that the price level with which we came out of the war, with all its distortions and internal strains, is economically sacred and must neither rise nor fall; and secondly, that profit is a quantity deducted from labor's share in the product. Large profits, therefore, are derived at the expense of the wage earner and limit the size of the payroll.

ALTHOUGH we have lived for a long time with a profit and loss economy, being in fact founded upon it, it seems that we know very little really about the nature and meaning of profit. The fact is that wages are not paid out of profit. Wages and profit both are paid out of production. Wages are horizontal. Profits move vertically, up and down, and are subject to sudden variations. This is because wages come first. You have to pay wages or go out of business at once, whereas, if there is no profit after wages, you may go on doing business, at least for a while, in the red. In any industry at a given time there will be some enterprisers working in the red, some making a moderate profit, and a few making very handsome profit—all producing and selling competitive things at competitive prices, and all paying the same wages. In any industry there are high-cost producers and low-cost producers, and again, all paying the same wages. The low-cost producer is the one who makes the profit. He is the one who continually cheapens the cost of human satisfactions. His profit is from superior method, management and technology. Even so, the profit, especially if it is very large, is a liability,

because in a free economy someone else sooner or later will beat his method and his technology and take his profit, unless, of course, in order to keep it he is always beating himself. Nevertheless, in every industry-wide wage dispute, as now in the automotive industry and in steel, it is the profit of the low-cost producer that is cited to prove that higher wages can be paid. This you can understand. No one will insist that in a wage dispute all the arguments shall be rational. But when the Government embraces the same fallacy and imparts it to the public, economic truth is in trouble. This is the same government that has been very vocal in its anxiety about the future of small business, but you could hardly conceive a policy more likely to exterminate the small enterpriser, or one more certain to concentrate the nation's production in fewer hands, than that of charging higher wage cost to profit. Only the big profit makers can stand it at all, and not even these for very long.

A CERTAIN labor leader, famous for his verbal indignations, was saying: ". . . and at the end of the day, from having performed that one monotonous, repetitive task on the assembly line, hour after hour, a man is not himself. His individuality is crushed. His ego is enraged, and he is hardly —" He was interrupted there by one who said: "You wouldn't be trying to fool yourself, would you? You know what a factory was like forty or fifty years

ago. Compared with the very best factory then, the very worst assembly line today is heaven for a man who must work for wages. Labor did not create that assembly line. Labor itself did not create the conditions under which men now work for wages. Who did?" The labor leader took his count and came up saying: "All right, all right. But the assembly line you think so well of is there now, and that is where we begin."

THE IMPROVEMENT in the conditions under which men work was paid for—how? It was paid for out of what is called profit. But it was profit only in the sense that it was money that might have been dispersed either as dividends or wages, or as both, and wasn't. It went back to the job instead, to create a more favorable environment for work. If the environment is improved men are more comfortable and more productive; if better machines are installed, the productivity per man hour of labor is increased and there is again more profit to be divided three ways—to the wage earner, to the owner, and to the job. To improve the job is management's business; and the rule is that management has to resist the shareholder who wants more dividends and the wage earner who wants higher wages out of the visible profits. The two together, if they were unresisted, would take everything out and starve the job, and that is one reason why management is so often found guilty of trying to hide and disguise profits. Now come the automobile workers demanding a thirty per cent increase of wages out of profits that have not yet been realized—that is to say, out of expected profits, which they would devour beforehand; and this expectation of higher profits is based on the fact that, as Mr. Reuther says, the motor car industry, specifically General Motors, has introduced a large number of new and more efficient machines, whereby the productivity of labor will be increased, which, if it happens, will cause cost to fall and the visible profit to rise. But where do these machines come from? Do they fall into place out of the sky, costing nothing? No. They come out of past profits, withheld by the management from both wage earners and shareholders in order to improve the job. If management had not done this there would be no possibility of increasing the wage.

THE TRAGEDY of it is that the wage earner will pay for these fallacies at last. In a free economy both wages and profits are unlimited because production is unlimited. If you limit profits you limit wages. The use of unlimited profit is to stimulate competition and production, and this is true even of what are called monopoly profits, only give it time to work. Limitation of profit for any reason, or by any means other than by the natural



means of competition, is the beginning of the death of free economy, and those who deny it are those who do not believe in free economy, though the time to say so may not have come. The idea now controlling the executive mind in Washington is that if the producer were free to make his own prices he would, for the sake of an immediate profit, price himself out of the market; and it is assumed that industry based on mass production would do this, for example, the motor car industry. If the idea is sincere then all that one may say about it is that it is absurd and that those who entertain it are ignorant of the principles that govern mass production. In the first place, no industry based on mass production could possibly increase its profit by pricing the product beyond the reach of the mass customer; in the second place, one has the record. The formula for big profits is a small margin of profit per unit, times x . In this formula x is the quantity produced and sold. The variable is x . It may be increased only by reducing the price. An automobile manufacturer says and thinks: "Tell me how I can get \$50 off the price of an automobile and I will tell you exactly how many more cars I can sell in a year."

MANAGEMENT seems to think that the tree of trouble is rooted in the radical character of the national labor leadership; that if it were only a little more reasonable all the problems would be much easier to solve. It is not so simple. There are conservative leaders at the national level, but all of them are uneasy because the local and regional leadership is much more radical, besides being new, and wilful and reckless. These radical leaders on the lower levels are fighting their way to the top. Moreover, at the center of the radical position are men who are not interested in the settlement of anything and do not wish to make collective bargaining work. These are the communists, both known and unknown, to whom peace on any terms is a total loss. Their business is class warfare, and they are trained to it. The result is that the conservative leaders have to pretend to be much more radical than they are in order not to lose what influence they still have. The labor demagogue continually outbids them for the support of the rank and file. This is true even of CIO leadership. There is reason to believe, for example, that the top leaders of the UAW had to choose between striking General Motors for a thirty per cent wage increase at a very bad time, or, on the other hand, a series of wildcat strikes beyond their control, which they believed would in the end hurt the union more than to lose the General Motors strike, if it had to be lost. When the General Motors Corporation proposed to open those of its strike-bound plants which had been making parts and to open them solely for the benefit of unstruck com-

petitors who were soon going to be out of parts, the president of the UAW accepted and said it was a very generous thought on the part of the corporation. That was the news for one day. The next day the news was that the strikers, influenced by their local leaders, angrily said no, and denounced their president for treason.

UNTIL a few years ago the American labor movement was definitely not political. Samuel Gompers, among others, deeply imbued it with the idea that to embrace government would be fatal to its independence and freedom. The labor vote was a myth. All that organized labor wanted was a fair field on which to fight its own battle, with no benefit of government, no social security, no degradation of the wage earner by attaching to him a federal number and a federal tag. The first attack upon that American tradition came from liberals and intellectuals seeking to reproduce here the British pattern. They made no very great impression until they accepted the support of the communists. Then the change began. Then came the New Deal with its philosophy of redistribution—a redistribution both of wealth and political power—and organized labor was persuaded to exchange its freedom for the immediate advantage of a preferred legal status. It does not yet realize that it lost anything by this exchange, because so far it has profited by the political determination of economic disputes. But all the older conservative labor leaders see very clearly that this cannot last; they see that government interference, however profitable it may be for a while, will in the end wreck collective bargaining, that it will almost certainly limit wages, and that organized labor relying not upon itself but upon government will not for long be free. It follows that between, on one hand, leaders of this character who are losing their fight for the American labor tradition, and, on the other hand, management, there is a very large area of possible understanding. Both want at least two things, namely, first, the elimination of communism from the labor movement, and second, a return to the economic determination of economic disputes. Yet neither side seems able to touch the other. They are held apart by mutual distrust. One of the great labor leaders in the old tradition to whom it was put in this way, answered regretfully: "It seems so plausible, doesn't it? If only we could trust each other. They distrust me because they think I represent a special interest. I distrust them because I think that they would take advantage of the next great depression to destroy the premises of collective bargaining."

And then God Almighty in his infinite wisdom dropped the atomic bomb in our lap.—*Senator Johnson of Colorado.*

Winds of Opinion

We have so degraded the democracy for which we fought that, when brought to the bar of justice, it will be found a harlot that has been whistled off the streets of chaos.—*Senator Wheeler.*

We have always been a prey to the nations that give lip service to our ideals and principles in order to obtain our material support. The war that is now in the making is not even intended to defend or establish democratic ideals.—*Patrick J. Hurley, on resigning as Ambassador to China.*

We must not resign ourselves to a fatalistic belief that economic controls are a necessary feature of modern societies. Economic arrangements between nations depend upon man-made policy. Let us struggle to achieve the type of world we think will best serve the interests of mankind and not take the defeatist attitude that totalitarian controls are inevitable.—*Winthrop W. Aldrich.*

I am asking you to exercise that admonition which we will find in the gospels and which Christ told us was the way to get along in the world: "Do by your neighbor as you would be done by." We are going to accept that Golden Rule, and we are going forward to meet our destiny.—*President Truman.*

We now have 25 cents back of the dollar. The national debt is still being increased. The more the national debt is increased the thinner is the backing behind the dollar. When the man in the street loses confidence in the American dollar, then nothing we can do will prevent terrible inflation.—*Senator George.*

Fear of the atomic bomb will not prevent future wars.—*Sir Stafford Cripps.*

No wars are logical, because logical thinkers would not create them. Therefore, we have to conclude that wars are started by madmen—madmen who claim some kind of outrage. Persons who, at the end of each war, ballyhoo strength through weakness—no more wars—should ask themselves the question: "If this be right, why have we had so many wars?" It is an insurmountable argument.—*General George S. Patton, Jr.*

The people look to their State to give them more wages, higher standards of living. The State can only do so by dissipating energy, by tapping resources. And so the time comes when the State must make fake money. First it is called "inflation." Then, because that is unpopular, "devaluation."

Now they call it "dilution." But it is all the same thing—fake money. Thus you have insecurity. Savings become illusory.—*Dr. C. G. Jung, in a lecture on "Psychology and National Problems."*

It would be a great mistake to mislead the public into thinking that its great wartime savings can ever be spent quickly. The only chance of deriving full benefit from them—in the transition period or more permanently—is to spend them (if at all) very gradually.—*The Economist, London.*

There can be no doubt that Socialism is inseparably interwoven with totalitarianism and the abject worship of the state. I declare to you, from the bottom of my heart, that no socialist system can be established without a political police.—*Winston Churchill.*

We must face the fact that peace must be built upon power, as well as upon good will and good deeds.—*President Truman.*

Nearly every Washington release, no matter what it is about, contains a dire prophecy of unemployment. These prophecies pretend to be founded on statistics. The statistics are bunk. No one anywhere can do more than guess at the size of future employment.—*Samuel Crowther.*

The government can do much to make self-employment and adventurous investment either more attractive or less attractive . . . The level of employment is determined by the relative importance that the people . . . attach to adventure and security.—*Prof. Sumner H. Slichter.*

When a man loses the right use of his mind, his friends put him in a state institution, but when a whole people start turning imbecile they commit themselves to the tender mercies of government. In one sentence, that's what I think about the so-called full-employment bill.—*Dr. George S. Benson, President of Harding College.*

On many occasions in the past we have seen attempts to rule the world by experts of one kind or another. There have been the theocratic, the military and the aristocratic, and it is now suggested that we should have a scientific government.—*Winston Churchill.*

But we didn't go to Tokyo to psychoanalyze the Japanese. We didn't go to Tokyo so that they

could have an election. We went to Tokyo to beat the Japanese. We went to Tokyo to put Shinto savagery and feudal militarism out of business in the Pacific in which we live. We went to Tokyo to take the balance of power in the Far East out of Japan's hands.—*Mr. Justice Douglas.*

The luxuries of the government come from the bread of the people.—*Representative Joseph W. Martin, Jr.*

Their own interest in a healthy economy is, in the long run, greater than their interest in a few dollars of inflated profit in 1946, which, after all necessary cost absorption, will be easily the most profitable year in their history.—*Chester A. Bowles, Price Administrator.*

If we had set out deliberately to find a way to increase the man-hour cost of cotton, we could have found no more effective way than to reduce the cotton acreage of each cotton farm and to freeze quotas of the acreage to the high-cost farms, check-mating the natural shift of production to low-cost areas.—*C. T. Revere.*

The sole purpose of industry—including management and labor—is to serve the consumer, and this can only be done successfully by giving the consumer a better and better product at lower and lower cost. If industry fails in this, it may have good reason to expect retaliation in the form of totalitarian government in place of our present democracy.—*J. F. Lincoln, President of the Lincoln Electric Company.*

In our internal policies each will follow the course decided by the people's will. You will see us embarking on projects of nationalization, on wide, all-embracing schemes of social insurance designed to give security to the common man. We shall be working out a planned economy. You, it may be, will continue in your more individualistic methods.—*Mr. Attlee, the British Prime Minister, in his address to the American Congress.*

The stock market now has the support of both the optimist and the pessimist.—*Anonymous.*

Millions of dollars are now coming into the stock market from men who, discouraged by the seemingly endless fight with labor and the government, have quietly sold their individual enterprises to the major corporations that are better equipped to carry on that one-sided struggle.—*Statement by Standard & Poor's Corporation.*

One place where labor unions most of the time run circles around management is in getting their

story before the public. Business will serve itself and the whole community well when it recognizes this and takes the necessary steps to correct it.—*The Financial Post, Toronto.*

It is high time to squelch Jewish and Arab nationalisms by merging British, American and Russian nationalisms.—*The New Republic.*

The war has been well financed. As we enter what I hope will be a long period of peace, our banking institutions, business in general and individuals are in a healthier financial condition than ever before.—*Under Secretary Bell of the United States Treasury.*

In Russia they are frankly incorporating into their communist government the best features of our capitalist system, while we are tending to put into our democracy some of the worst features of communism, which are now discarded in Russia.—*Professor Irving Langmuir.*

Just as the country has raised its prices and traded itself out of the cotton market, so can labor raise its prices and trade itself out of prosperity.—*Nugent Fallon, President, Federal Home Loan Bank of New York.*

The Soviet reporter is free because no exterior opinions can influence him. Abroad the journalist's profession is a career. With us it is a combat post.—*Pravda.*

NOTE

Under the title, "Notes on the Yankee Dollar," there appeared in the Autumn number of *American Affairs* a digest of the debate in Congress on the Bretton Woods International Monetary Agreements. In the course of that debate Senator Taft made the following statement: "One of the witnesses, Mr. Burgess, was asked why the American Bankers Association had modified its position, and he said, 'Well, we thought we ought to do the best we could because we found that the country was pathologically international.'" Now Mr. Burgess tells us that this apparent quotation was not an accurate quotation, and taken either alone or along with the rest of the discussion it did not fairly represent his own attitude and that of the American Bankers Association. It is true that what is said in debate does often distort the picture unless one goes back to the record, which in this case was a very long one with many lively exchanges aside. *American Affairs* had certainly no desire to belittle the efforts of Mr. Burgess and the American Bankers Association to improve this legislation. The point it intended to make—and it was Senator Taft's point, too—was that these efforts were largely defeated by reason of two facts; namely, that the bankers received so little help from other sources and that a propaganda conducted by government had created a great wave of international emotion.—*Editor.*

The Almanac of Henry A. Wallace

What He Saw Twenty Years Ago

From the New York Herald Tribune, Aug. 7, 1925

WILLIAMSTOWN, MASS., Aug. 6.—Delegates to the Institute of Politics, who in the last two weeks have been told that Europe is full of "political dynamite," that various nations are chafing for war, that the Moslem world is preparing an uprising against the white races, that the Monroe Doctrine has gone to smash, that Latin-American countries hate the United States, that Italy is "spawning children on the world with haphazard recklessness" and that overpopulation will soon cause starvation, heard from Henry A. Wallace, editor of *Wallace's Farmer*, today that by 1960 the nations "in their scramble for food and markets" will go in for "another universal bloodletting."

Birth control and the invention of synthetic foods, Mr. Wallace said, were possible preventives of such a universal calamity. As for the United States, he added, it will have to diffuse birth control methods more widely to check the tendency in this country of reaching the saturation point of 200 million population.

"Undoubtedly by 1935 and probably by 1930," he said, addressing the 200 scientists, political economists and statesmen assembled at a conference on agriculture and population increase, "the alarm of food shortage will again be sounded and we shall have the back-to-the-land movement with us. This propaganda will presumably increase continually, but with no avail, until by 1960 affairs will have reached such a pass that nations in their scramble for food and markets will find another universal bloodletting the only solution for the problem. Fundamentally, the problem is one of controlling population rather than making agriculture technically more efficient.

"Assuming that no cheap method of making synthetic food is discovered, I am willing to make a rough prediction as to the trend of agriculture and population in the United States. The estimate of 200 million people in the United States as the saturation point appeals to me as reasonable. Long before that point is reached the public consciousness with respect to birth control will have greatly changed. At any rate, the knowledge of birth control methods will have become widely diffused.

"Our foreign-born farmers and our more ignorant Southern farmers are producing twice as many children as is necessary to maintain a stationary farm population. Our native-born city people are producing barely enough children to maintain the stock."

Greed

By Senator Harry S. Truman

Congressional Record, Dec. 20, 1937

ONE OF the difficulties, as I see it, is that we worship money instead of honor. A billionaire, in our estimation, is much greater in these days in the eyes of the people than the public servant who works for public interest. It makes no difference if the billionaire rode to wealth on the sweat of little children and the blood of underpaid labor. No one ever considered Carnegie libraries steeped in the blood of the Homestead steelworkers, but they are. We do not remember that the Rockefeller Foundation is founded on the dead miners of the Colorado Fuel and Iron Company and a dozen other similar performances. We worship Mammon; . . .

It is a pity that Wall Street, with its ability to control all the wealth of the nation and to hire the best law brains in the country, has not produced some financial statesmen, some men who could see the dangers of bigness and of the concentration of the control of wealth. Instead of working to meet the situation, they are still employing the best law brains to serve greed and selfish interest. People can stand only so much, and one of these days there will be a settlement. We shall have one receivership too many, and one unnecessary depression out of which we will not come with the power still in the same old hands. . . .

Our unemployment and our unrest are the result of the concentration of wealth, the concentration of population in industrial centers, mass production and a lot of other so-called modern improvements.

Exporting Unemployment to Russia

BEFORE the war Russia bought from us about twice as much as she sold us. Russia sent us furs and some coal, manganese, caviar and a few other raw materials, with virtually no manufactured goods. There is no reason to suppose this pattern will alter much immediately after the war. This is ideal, in that it opens a market for surplus American manufactured goods, thus letting us export a certain amount of our unemployment without having, in turn, to make way for an equal amount of the product of other lands.—*William L. Batt, in the book "What the Intelligent Citizen Needs To Know."*

Our Own Untouchables

Several members of the FCC are conservative in their thinking; they are likely to seek to give many, if not all, available channels to individuals and groups who are highly undesirable from the social point of view, who will use their stations either for the sole purpose of making money, or to spread reactionary propaganda.—*The New Republic.*

The Rising Price of Laurels

By Virgil Jordan

Preface to a discussion of foreign loans at the November Meeting of THE CONFERENCE BOARD

OUR discussion tonight is especially timely, if not precisely appropriate to the Thanksgiving season, for it comes on the eve of announcement of some form of government loan, credit or grant to Britain, probably to be followed by similar proposals for other Allies, not to mention arrangements for meeting the unimaginable costs of occupation, administration and rehabilitation of the conquered countries—all of which will add a few more zeros to our national debt, since we shall be reducing taxes at the same time.

There should be nothing surprising in this painfully pecuniary aspect of the laurels of victory, for this will be the second time in a generation that we have been faced with the problem of public policy involved in international financing of reconstruction after winning a world war. Almost exactly twenty years ago when Mr. Coolidge was saying: "They hired the money, didn't they?" I can remember that, in these monthly meetings, we were discussing the question of funding the interallied war debts, and THE CONFERENCE BOARD was publishing extensive studies of the capacity of these countries to repay war loans and of Germany to pay reparations, all of which were added to the endless archives of unregarded experience. Though the fundamentals underlying postwar problems of international finance probably remain much the same, there are certain differences between the situation after the last war and the one we face today which I shall mention briefly by way of preface to our discussion.

For one thing, the problem of foreign financing is not now complicated by intergovernmental or private war debts. Lend-lease—that invention of political technology—took care of that; and this time, too, there was no foreign private war financing in this country. It will probably prove true that the problem now is not confused by the fiction of reparations, either, except possibly in connection with Russia, for none of the other Allies this time expects that reparations, if any, will amount to as much as occupation costs, and it is likely that the balance of the account of conquest will run the other way.

It took about thirty-five years to do it, but the thesis of Norman Angell's book, "The Great Illusion," which Keynes popularized or plagiarized in his "Economic Consequences of the Peace" seems finally to have been accepted, at least by the Western nations, though Uncle Joe still thinks there is something in the junk business. At any rate, this

time it looks as though we shall be starting on our international postwar financial career from scratch, except for a lot of loose ends which the various federal lending agencies will have to clean up, and for some problems hanging over from prewar private loans. This may not be all to the good, because the absence of any large mass of indigestible intergovernmental war debts may favor the governmental approach to the problem of postwar financing and emphasize another important difference between the situation now and that after the last war.

Last time the difficulties about war debts and the disillusionment about reparations helped to push the problem of postwar international financing and trade back into private hands, and we had our foreign loan and export boom of the Twenties. The outcome was not so happy for private investors, but the amount involved was comparatively small, and I sometimes wonder what that boom would have been like if it had been conducted with government money for the currently popular purposes of promoting domestic full employment or expanding consumer purchasing power. Anyway, this time there is no question of private investors or the public voluntarily putting up any money for these purposes. The amounts are too large, and the risks also, and in the interval since the last war the principle of socializing risks and losses has been generally accepted.

Today, foreign lending is one form of compulsory collective investment or spending—part of the mechanism of State Capitalism, which is well established both in the lending and receiving countries, and the individual citizen is involved mainly as taxpayer, government security owner, bank depositor and life-insurance policyholder—which is enough. When we discuss foreign loans today from an economic point of view, we are really talking about the operation of this fiscal mechanism of State Capitalism in its effects on the domestic balance of saving and spending rather than about the questions of private enterprise in foreign trade and capital investment abroad that concerned us in the Twenties. Since then the control both of foreign trade and of capital markets has passed largely into the hands of government in every country concerned, and international lending and borrowing has become an instrument of domestic policy. Almost all the countries involved have become in some form or measure collectivist in their economies.

This difference from the conditions under which

we considered questions of international finance after the last war colors the discussion today in yet another way, which we see whenever anyone raises the issue of financing Socialism in England or Communism in Russia. Foreign lending today has inescapable political or ideological implications, both internally and internationally, for it involves the balance of power among the various kinds and degrees of collectivism which control the world economy today in contrast with the Twenties. Then it was a question of helping to rebuild private enterprise in world trade in order to aid the free representative democracies which emerged from the war. Today, the collectivisms which have been the outcome if not the aim of the war in nearly every country are obviously insolvent. Socialism and Communism in all its forms outside the United States is busted, and it can be saved only by complete international collectivism or by our support, which may come to the same thing, since, so far as public loans to foreign governments are concerned, that support must be based on compulsory collectivism here at home.

This is a neat dilemma for America. But I venture to bring up another point of difference between the problem of foreign lending today and twenty years ago, which has a practical bearing on the dilemma I just mentioned, because, in this business

of planetary panhandling when we are asked, "Comrade, can you spare a dime?" we ought to be sure we have one. Then, twenty years ago, we thought of ourselves without question not only as a capitalist country trying to help other unfortunate capitalist countries to their feet, but as a creditor nation. Today, though we are not so sure about the purity of our capitalism, we and most other countries still imagine the United States is the great creditor nation of the world, and therefore both able and morally obliged to put forth its dollars as loans and gifts to aid the debtor nations, whether capitalist or not.

This premise is very doubtful, and the doubt alone makes an important difference in our approach to problems of foreign lending today as contrasted with two decades ago. So far as we can estimate it, after wiping off our international balance sheet the \$41½ billion of lend-lease and other expenditures abroad during the past four and one-half years, at the middle of this year the United States was debtor to the world to the amount of approximately \$20 billion on account of foreign balances payable in dollars on demand and of further commitments to provide dollars. This presents a question we shall have to face before we can properly measure the capacity of the Yankee dollar to meet the moral obligations we have assumed by way of aiding in world rehabilitation.

The Loan to Great Britain

By Garet Garrell

IT IS hard for a people who have been the great money lenders of the world to become all at once necessitous borrowers. They would be haughty about it, naturally, and say many wrong things, as, for example, Lord Halifax saying: "Nor, were these agreements to fail, could we hope that the relations between our two countries would escape continuing and dangerous strains." Or the *London Times* saying that this was their "economic Dunkerque." Or the suggestion generally maintained by the British throughout the negotiations that Great Britain could better afford to do without any financial aid from America than America could afford not to give it, the alternative being a condition of economic warfare which would again threaten peace in the world.

There was all of that. There was also a very bitter feeling in England, a sense almost of despair, toward something Americans take for granted when they think about it at all, and that is the immense and seemingly impassable gulf between the standard of living in England and the standard of living here. As the British see us—and it is relatively true—America is incredibly rich and growing all the time

richer. The disparity that existed before was not only intensified by the war, but the intimate contacts of war made it painfully visible; and from this arises the hateful discussion of relative sacrifice.

In October the Combined Production and Resources Board published in England a report in which Great Britain's sacrifices were reduced to a statistical comparison with those of the United States and Canada. From 1940 to 1941, this report says, Great Britain consumed one half of her overseas investments, suffered at home air-raid damage estimated at \$5 billion and lost one quarter of all her ships, whereas during the same time the United States "materially increased" its capital wealth. In England fuel consumption fell 11%; in the United States it increased 9% and in Canada 13%. In England the civilian purchases of clothing fell 40%; in both the United States and Canada people bought more clothes than ever before. In England the consumption of fuel for heating of houses declined 9%; in the United States it increased by 22%, so that British homes were colder than ever before while American homes were warmer.

And so on and on, until there is a picture of an America that was better fed, better clothed, and warmer, and greatly increased her national wealth—during the war.

Until the abrupt termination of lend-lease, the British hopefully expected, in fact, took it almost for granted, that aid in that principle would be retroactive to the beginning of the war; or, if not that, then that Great Britain could expect from America an outright grant-in-aid amounting to six or eight billions of dollars—and this on the ground, as Lord Halifax explained on the American radio, and as the London *Statist* afterward rephrased it, “that in men, materials and impalpables, Britain’s war contribution was so much in excess of that of any of her allies that on any other computation than that of an unimaginative sterling-dollar ledger, Britain is in a creditor not a debtor position.” Which would mean that after having provided during the war \$25 billion of lend-lease aid, all of which was going to be wiped out, the United States was still indebted to Great Britain on moral account. When, after the fall of Japan, the American government put a period to lend-lease, with the announcement that postwar aid from America would be subject to negotiation, the British were shocked.

The British Position

One of the complete and balanced statements of the British position appeared in *The Statist*, on September 29th, after the loan negotiators had set out for Washington, as follows:

“What are the courses open to Britain? She has to keep alive, and socially contented, some 40 million inhabitants who must import to live, and who cannot import unless they export. Having in the 1850’s, or thereabouts, thanks to Peel, abandoned island autarky, and having failed, as yet, to achieve imperial autarky, she must import—and beg permission to export—from her powerful Allies. Her choice on this setting out would seem to be between a gracious or grudging assent to the terms offered her and the facing of a precarious period in which she attempts to exist on what resources her Dominions, Colonies and friendly sterling-convoys can afford her—a period precarious because its hardships and the erratic incidence of imports may lead a politico-economically untutored populace to revolt against the failure of war to lead to immediate Utopia, and precarious also because the attempt to build an imperial-sterling-convoys autarky may fail, and the last state of a suitor Britain be worse than the first. That is Britain’s apparent outlook.

“But what are the courses before her wealthy Ally? Behind any sectional desire in the United States may be the general desire to see re-established a world not only at peace but able to trade again with the fewest possible difficulties. Behind any American sectional desire there must also be the ‘official’ desire to see re-established a Europe and an Asia whose political and economic mood is calculable for at least a generation or

so ahead. If the British factor is weakened—still more if, by economic anemia, it is eliminated—the world must enter and endure at least a generational phase of acute economic and political incalculability. If the British connection, as the past hundred years has known it, is severed, or in any way disintegrated, the balance of nations in both *welt politik* and trading opportunity must be so dramatically changed that America’s own outlook must be one of doubt, difficulty and danger, particularly her outlook over the Pacific.”

Stultification

Such was the climate of feeling in which the negotiations took place. A loan on any terms, that is to say, anything less than an unconditional grant of dollar aid, was bound to seem to the British a grim thing; and they would take it to mean that their rich American ally was unable to comprehend that its debt to Great Britain was incalculable.

But discussion of the loan was stultified in another way by an idea that controlled the mind of Washington—the idea, namely, that the loan had to be sold to the American people, and that it had to be sold not for what it really was but as something they could be persuaded to accept. Thus, in many variations, there appeared in the news columns and in the space occupied by news commentators a statement like this, which happens to be from *The New York Times*:

“The British negotiators came here with a perfectly sound argument for obtaining this financial aid as a gift, on the theory, well-documented, that she would not have needed the help had she not disrupted her export trade to give herself wholly over to the war against the Axis. But even though some of our negotiators saw the merit of this argument from the British point of view, they knew that Congress and probably a majority of the American people would not accept it. Therefore we provided the aid as a business-like loan, instead of giving it as a gift.”

This is the kind of statement that is two thirds true and one third untrue. It is true that the British negotiators came with an argument for aid as a grant or as a gift and not as a loan; it is true that the American negotiators were more or less sympathetic to that point of view; it is untrue that “therefore we provided the aid as a business-like loan.”

The final agreement was in two parts. One part covered the settlement of lend-lease and the disposal of surplus property in England. On these accounts, or, that is to say, on account of the overhang from lend-lease, the American Government gives title to the surplus property and takes the British Government’s I.O.U. for \$650 million. The second paragraph of that settlement reads: “In the light of all the foregoing, both governments agree that no further benefits will be sought as consideration for Lend-lease and Reciprocal Aid.”

This was signed on December 5. On December 14 it appeared in the news that Great Britain had lim-

ited the number of passengers that could be landed in England per week by United States airlines to 500, and that the State Department would make a vigorous protest about it. That was all the State Department could do, because in the agreement just signed the American Government foreclosed itself from asking any "further benefits in the field of civil aviation," in consideration of wiping clean the lend-lease slate.

The Facts

The American negotiators not only did not take advantage of the necessitous borrower; they failed to make a good business contract.

The facts are these:

(1) The American Government, subject to the approval of Congress, agrees to lend Great Britain \$4.4 billion for fifty years at a rate of interest less than the American Government will pay to borrow the money from its own people.

(2) Great Britain will pay this interest only if, when and as she can afford to pay it, which is to say, specifically, according to the agreement, that *there will be no interest payments at all for five years*, and after that the American government agrees to waive the interest in any year in which "the government of the United Kingdom finds that a waiver is necessary in view of the present and prospective condition of international exchange," and if "the International Monetary Fund certifies that the income of the United Kingdom from home-produced exports, plus its net income from invisible current transactions . . . was on the average over the five preceding calendar years less than the average annual amount of the United Kingdom's imports during 1936-38."

No banker in the world would make such a loan, if for no other reason than that he could never hope to sell it to investors. Only a government could make a loan like that—a government lending its people's money; nor could any government justify lending its people's money on such terms as a matter of business. The justification, therefore, must be based upon other considerations.

The American Theme

What are *other considerations*? There could be only two, namely, political considerations, and considerations of national economic policy; and these in fact are set forth in the White Paper to which the American Government tied the loan.

This White Paper, published by the State Department on the date the loan was announced, is entitled: *Proposals for Expansion of World Trade and Employment*. And it has this subtitle: *Developed by a Technical Staff within the Government of the United States in Preparation for an International Conference on Trade and Employment and Pre-*

ented for Consideration by the Peoples of the World.

One will find in this White Paper a text and a theme. The text, as stated in the third paragraph, is this: "*The fundamental choice is whether countries will struggle against each other for wealth and power, or work together for security and mutual advantage.*"

Never before has such a thing happened, or been imagined as that one nation already in possession of the paramount power in the world should offer to limit it, to share it, or to submit it in any way to the authority of an international organization.

These proposals, says the White Paper, are intended "to suggest a way in which the United States and other countries may concert their policy and action in the field of international trade so that the enormous productive powers which lie all about us may be released to operate fully for the general benefit."

From this text proceeds the theme; and what the theme offered to be contemplated by the imagination is an economic community of one world, in which goods, labor and services shall be exchanged on terms of mutual advantage, in a free and natural manner, with no struggle for nationalistic power and no discriminatory arrangements between any two nations, or in favor of one bloc of nations against another bloc, except, of course, that each nation shall be free to say on what terms other nations may cross its threshold. But such terms as one may make shall extend to all other nations alike.

The One-world Idea

The purposes of the proposed International Trade Organization, says the White Paper, should be:

1. *To promote international commercial cooperation by establishing machinery for consultation and collaboration among member governments regarding the solution of problems in the field of international commercial policies and relations.*

2. *To enable members to avoid recourse to measures destructive of world commerce by providing, on a reciprocal and mutually advantageous basis, expanding opportunities for their trade and economic development.*

3. *To facilitate access by all members, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity.*

4. *In general, to promote national and international action for the expansion of the production, exchange and consumption of goods, for the reduction of tariffs and other trade barriers, and for the elimination of all forms of discriminatory treatment in international commerce; thus contributing to an expanding world economy, to the establishment and maintenance in all countries of high levels of em-*

ployment and real income, and to the creation of economic conditions conducive to the maintenance of world peace."

So that is one thing the American Government wanted this loan to Great Britain to mean. The question is: Did the American Government get what it wanted, or, what did it get? The agreements now present themselves.

The Agreements

There is first a Joint Statement by the United States and the United Kingdom on the proposals contained in the White Paper. In this Joint Statement, Great Britain commits itself as follows: "Equally, the Government of the United Kingdom is in full agreement on all important points in these proposals and accepts them as a basis for international discussion; and it will, in common with the United States Government, use its best endeavors to bring such discussions to a successful conclusion, in the light of the views expressed by other countries."

All this means is that for purposes of an international conference Great Britain accepts the agenda.

There is then a Joint Statement concerning the settlement of lend-lease and, thirdly, the financial agreement.

Under the terms of the financial agreement, Great Britain undertakes to do the following things, namely:

1. Within one year to discontinue the famous dollar pool. The dollar pool worked in the following manner: If, for example, India sold goods to the United States for dollars and was paid for them in dollars, it was obliged to surrender those dollars to Great Britain in exchange for a credit in pounds at the Bank of England. Thus, Great Britain got the dollars and India got a credit in pounds. The theory of the dollar pool was twofold: first, that Great Britain should accumulate dollars against all contingencies; and, second, that once the dollars had been converted into pounds India had no dollars to spend in the United States or anywhere else and could not spend her pounds if Great Britain refused to release them. The first reason was valid until lend-lease began; after lend-lease began there was really no need for Great Britain to accumulate dollars in that manner, certainly not in any case for purposes of war, because she could get all the dollars she wanted by lend-lease arrangement. After lend-lease, therefore, the only rational reason for the dollar pool was that England should be able to say where and how India should spend her money, and this held for all the countries of the British Empire.

2. By the term of the agreement, Great Britain undertakes within one year to cease controlling foreign exchange in a manner prejudicial to imports from the United States; but this is limited to only

such American products as are "permitted to be imported into the United Kingdom," which means that although exchange may be free, imports still may be controlled by quota restrictions and import licensing; and even this is subject to Article VII of the International Monetary Fund Agreement which says that when and if dollars are scarce a member of the fund owing dollars may impose such restrictions as it may deem necessary upon the freedom of exchange.

3. As concerning quotas, licensing arrangements and other "quantitative import restrictions," Great Britain undertakes that if they are imposed it shall be in a non-discriminatory manner, provided this would not prevent her from making use of nonconvertible currencies, and provided, again, it would not interfere with any desire she might have to assist the economy of a war-torn country; and even with this reservation the undertaking shall hold for only the five years during which no interest shall be payable on the American loan.

4. Great Britain "intends" as soon as possible to make settlements with the various countries that have blocked balances at the Bank of England, so that this money may be in part released.

5. That such blocked balances as are released shall, within one year thereafter, be entirely free, so that India, for example, may spend her money where she likes.

6. As concerning the touchy matter of Empire preferences—a system of tariff arrangements whereby all members of the British Empire are encouraged to buy and sell British—it is not true, as many say, that Great Britain is pledged by the agreement to take down her fence if and as American tariffs are reduced. She is pledged only to negotiate about "tariffs and preferences."

Malediction

But if that is all, how does one account for the outburst of ill-will and malediction with which the loan agreement was received in Great Britain? All along she had been saying, as if it were a threat, that if the terms were ungenerous she would decline to accept the loan at all; she would rely upon her own resources entirely and go along with her sterling bloc and her fenced-in Empire economy, and at the same time refuse to sign the Bretton Woods agreements providing for an International Monetary Fund and an International Bank for Reconstruction. As it turned out she really couldn't have meant it because the loan agreement was very promptly accepted by the British Parliament on the ground of urgent necessity.

The feeling was then released, as if a dam of restraint had burst, and it was astonishingly bitter.

The London Times, saying that this was England's "economic Dunkerque," was mild.

The Economist, long distinguished for the tran-

quillity of its judgments, said this terrible thing: "It is aggravating to find that our reward for losing a quarter of our national wealth in the common cause is to pay tribute for half a century to those who have been enriched by the war."

The Spectator said this was a bad beginning for the "American century which we have been promised as the prize of victory, for unless the United States can learn to use the immense wealth and power she has acquired by the Allied victory with greater magnanimity and generosity, then the American century will prove an unmitigated evil to every country that cannot escape it." These were the more conservative utterances.

The New Statesman and Nation said, a little unwittingly: "We run grave risk of ultimately being compelled to invoke all of the ingenious 'escape clauses' in the agreement and of becoming an insolvent debtor when we shall have forfeited our power of economic independence." (Thanks to Lord Keynes, no doubt, for the "ingenious escape clauses.")

Lord Woolton, who led the opposition in the House of Lords, said this was England's "hour of degradation." She was obliged to surrender her rights to the power of the dollar, when in fact all she had expected or had asked for was a "rightful restitution of the dollars we paid for a common cause."

Something They Cannot Say

The feeling was national. Expressions of it differed in degree of intensity only, not in kind; and were, taken altogether, so unreasonable that American resentment would seem hardly appropriate. Curiosity would be more intelligent—the curiosity to ask why there was this feeling and what it meant. As you ask that question it may occur to you that the loan agreement was a scapegoat. It was the loan they were talking about but it was something else they were thinking and feeling, something they could not say.

This thought will lead to a re-examination of the British problem. What is it really? The accepted definitions of it are well known—that she is in a very tight debtor position, owing other countries, principally countries within the Empire, more pounds than she can pay on demand, these being the blocked balances at the Bank of England; that she must find an enormous amount of capital to spend upon her industries, not only to restore them to what they were before but to make them much more efficient than they were before, for unless she does this she cannot hope to hold her competitive place in the world's markets; that in the meantime, she must be importing food and raw materials; that she must re-house her population, and that then she must begin to increase her exports and continue to increase them until they are at least one-half greater

than ever before, and this only to restore the standard of living in England, to pay off her creditors, to recover her lost investments and to hold her economy together.

It is a task of heroic proportions. On the other hand, British resources are vast. The British Empire as a whole is not in a debtor position and its resources are largely unimpaired. Indeed, it is almost self-evident that the natural resources of the British Empire suffered less depletion than the resources of America during the war, owing of course to the fabulous outpouring of lend-lease.

It will be said at once that you cannot in this situation regard the British Empire as a whole. You must regard England alone. England is the debtor; it is England that is in trouble. But if you take England alone, she is still in wealth and power second only to the United States in the whole world, and her access to the vast resources of the Empire is a fact.

The American Menace

So now returning to that irrational feeling which needs to be accounted for, seeming to rise from a deep sense of injury, there is a strange observation to be made. It finds its expression in the same few words, endlessly repeated, in the newspapers, in the weeklies, in the House of Commons, in the House of Lords and in the street; and those words have little or nothing to do with the terms or details of the loan. They refer to American power—the power of the American dollar, the power of American wealth, the unlimited economic power that is America, and from which perhaps there is no escape. It may be that in this light what we call the plight of Great Britain begins to assume a fatal aspect. The one problem they cannot hope to solve is the menace of American power.

As a test, put it to the edge of fantasy. Suppose that suddenly this American power should cease to be. Suppose that having performed its prodigious task, thanks to which the British Empire was saved, it should now vanish away. How relatively simple all other solutions would be for Great Britain. The pound sterling would be again the best money in the world and England's creditors would be quite willing to wait, because there could be nothing better than a deposit at the Bank of England. She would be the one great industrial power left in the world. Her exports of machines and manufactures would be beyond competition and she could price them in any reasonable way. She would be paramount on the sea again, and in the air.

Unrealities

On the other hand, taking the loan from the American point of view, much that has been said and will be said about it here also is unreal; and this comes of the idea that it must be sold to the American people as a piece of good business or as a

transaction that somehow will work out to their material advantage. If we believe that England must increase her exports one-half over anything they were before the war in order to pull herself out, which is true, and that she must increase them even more, perhaps double them, in order really to raise the standard of living in England, then it can hardly make sense to argue for this loan that is a "way of" opening the markets of the world to American exports on more favorable terms, knowing all the time that if we really put forth our strength in foreign trade it will be the ruin of England. If we say that the ultimate meaning of the loan is that we shall give England freer access to the American market, in exchange for freer access to British markets, are we not fooling ourselves? In a little while the result of that would be that we should find ourselves engaged in the competitive export of unemployment—England trying to export her unemployment to this country and this country trying to export its unemployment to the British Empire. That would not work. If it worked for Great Britain all the more it would not work here. Moreover the White Paper says: "It is important that nations should not seek to obtain full employment for themselves by exporting unemployment to their neighbors."

If the loan is not a financial transaction, which definitely it is not, and if its advantage to this country on grounds of economic policy is, to say the least, debatable, then why was the American Government so anxious to make it, seeming even more anxious to make it than the British were to receive it? The answer to this will be found in the American Government's White Paper which Great Britain accepts in principle as a basis for negotiation. The first sentence of the White Paper reads: "The main prize of the victory of the United Nations is a

limited and temporary power to establish the type of world we want to live in."

If—

The one justification for the loan is political, and political on a very high plane. What the loan represents is an investment proposed to be made in an Anglo-American world; and it may well be that if it had been held out in that light to the American people, frankly, from the beginning, there would be now much less danger of its turning out to be a bad investment. If it were debated in that character there would be no stultification. People would know what they were talking about and be able to understand their own decision. Moreover, if it were so considered, one very awkward question would not arise. That question is: Does the loan, regarded as a financial transaction, contradict the American government's theme of nondiscrimination? Certainly as a commercial loan it is discriminatory in favor of Great Britain, unless we are prepared to make commensurate loans on the same terms to all of our allies in the war, Russia included, and it will naturally be so regarded.

Paragraph 3 of the Financial Agreement reads: "The purpose of the line of credit is to facilitate purchases by the United Kingdom of goods and services in the United States, to assist the United Kingdom to meet transitional postwar deficits in its current balance of payments, to help the United Kingdom to maintain adequate reserves of gold and dollars, and to assist the Government of the United Kingdom to assume the obligations of multilateral trade, as defined in this and other agreements."

How many other nations will say that they are as much entitled as Great Britain to borrow money from this rich country for the very same purposes?

What Unemployment Is Not

THE problem of unemployment—this is a point that cannot be too strongly emphasized—is insoluble by any mere expenditure of public money. It represents not a want to be satisfied but a disease to be eradicated.

Unemployment cannot be attributed to any general want of adjustment between the growth of the supply of labor and the growth of the demand. If labor generally had become or were becoming a drug on the market, the return to labor would be diminishing. In fact the return is increasing whether labor be regarded separately or in its combination with land and capital.

The paradox has to be faced—that the creation or provision of work is the one thing that is no remedy for unemployment. It may palliate immediate distress. It may increase general prosperity. It may cause unemployment for a while to be forgotten. It does not banish disorganization from the State. —*These quotations are from "Unemployment—A Problem of Industry," written thirty-seven years ago by W. H. Beveridge, since become Sir William, author of the Beveridge Plan and the book now current, entitled "Full Employment in a Free Society."*

The Socialization of England

A Digest by the Editor

THE BEGINNING of Great Britain's career as a socialist state will make a fuzzy page in her history. The King's blessing was upon it; the socialists, of course, had written the King's speech, and then in turn they gravely observed the ancient ritual and brought on their program "in the name of His Majesty's Government." There was no great moment. The one stage value was the absence of conscious drama.

The Economist said: "The maturity of British political instinct has been demonstrated once again."

In the language of transition there was a certain want of clarity, and on the conservative side—especially on that side—a preference for words of understatement. This you might put down either to the long seafaring habit of accommodating the wind, which is a deep national trait, or to the Englishman's natural dread of pushing the logic of a matter to its extreme definition.

But there was something more. The political ideas of the time are militant and entail economic consequences. Socialism is the aggressor; free capitalism is on the defensive. A self-contained nation may change its political religion and make it nobody's business, but a nation in Great Britain's situation must think of many things. It is very important for the world to believe that as England embraces socialism she does not really change, or that as she changes she is all the more what she was before—and this is for two reasons.

The first of them is the pound sterling. To every normal Englishman its prestige has the nearness of his own skin. If the world should begin to doubt it in any way, that would be very bad, indeed, and this is a danger because the doctrines of socialism are not historically associated with sound money. Secondly, Great Britain is in an awkward debtor position, owing much more than she can immediately pay, and must look to the United States for financial aid. But again, unhappily, the fact is that this rich country, the only one that has any great lending power left, is the last refuge in the world for free private enterprise, and therefore largely hostile to socialism. It would not be well for the United States to get the notion that she was financing socialism in Great Britain.

Graciously

So altogether it was that the honorable private owners of the Bank of England made no public scene about surrendering their property to the state.


Lord Catto, the governor, graciously offered to continue as governor of the nationalized bank and even Winston Churchill at first could say: "The national ownership of the Bank of England does not, in my opinion, raise any matter of principle." In saying this he expressed the common conservative sentiment, which was that nationalization of the bank was merely in effect a deferred ceremony because for a long time the Bank of England had behaved as if it were the lawful wife of the British Treasury, with really no policy it could call its own. And so it was also, on the other hand, that the Labor Government repudiated some of Harold J. Laski's terrifying utterances, probably for fear of the effect they might have upon British credit. Even those to whom socialism is an evil and a portent of disaster were resolved to take it as a piece of foul weather.

The City, which would be our Wall Street, took it very well indeed. In one cartoon version the Old Lady of Threadneedle Street—the Bank of England

The Best of Bad Weather

An Advertisement Current in England

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Public Control

SOCIALIZATION

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Britain has chosen a Labour Government with a powerful majority capable of implementing the full Socialist programme. Big changes can be expected, necessitating a vast amount of new legislation—most of which will have a direct influence on business affairs. There may be new restrictions, but equally there will be new opportunities. The important thing for Higher Executives is to be fully informed of all changes, to be aware of new trends, and to be ready to meet new conditions as they arise. The information you will need is presented accurately and concisely in the British Bulletin of Commerce. Up-to-the-minute facts from official Government sources, together with exclusive material from leading Industrial and Commercial Companies are given in every issue, and provide essential data in framing policy. In addition to this information for Home Marketing, every Bulletin contains the latest news of Export developments, and once a month a special supplement deals in detail with some specific aspect of Overseas Marketing. Subscribers to the Bulletin include Government and Municipal departments, Trade Unions and Associations, Overseas Governments, and large and small Industrial and Commercial concerns throughout the world. We are able to accept a number of additional subscribers.

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November, 1945

BRITISH BULLETIN of COMMERCE

The Journal read by the Higher Executive

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A LIMITED AMOUNT OF ADVERTISING SPACE IS AVAILABLE

—appeared as a lively young creature wearing a knee-high skirt and high heels, very pleased with the sensation she created. In all the magazines that circulate among bankers and executives appeared an advertisement by the *British Bulletin of Commerce*, beginning with big type as follows: “NATIONALIZATION. PUBLIC CONTROL. SOCIALIZATION. *How will they affect your business?*” It went on to say that although Great Britain had chosen a Labor Government with a powerful majority capable of implementing a full socialistic program, still, along with many new troubles, there would be new opportunities, too.

But a Revolution

Nevertheless, it was a revolution, and the meaning of it grew; and it was a revolution conducted not by labor, or by trade unionists, who are easy to know, but by intellectuals, who are unpredictable. In England, labor spelled with a big “L” does not mean labor. The Labor party is not what we should call a labor party; it is a socialist party. The chairman of its executive committee is Harold J. Laski, who provides the ideology, which is Marxian, and whose ambition is to sing the requiem mass at the obsequies of world capitalism.

Even after the King’s speech, introducing the new government, and with no doubt that the Bank of England would be nationalized, there were many who evidently believed it would not go too far. British industrialists were almost unanimous in saying to Americans: “This socialization is no threat to industry.” Then the socialists began to unroll their program; and four months later Winston Churchill, who had been holding the opposition at pianissimo, put his foot on the pedal and began to rumble: “We are being harassed, harried, tied down and stifled by vaguely thought out and physically unattainable plans for a socialist future.” That the people had voted for it, he said, was one of the great disasters in England’s history. “I foresee,” he continued, “with sorrow but without fear, that in the next few years we shall come to fundamental quarrels in this country. It seems impossible to escape the fact that events are moving and will move toward the issue—the people versus the socialists.”

A few years. But meanwhile the socialists were saying that in five years they would take England so far into socialism that it would never be able to get back, and at the end of it private capitalism would be ready for Mr. Laski’s funeral oration.

They made it very clear that to nationalize the Bank of England was not a formal gesture intended only to imprint upon a relation that had long existed between the Bank and the Treasury a sanction of legality. It was, instead, a seizure of power. They meant to use the Bank of England as a social instrument, and in any way they liked.

The Program Unfolds

On the second reading of the bill, which opened the debate, the Chancellor of the Exchequer said:

“I hold in my hand a document entitled *Let us Face the Future; a Declaration of Labor Policy for the Consideration of the Nation*. The nation considered it, and having done so, elected this House of Commons, from which this government draws its democratic mandate, to govern for five years at least. Then we will try again. The electors of Britain having given this government a large and clear majority in this House, we have an unchallengeable popular mandate to carry out all that is contained in this document, on page five of which I find these words: *What will the Labor Party do?* Then follow a number of other undertakings and then this: *The Bank of England with its financial powers must be brought under public ownership, and the operation of the other banks harmonized with industrial need*. This bill fulfills that mandate. In point of form, I venture to claim that it is a model. It will in due course, make a streamlined socialist statute.”

Other streamlined socialist statutes would follow, for this was only the beginning. “This government,” said the Chancellor of the Exchequer, “have a mandate, an emphatic mandate, for a five-year plan of economic development. It is a mandate, for at least five years, to lay the foundations of an economic plan for this country, and a new social order. That is what this great Labor majority is here for, and this bill is one of the foundations.”

A Great Bargain

There was a nice bit of irony in his saying that the Bank of England, besides being an indispensable social instrument in the hands of the socialists, was really a fine bargain, and one they could not hope to find anywhere else in England:

“From the financial point of view, the Bank of England is by far the best of all the propositions which we intend to nationalize in this country. Some of the others are a bit depreciated; they show marks of private *unenterprise*. Not so the Bank of England. ‘Safe as the Bank of England’ is still an apt phrase, which means what it says. The bank’s affairs have been most prudently managed for many years. It has set a fine example which others would have done well to follow a little more closely, by steadily strengthening its position and by putting to reserve each year a considerable part of its earnings. The bank stock is a gilt-edged security, a trustee security. It has changed hands, over a long period now, at a price very close to that of comparable British Government securities, such as local loans stocks. The Bank of England stock has maintained an unchanged dividend of twelve per cent over the past twenty-three years, since 1922.

“This bill, therefore, provides that the stockholders shall receive a suitable quantity of a new three per cent government stock, so as to assure to them the same income as they get now, at least until the year 1966, when the Treasury will have the right to redeem this new stock at par. To have offered terms less favorable than these would, in my view, have been unfair

to the stockholders, of whom there are some 17,000. The bank stock is fairly widely distributed; 10,000 out of the 117,500 stockholders hold less than £500 of bank stock. The average holding of all the 17,000 is £850. On the other hand, to have offered better terms than these would, in my view, have been unfair to the community."

Reasons

The two principal arguments for taking over the bank, he said, were these:

"The first is that we must make sure that today's law fits today's facts and prevents any backsliding into bad old ways. The second, and even more important, is that we must make sure that in the years ahead, we have an integrated and coherent system of financial institutions. We plan—this House of Commons is determined to plan—for full employment, and full production for an expansive economy, for increasing trade, both at home and abroad; and, especially in the early years of reconstruction, against restriction and in favour of abundance. If all this is to be done, we must have the Treasury, the Central Bank and the clearing banks all pulling together. We cannot afford to have their pulling—or even the possibility of their pulling—in different ways. That will frustrate the whole plan. They must all pull together, and their operations must harmonize with the national interest and industrial needs."

The opposition raised its minority voice to say that these two reasons were not very convincing. Had not the Bank of England and the Treasury been pulling together? Was that not admitted? Then other reasons were forthcoming.

Mr. Pargiter, socialist, making his maiden speech said:

"We promised the electors that we would see that money was used as the servant, not as the master of the state.

Mr. Gaitskell said:

"The real issue in this debate, and the issue which we have to decide, is whether this country is to take control of the head and fount of financial power."

Mr. Davies said:

"The worker, rightly or wrongly, has blamed the Bank of England in the past for the periods of depression through which he has passed and he regards this change, which the House is being asked to approve on the second reading of this bill today, as one which will influence his happiness and his welfare in the future."

It was a challenge, said Mr. Rankin, to the three fundamental concepts of capitalism:

"The results of which I have described were the direct outcome of certain monetary beliefs which are inherent in capitalist economy. What are they? First, that the quantity of money available is limited; secondly, that the money is private property; and, thirdly, that those individuals and nations who desire to produce commodities must borrow that money and must pay rent for its hire. I suggest that if the bill before us is going to mean anything in overcoming the social

and industrial disabilities which I have described, it must present a challenge to those three fundamental precepts in capitalist economy. First, the bill says, in effect, that money is no longer private property, and having said that it must take the second step; it must encourage the tendency towards a lower rate of interest, towards a zero rate of interest in the end; and thirdly, it must utilize the capital assets that will be created in housing, for example, to expand, and not to contract our economy."

Mr. Hall said:

"This is the first of the government's nationalization measures. It marks an epoch in the life of the country. It is the first, and, to many people, one of the most crucial measures. We, on this side of the House, believe it is essential to make a start with the central financial machine of the country. [HON. MEMBERS: 'Why?'] For the simple reason that he who controls the purse, controls other things, too."

One very curious fact was that the government, represented by the Chancellor of the Exchequer and the Financial Secretary to the Treasury, blankly declined to reveal the reserves and assets of the Bank of England, which never in its long existence had published a complete balance sheet. The purchase price had been calculated on the market price, and that was all the government would say to the question: What do we get for our money? So far as Parliament could find out it was a pig in poke. Probable, however, a very fat pig. And so the Bank of England was socialized.

Then the Program

THREE weeks later the Lord President of the Council, Mr. Morrison, arose in the House of Commons and said:

"His Majesty's Government believe that it is in the public interest that they should give a general indication of the further measures they propose to introduce during the life of the present Parliament to bring certain essential services under public ownership. This statement, which follows the clear indication of government policy contained in the King's speech at the beginning of the session, will enable the ministers concerned to enter into consultation with the industries affected.

"As stated in the Gracious Speech, the government will introduce a bill during the present session to nationalize the coal-mining industry. At a later stage in the lifetime of this Parliament the government intend to introduce measures to bring under national ownership the electricity supply industry and the gas industry. This will implement the concerted plan for the coordination of the fuel and power industries which were foreshadowed in the King's Speech.

"It is the intention of the government to introduce, during the life of the present parliament, measures designed to bring transport services, essential to the economic well-being of the nation, under public ownership and control. Government policy in regard to civil aviation and tele-communications services has already been announced. In regard to inland transport,

powers will be taken to bring under national ownership the railways, canals and long distance road haulage services.

"As regards road passenger transport it is regarded as essential that the undertakings of the municipalities and companies should be fully coordinated with the national scheme, and it must be considered whether this can best be achieved by transferring ownership to a national authority or by providing for the creation of regional or joint boards responsible for their own finances. The second alternative would make it necessary for some control to be exercised over these boards by a national authority in order to insure conformity with general policy and their proper correlation both with one another and with other forms of transport.

"Dock and harbor undertakings will be brought within the scope of the national scheme. The most suitable form of public ownership is under examination, as is also the question of including certain appropriate ancillary activities.

"It is not the intention of the government to propose the nationalization of the shipping industry, and we shall rely on the industry to have full regard to the public interest. The government look with confidence to the shipping industry generally to play a full part in the effort towards national economy recovery, and are alive to the problems with which our shipping finds itself confronted as a result of the war.

"The Coalition Government invited the iron and steel industry to submit a report on the improvements required to put the industry on an efficient operating basis. The government [the Socialist Government] propose to await this report, which is expected shortly, before taking final decisions on the future organization of the iron and steel industry.

"During the interval which will necessarily elapse before the plans outlined above can be presented to Parliament and carried into effect, all necessary development in the industries concerned must proceed. The government, therefore, propose to see that progressive undertakings will not be prejudiced if they continue to develop in the interim period; and the appropriate departments will enter into early consultations on the point with the industries concerned.

"The compensation payable will have regard to any extent to which an undertaking has not been maintained up to the time of transfer, and the government will naturally take precautions in its legislation to protect the acquiring authority against any transactions entered into in the interim period, whether by way of contract or otherwise, which may prejudice that authority.

"The proposals outlined in this statement involve important changes in the ownership and organization of a series of industries vital to the national well-being—changes which were approved by the people at the General Election. The policy issues involved must be taken as having been decided and approved by the nation, and it will be for Parliament, government and the active leaders and workers of the industries concerned to pull together in a high public spirit so that these great changes may be carried through smoothly and successfully, thereby promoting the well-being of the nation, including efficient service for the wide range of

privately owned industries to which the successful operation of those industries coming under public ownership is vital."

Slightly Stunned

The opposition was slightly stunned. This was much more of a program than had been foreshadowed by the King's speech, more than had been revealed in the debate on the bill to socialize the Bank of England. Mr. Oliver Lyttelton, for the opposition, hoped the Parliament would be permitted to debate "these matters upon which the future of our industries so largely depend."

The Lord President of the Council said:

"If I may say so, I see no need for that at all. In the first place, legislation will be introduced, and that will be debatable. In the second place, the opposition had ample opportunity to raise this on the address in reply to the King's Speech, but they did not debate it, they did not move an amendment, and the address in reply went through without a division. If the opposition did not discharge their functions in the debate on the address, it is no part of my business to help them do so now."

Mr. Lyttelton said:

"I must press this point. It is easy for the leader of the house to make these parliamentary points, but there are several parts of this scheme—phrases such as 'other ancillary services' and matters of policy—which were not covered by the Gracious Speech. Surely it is hardly treating a matter of such importance with the respect which it deserves, if we are to be fobbed off with this sort of general statement."

The Lord President of the Council retorted again that the opposition had missed its chance. If it had wished to debate the socialization of England it should have seized that parliamentary privilege at the time of the King's speech. And all of this was idle furor anyhow, because nothing the opposition could have said would have made a bit of difference. Its further privilege was to debate, not the program, but the specific bills as they were brought before the House.

In the statement of the program the Lord President of the Council had said that in the intervals of time, while the acts of nationalization were preparing, the industries concerned would be expected to go on with important works of development. Reminding him of this, Lieutenant-Colonel Dower, from the opposition benches, said: "I would like to ask him whether if his car was going to be smashed tomorrow, he would sit up tonight to de-carbonize it?"

The Lord President of the Council replied:

"The hon. and gallant gentleman may think it consistent with his parliamentary duties to incite industry to sabotage the public interest. If I may say so, incitement to sabotage of the public interest is not consistent with the duty of the legislature."

The Power of Money

Every socialist entertains in some form the idea that there is an enormous natural increment of wealth which belongs to the people but which, in the capitalistic system, disappears into the hands of those who control money. If the people control money they will be able to capture it. This appeared in the debate on the socialistic government's first budget. Colonel Stanley gently heckled the Chancellor of the Exchequer on the ground that although he had reduced taxes he had not balanced the budget, saying:

"Of course we all agree now that our grandfathers knew nothing about economics; we have only to look at the way they used to run things at a profit. But if they knew nothing about economics—and they never had the advantage of attending the right hon. gentlemen's lectures—they did know something about human nature. They realized that, from time to time, it was to be expected that some chancellors might be human, and that, being human, they might be swayed in their decisions, not purely by economic considerations, but by popular approval, by the applause of their supporters, or even, so base is human nature, by electoral considerations. In their ignorance they devised, in order to counteract this tendency, a constitutional convention which was regarded as more binding than the laws of the Medes and Persians, that year by year, whatever the temptation, the annual budget should be balanced. That criterion now has gone, and the budget is only to be balanced over a period. There will undoubtedly be a great temptation for every chancellor to make it 'jam today,' and leave the powder to another day and possibly to another chancellor."

The Chancellor of the Exchequer replied:

"I would remind the right hon. and gallant gentleman that the doctrine of which he is speaking was set forth in the White Paper on employment, for which he and myself and our other colleagues were jointly responsible.

Colonel Stanley admitted this to be true, but said:

"What I am pointing out is that it will be a temptation to some of the weaker natures, and I am endeavoring to strengthen the right hon. gentleman against the possibilities of that temptation. He is going to be in a particularly difficult position with large numbers of supporters around him watching with anxious eyes in case he should ever stray into the paths of financial rectitude."

Freedom

It was then that Mr. Norman Smith explained the meaning of the new freedom—the freedom of people from the tyranny of money, as follows:

"There is an assumption that the budget ought to be balanced. Who said that it ought to be? I rejoice that the chancellor is departing, so far as the London School of Economics' principles he espouses will allow him to depart, from supporting this monstrous principle that the budget should be balanced. To balance

the budget is a crime against civilization. If I had my way, the budget would not be balanced at any time, let alone over a period of years. [*Laughter.*] Hon. members opposite laugh, but is it as funny as that? We all know that there is an annual increment of productivity in this country or in any country which is similarly advanced technologically. The outcome of improvement in technology which goes on uninterruptedly increases the capacity to produce year by year, and the effect of war is immensely to accelerate and accentuate that process. That necessitates an increase in the total amount of the circulating currency needed to sustain business currency which inevitably takes the form, not of bank notes or of coins, but of cheques circulating from one banking account to another. That is why one finds a constant increment in bank deposits. This annual increment in bank deposits is created out of nothing by the joint stock banks by the method admirably, clearly and precisely defined in paragraph 74 of the Macmillan Committee's report. Surely the budget ought not to be balanced, when private institutions can bring into being every year the necessary increment in the circulating currency to support currency increases such as those necessitated by increased technology? That ought to be added to the credit side of the budget . . . a handsome gift to the credit side of the budget, without a penny of taxation and without any inflationary effects whatever."

Parliamentary Government

An American who had been listening to this debate in the House of Commons on the socialization of Great Britain would have become gradually aware of something missing, some very familiar thing left out; and that, when he thought of it, would be any reference to the constitutionality of the measures, or to any supreme law in writing. But that is parliamentary government. In England, law is what the Parliament says it is. Lieutenant-Colonel Birch made a contribution that was probably wasted or lost, going as it did to a very deep level of human motives. He had been defending free enterprise and the profit motive on familiar ground; then he said: "There is not only the possibility that enterprise will dry up if you decry it and the disadvantages to efficiency of destroying free enterprise, but there is also the question of the health of the State. Dr. Johnson once said: 'There are few ways in which a man can be more innocently employed than in getting money,' and I think that the history of recent years does confirm that those who tyrannize over their bank balances are not the same people who tyrannize over their fellow men. I never heard that Hitler, Mussolini, Tito or Franco were ever the least interested in the profit motive, and perhaps if they had been we should not have seen so many miseries as we have. The effect of cutting out profit for men and their families as an honorable motive for ambition can only be to sharpen the struggle for power."

Labor Relations

Detroit Letter

By Our Correspondent

Detroit, December 31

LABOR strife in Detroit, whatever the outcome of present negotiations, will reach no "show-down." There will be significant contract changes and far-reaching new agreements. There may, in the Ford case, be new understanding and cooperation, but no *showdown*.

New contracts and agreements covering hours, wages, vacations with pay, pensions, annual wage, or variations of them, will cover practically all other employers north of the Mason-Dixon line and will reach the South in the not too distant future.

The Ford-UAW mutual responsibility agreement will set a new pattern but it is not basic. Conceived in sincerity and approached realistically by both sides, it will present many problems, involving many people. It is entitled to a fair chance, and with the thought of being helpful we suggest that special provision be made to cover veterans. Production line work is not soothing to fox-hole and seagoing veterans. Without wishing to disrupt production they will walk away from work quite frequently. If some foreman penalizes such a veteran, or fires him, obviously all the legal batteries of the veterans will come into play. Assuming the Ford-UAW plan becomes effective, other manufacturers would be well advised to cover the veterans before making the plan effective.

Storm Center

Make no mistake, Detroit is the center of social, economic and political change. We in Detroit have long known it. Cabinet officers now recognize it and top politicians are taking action. This will not help establish permanent peace.

Present troubles are merely another phase of the long fight of the unions to consolidate and enlarge their gains. Every agreement will be heralded as a "new era in management-labor relations," just as so many have been, by both sides, since Myron Taylor negotiated the first major contract with the steelworkers. But there has been no new era.

There are several significant factors of major importance which have been misunderstood by management. The present leadership of the UAW is far more conservative than those who would supplant it. The workers, the active workers or their delegates, would go much further than the present leaders and use more forceful methods. They do not and would not for many years have the sensitive understanding and respect for public opinion which

Reuther and a thoroughly able staff of public relations advisors have demonstrated in the GM strike.

Public Opinion

Since President Truman has emphasized that public opinion will be used to bring one or both parties in a dispute into line, public opinion is going to be used as a modifying force. And in this dispute it is being accepted as a restraining force by both sides.

Those who feel that it would be better to have a new set of leaders who would antagonize public opinion more thoroughly and thus reach a show-down should first weigh the advantages and disadvantages of that course.

In view of President Truman's suggested use of public opinion, the change in methods of approach to the public in this GM strike assumes greater significance. The union won a great deal of respect from those who by tradition always had voted against labor and opposed, automatically, everything suggested or sponsored by labor. They are in the important white collar group. This support came from those who wish higher wages and no increase in prices. There are thousands like that in the white collar group. General Motors Corporation lost a lot of support in the same group because of its refusal to "see the books." Most of these people have borrowed money for their mortgages, loans or financing of product purchases. They had to show "their books," or, as one labor paper suggested, "bare their soul" to get a loan. They can't understand why a corporation should not do the same thing.

About Fact Finding

The union lost much of this support when it blasted President Truman for his back-to-work, fact-finding recommendation. They will recapture some of the loss when it is realized that management condemns the recommendation with equal vehemence.

One veteran trade union executive said: "Hell, maybe we're going to have democracy here before we introduce it to the Balkans. The unions, which are the voting strength of the Democratic party, oppose fact finding; management, which finances the Republican party, opposes fact finding. And the public, in every poll, demands it by huge majorities. Brother, maybe we're gonna have democracy, what d'you know."

Both the corporation and the union have made their advertising and publicity more direct, more simple, more forthright than ever before. The corporation had previously used academic arguments far beyond the public's understanding, and the union was guilty, but less frequently. The great majority of crack newspapermen in Detroit from all parts of

the country and abroad have privately, and many of them in their stories, expressed the opinion that the union was doing a much better job of winning public opinion than the corporation. For the first time in history ordinarily conservative papers editorially and otherwise criticised the corporation for its attitude toward the public.

Enter Marshall Field

The unions, with the support of the Michigan's Citizens' League—largely composed of Democrats—claim that they have presented petitions with hundreds of thousands of signatures to a "liberal" publisher asking him to start a morning newspaper in Detroit. The publisher is undoubtedly Marshall Field who recently obtained an AP franchise. When paper is available he will probably start a Democratic newspaper here. It will be the first time Detroit has had a Democratic newspaper, and, with one excep-

tion, Detroit and Wayne County have voted Democratic over the last twelve years. If Field does come to Detroit it will mean more than a local paper. It may mean the difference between success and failure of the union drives in the years ahead.

Such a paper might bring about a healing of the Truman-UAW breach, but it will not be in time for the 1946 elections. In any event, the open break plays right into the hands of the long-vision executives of the union who have long felt that the CIO should follow the AFL pattern. They feel that they voted for Roosevelt, not the Democratic party with its "Southern reactionaries," and will be more than happy to endorse the candidate who will win so long as he favors the things they want him to. They may want a "voice" in industry; they are much more anxious to have a voice, or voices, in the Republican party. Such voices have always been available—but the CIO and PAC have not been sure enough of them to throw their support that way.

The Law That Was To End Strikes

By L. Lamprey

NOW that new labor legislation is impending, to cure the effects of evil that seem to flow from laws that were passed—especially one—to remove the cause of evil, and so on, it may be profitable to retrace the enactment of the National Labor Relations Act, in the year 1935. That was called labor's Magna Charta. It was entitled "An act to diminish the causes of labor disputes." The preamble said: "The inequality of bargaining power between employees . . . and employers . . . substantially burdens and affects the flow of commerce and tends to aggravate recurrent business depressions, by depressing wage rates and the purchasing power of wage earners . . . and by preventing the stabilization of competitive wage rates and working conditions within and between industries"; and it was declared to be the policy of the United States to free commerce from these grave disabilities.

Senator Wagner moved the bill in the Senate, and in his big speech he made the following five points:

1. The bill did not tend to create a labor dictatorship or to encourage national unionism.
2. It sought merely to make the workman a free man in the economic sphere.
3. It outlawed the company-dominated union.
4. It did not aim at the closed shop.
5. The powers to be conferred upon the National Labor Relations Board were not dictatorial; they were modeled on those of federal commissions and numerous other governmental agencies.

Throughout the debate it was denied:

1. That the law would tend to create the closed shop; simply, it would permit the closed shop where it was agreeable to state labor laws;
2. That the law would tend to make unionism compulsory;
3. That it would tend to outlaw independent unions, called also company unions; but a union dominated by the company or supported by the employer—that kind of union it would outlaw.

The attack was based mainly on the contention that the law was one-sided; that it defined only the rights of the employee, with not a word about the rights of the employer, and that it made it actually unlawful for the employer to do things which the employee was freely permitted to do legally.

There was a strong attack also upon the powers to be conferred upon the National Labor Relations Board, with reference particularly to the fact that it would itself originate evidence in the role of prosecutor, then itself hear the evidence, and, thirdly, itself pronounce judgment. The bill said: "The findings of the board as to facts, if supported by evidence, shall be conclusive." The courts, therefore, could not review the facts; the use of courts would be only to enforce the decisions of the board. The bill said, again, as to cases heard before the board: "In any such proceedings the rules of evidence prevailing in courts of law or equity shall not be controlling."

Opening the debate, which began in May, 1935, Senator Wagner said:

"This Act cures the defects in existing law. It clarifies and simplifies the provisions of section 7 (a) [of the NRA Act] and it centralizes in a single permanent Labor Relations Board the duty to protect the collective bargaining rights of the employee. General declarations of freedom have little effect unless they are accompanied by a specific catalog of the forbidden practices. The Act specifically prevents discrimination against any one for belonging or not belonging to the union. The Act is designed to promote industrial peace."

He went into the history of labor legislation.

"The National Labor Relations Act," he said, "does not break with tradition. It is the next step in the logical undertakings of man's eternal quest for freedom. Only 150 years ago did this country come to cast off the shackles of political despotism, and today it is the economic problems that occupy the center of the stage. We strive to liberate the common man from insecurity, from destitution and from human exploitation.

"When the final history of our times comes to be written the most glaring paradox will be the manner in which the antitrust laws were swerved from the course marked out by Congress and were invoked to harass the activities of the very groups they had been designed to protect. The Interstate Commerce Act of 1887 was invoked to keep the Brotherhood of Locomotive Engineers from ordering employees to refuse to handle freight during a strike. Antitrust laws were used by lower federal courts to apply to the activities of labor unions.

"This Act is designed merely to apply to industry generally the benefits of our rich American experience. Every one of its principles has been sanctioned by a long train of laws of Congress. While some think it is one sided and directed against industry, it is trained upon the solution of problems that have plagued industry as much as any other group.

"It seeks to prevent unfair labor practices, whether they affect interstate commerce by causing strikes or by destroying the equality of bargaining. Nothing in the pending bill promotes union monopoly, places the stamp of governmental favor on any type of union or outlaws so-called company unions."

"Business men are allowed to pool their information and experience in vast trade associations, in order to make a concerted drive against the evil features of modern industrialism. Employees are denied the right to do the same. They cannot uphold their share of the labor bargain or cope with any issues beyond a single business."

Senator Tydings offered an amendment, which was the first of several suggested amendments, all opposed on the ground that if adopted they would "hamstring the bill." Mr. Tydings read section 7:

Employees should have the right to self-organization for the purpose of collective bargaining or other mutual aid and protection. "Then," he said, "I add: free from coercion or intimidation from any source."

He went on: "If we are going to give the employees this right, why should they not be allowed to exercise it, not only without coercion from those who employ them, but from those who do not employ them? What harm can there be in saying that the employees shall have this right without coercion or intimidation from any person, employer or any one else whatsoever? . . . Or do we mean by inference, in speaking against this amendment, that the employees shall be subject to certain coercion or intimidation from some other source, although the employer shall not intimidate or coerce them?"

The answer to this was that only the employer could really coerce the employee.

Senator Couzens said: "I do not see why a union should be enabled to coerce a worker into an organization which he does not choose to join."

Senator Wagner said that this was illegal if it was done, but that there was no remedy in the case of coercion by an employer through economic pressure.

Senator Couzens: "If there is a remedy for coercion from any source let us put it in the bill."

Senator Walsh said: "This Act seeks to make effective the power of employees to organize and engage in collective bargaining. Here is the fundamental problem involved in all this—the employer is the only person who can effectively coerce the employee."

Representative Connery moved the Act in the House. He was asked to define the status of an individual who might be refused membership in a union that had a closed shop contract with the employer. Were they going to legislate that man out of a job?

Mr. Connery said: "Oh, no. In the first place, the man would join the union; in the second place, no employer can be forced to make a closed shop agreement."

He was asked about the 49 per cent who might not want to strike. What protection would they receive from the Act?

Mr. Connery said: "You are not discussing strikes. You are discussing an Act to prevent strikes."

Mr. Ekwall said: "Most of the letters I receive from employers claim that it will make more strikes."

Mr. Connery said: "They are crying before they are hurt. I believe they will find that the best thing that ever happened to them was the passage of this bill."

Mr. Deen offered this amendment: "*It shall be an unfair labor practice for any person to interfere with, restrain or coerce employees in their rights guaranteed in section 7: or to interfere with, restrain or coerce employees in their right to work or to join any organization.*" He made the point that this would help employers to protect their employees from the efforts of Communists, Socialists and others to stir up antagonism in a plant.

Mr. Connery said: "This is only another form of the Tydings amendment and cuts the hide off this bill. If you accept the Tydings amendment you may as well throw the bill out of the window. This is the bill in the form in which the President of the United States wants it now, and may I say that with the passing of this bill and its signature by the President labor will owe an everlasting debt of gratitude to Franklin Delano Roosevelt for his insistence that Congress do justice to the toiling masses of America, by passing now this great humanitarian piece of legislation, which to my mind will mean peace between capital and labor, better living conditions, better wages, and a place in the sun for American workers. All honor to the President of the United States!"

Several opponents of the Act declared that it was unconstitutional.

Mr. Moritz of Pennsylvania said: "Every time the President tries to protect the under dogs and give them something they ought to have the United States Constitution comes in the way."

Mr. Cox of Georgia said: "The bill raises an issue that must at some time be fought out, and I think it might as well be now as any other time. . . . It must be apparent to every one who has read it that it carries upon its face the most terrible threat—I speak deliberately and advisedly—to our dual form of government that has thus far arisen. In this respect it is far more terrible than the NRA. It is not what appears on the face of the bill that disturbs me; it is the intent and purpose carried by the measure, which the language used is intended to conceal. . . . There is the test of what is here sought to be done, for of course no one objects to collective bargaining."

Mr. Biermann offered an amendment to the clause. *Nothing shall diminish in any way the right to strike*, to make it read: "*Nothing shall diminish in any way the right to strike before an agreement has been made between the employer and the duly authorized representatives of the employees. After that agreement has been made and so long as it shall be observed by the employer, a strike shall be construed as in violation of the spirit of this Act.*"

Mr. Connery said: "This is another amendment, like the Tydings amendment, that would hamstring the bill. It would take the heart out of it. It is another way of interfering with labor's right to strike,

which is not a right that comes from Congress, but is a divine right that comes from Almighty God."

The Biermann amendment was put to vote—ayes, 107; noes, 140.

Mr. Rich said: "This Act will cause us to see more strikes in the next two or three years than we have ever seen in the history of this country. If I am not a student of law I at least have some common sense. . . . What are unfair labor practices? Five are listed. They can be committed only by employers. The same things may be done by employees but are not unlawful. . . . I know of no greater injustice than to say that it shall be unlawful for one group of our people to do that which other groups are permitted to do."

Mr. Connery had the last word. He said: "What this bill means to do, and what the members of the Committee of Labor believe it will do, will be to stop strikes; it will stop unrest; it will stop labor disputes in the United States."

John L. Lewis-isms

On the President's plan for fact-finding boards:

" . . . an act to relieve the destitution of college professors."

" . . . the first drastic thrust with the knife of absolutism into the heart of free America."

" . . . an evil, vile-smelling mess full of loopholes that would make it unworkable."

On the Smith-Connally act:

"We turned it around our fingers, showed it would not work and used it as a device for our own purposes."

On America:

"What's wrong with America? Nothing is wrong. We had the greatest production we ever had during the war. We now have 500,000 men on strike out of 50,000,000 employed. What of it?"

On the General Motors-CIO trouble:

"The world knows and Congress ought to know that the General Motors strike would be over in ten days if the government gave General Motors a price for cars they can make and sell at a profit.

"Congress must know that General Motors is making more money now by not making cars in 1945 than if they were doing so full blast because the tax laws favor them.

"And the poor blundering leaders of the United Automobile Workers picked this time of all times to shut down General Motors when it would make more money by not operating than producing.

"The dishonesty on the side of the company is only equaled by the stupidity on the side of the labor organization."

Washington Notes

By Mabel R. Deakins

THE FUROR over the President's idea of fact finding boards has had one weird effect, and that is the sudden discovery of an institution hitherto without outline which may be called *Government Economists, Anonymous*. It is a priestcraft of perhaps 2,000 men continually engaged in the mysteries of statistical analysis. They produce on demand graphs and tables and abstract conclusions on any subject, and pass them up to the heads of departments and chiefs of bureaus; and what happens to their work further is something for which apparently no one is responsible. Often, by accident or intent, it gets into the news, to prove a point or support a policy, and then you read that this is so or that is not so, according to the "government economists," nobody knowing who they are or how they function in the scheme of government. Generally, the subject is one that has become involved in active controversy, for example now, such matters as prices, costs and profits. In a recent statement before the Labor Committee of the House, Phillip Murray, of the CIO, said:

"We are told to establish fact-finding boards. Are the facts unclear? Are the facts unknown? If it is facts that we seek, why have these government agencies attempted to conceal these facts from the American public?"

He cited specifically four memoranda, one by the Bureau of Labor Statistics on what it takes to keep an average American family in a state of decent living, one by the OPA on the economic condition of the steel industry, one by the Department of Commerce on the condition of specific industries now involved in wage disputes, and one by the Office of War Mobilization and Reconversion to show that industry could increase wages by 24% and still have more profit left than it had before the war—all by *Government Economists, Anonymous*.

* *

Concerning the OPA steel memorandum, it was a study prepared for inter-office circulation only, in August, 1944. It was discussed at great length and compared with other analytical data and conclusions, and, so far as anyone knows, was never officially sponsored by the OPA. Nevertheless, it must have entered into the OPA's decision, more than a year later, not to permit a rise in steel prices. Now the CIO people want it made public.

* *

The now famous OWMR memorandum was a little bomb with a slow fuse advising the President that industry in general could raise wages 24% without raising prices and still reap a fair profit.

In the first place, this was not a study intended for release. It was prepared at the request of the OWMR's Advisory Board, who wanted something in a hurry to lay before the President. It was worked up in haste. If there had been more time, or if it had been meant for publication, *Government Economists, Anonymous* would doubtless have put in many qualifications and interpretations, if only as a matter of good craftsmanship. The figures applied to industry as a whole; it was all rather speculative and ended with no recommendations. Then suddenly it got into the news and produced its effect there. But before it got into the news representatives of the National Association of Manufacturers, knowing of its existence, had tried to get hold of it, in order to appraise it, and had been refused on the ground that it was "confidential and not available."

* *

Parallel in time to the UAW-CIO union's demand upon General Motors for a 30% increase in wages, the Department of Commerce issued a five-page bulletin, based upon tables and graphs supplied by *Government Economists, Anonymous*, the first paragraph of which reads as follows: "Under the high level operations which the automobile industry will experience over the next few years, it can grant a substantial wage increase and make high profits." After the graphs and the tables came the conclusion, marked "Significant," which reads as follows: "It is apparent that present cost-price relationships are such throughout industry that a basic wage increase is possible without raising prices. For 1946 a general increase of 10% is possible. Such an average would mean a rise of 15% or a little more in the manufacturing industries. Some industries could afford more, some not so much. The automobile industry is in the former class."

George Romney, general manager of the Automobile Manufacturers Association wrote a letter to Mr. Wallace, the Secretary of Commerce, saying that this bulletin was misleading, by the weakness of averages in general, by reason of assumptions that could not be proved, and by the omission of such vital unpredictables as the productivity of labor per man hour. Mr. Wallace replied in part, as follows:

"This study was prepared by able statisticians who analyzed all available data, such data coming in large part from the published reports of the automobile companies. There is no basis for your conclusion that the public was grossly misled by this report. . . . The productivity data, for example, were examined for the entire period subsequent to 1919 and show a large increase in output per man hour during both the decade of the Twenties and of the Thirties. . . . It was clear from the outset that the report presented conclusions for the industry as a whole. It did not say that every company was in a position to give an equal wage rate increase. We recognize disparities in the relative efficiency and profitability of individual companies. How-

ever, that does not preclude generalizations, based upon over-all analysis of the relationships for particular industries, and for the economy as a whole."

Government Economists, Anonymous can deal only, as Mr. Wallace says, "with over-all analysis," which must ignore the fact that while all companies are not equally able to raise wages out of profits, owing to the disparities of earning power among them, still *all must pay the same wages*, because the wage scale is horizontal and industry-wide. It is understood that *Government Economists, Anonymous* will re-examine this particular study.

* *
*

E. I. Williams, President of Riverton Lime and Cement Company, and President of the National Mineral Wool Association, in testimony before the Public Hearing Committee of the Labor-Management Conference said:

"Reading the newspapers I think the average person gets the idea that all companies made tremendous profits during the war. I am talking about the lay person who reads the paper. Our employees get the idea that everybody made a lot of money during the war. When they read about General Motors and all these other companies being able immediately to make a 24% increase and not increase prices, they get the same idea about us. Small business should be considered in the fact that not all companies made tremendous profits during the war. In fact, a great many of us just hung on." * *

*

The 2,000 members of *Government Economists, Anonymous*, have high-speed mathematical minds. When a government official says, "I want a study of wages, costs and prices," or "I want a figure to represent probable unemployment on June 30, 1946," they have to jump. They make many mistakes and acknowledge them fairly often. That is perhaps all one could expect. They are not trying to fool themselves. They are a patient, willing priesthood, some a little false, of course, as in any priesthood, but on the whole a very friendly lot, always ready to answer questions and to debate their own conclusions.

I am like the man who says in the Book of Delusions, "The popular notion that all economists are fools is a delusion." Most of them are former teachers and professors. Many of them are leaving the government, to go back to the campus, or to act as consultants for labor and industry. They almost never agree. They use different methods. But they work together more than you might think. There was a large gathering of them for two days in November during the Labor-Management Conference, exchanging ideas on the national income, while over at the Labor Auditorium, the conferees were passing around their graphs and statistics. They consult and advise, and agree to disagree, just like lawyers. They thrive on controversy. But they're going to cut a figure with those fact-finding boards.

Rise of the Compulsory Principle

By Leo Wolman

In The Washington Post

PRESIDENT TRUMAN'S program for settling the oil, motors and steel disputes and for heading off others like them is the inevitable transition from governmentally-sponsored unions to governmentally-regulated unions. For more than a decade under the Wagner Act the government has been forcing the unionization of one industry after another. Now that this policy has succeeded, to an extent exceeding the fondest expectations of the authors of the Wagner Act, the government is annoyed by the way unions use some of their power.

When a government is sufficiently annoyed or harassed, it sooner or later resorts to repressive measures. While it is asserting its faith in "a free American labor and a free American private enterprise," as Mr. Truman does in the closing sentences of his message to Congress, the Administration is proposing methods for severely limiting the freedom of both labor and business.

That is the meaning of our latest national policy toward collective bargaining and strikes. The core of the policy is found in the following portions of the President's message:

"I recommend that for the settlement of industrial disputes in important nationwide industries there be adopted the principles underlying the Railway Labor Act. The general pattern of the act is not applicable to small industries or to small local disputes. . . . But it would be effective as well as fair, in such widespread industries, for example, as steel, automobiles, aviation, mining, oil, utilities and communications.

"I do not intend to make this list exclusive. . . . The objective should be to cover by legislation only such stoppages of work as the Secretary of Labor would certify to the President as vitally affecting the national public interest. . . .

"I recommend that during the five days after the Secretary has made the certification, it be unlawful to call a strike or lockout. . . . While the fact-finding board is deliberating and for five days thereafter, it should be made unlawful to call a strike or lockout. . . ."

Many will receive these recommendations with feelings of relief and gratitude. They will be interpreted as evidence of strength and decision in the White House and of the intention of Washington to subordinate everything to the public interest.

But they are a good deal more than that. Above all else they are a means of subjecting private business to far-ranging public regulations. Under the

guise of proposals to avert and settle strikes, machinery is set in motion to bring a wide variety of business under the classification of public utilities. When that step is taken, everything such business does, from the raising of new capital to the fixing of prices, becomes charged in a novel, and specific manner with public interest and hence exposed to public control.

No one supposes that the entry of government into business will be accomplished over night, though much light will be thrown on that question by what the first of the President's fact-finding boards do. But there can be little question that the President's proposals mark the beginnings of drastic

changes in the position of private business in this country.

They likewise begin a revolution in the theory and practice of trade unionism and collective bargaining. For the operations of the fact-finding boards, such as the President describes, would be equivalent to compulsory arbitration.

Perhaps the American people want extensive regulation of private property and business and compulsory arbitration of labor disputes. But, before assuming that they do, we ought to find out and not stumble into epoch-making revisions of public policy as did the people of Europe in the twenty years from 1919 to 1939.

Innocents under the Gun

By Walter Gordon Merritt

AS JOHNNY comes marching home he finds some labor laws deserving the attention of Gilbert and Sullivan. He may walk into the employment office and demand his job back, as is his right under the Selective Service Law, but as Circuit Court decisions and Selective Service rulings now stand the union may wreck the employer's business because he performs his legal duty by reinstating the veteran. A colored man may demand employment under the antidiscrimination law of the State of New York, but so far as the federal courts are concerned the employer can obtain no court protection if the union ruins his business for complying. The country has just witnessed a national stoppage of telephone service because a local independent union, representing the employees of a company which manufactures telephones, was apparently on the way to losing its case to a rival CIO union because of a report of the trial examiner of the National Labor Relations Board. The strikers did not wait for the board to act. There was no dispute with any company which renders telephone service, but this public utility, which could do nothing about it, and the equally helpless public were victimized by an attack which in principle was nothing short of rebellion against the processes of government. The right to strangle a business by strikes, picketing and boycotting has become the holiest of all liberties and, unlike other liberties, may be lawfully employed to attain criminal ends, to say nothing of other illegitimate ends.

Expediency First

What kind of political philosophy is it which subjects an employer to losses from attacks by others, because he refuses to commit a crime? Should the law permit any group of citizens to plunge a community into industrial strife for such a purpose or even for the purpose of blocking social or techno-

logical progress? "If the law supposes that," says Mr. Bumble, "the law is a ass."

This phase of our public policy constitutes a black spot on our institutions which no amount of sophistry can turn even gray. Why nothing is done about it, and why so little is said about it, is hard to explain. Apparently our national genius for upholding principles, as against temporizings and expediencies, has suffered impairment in labor relations. Many liberals accept unprincipled means for attaining what they believe to be a desirable result. They are like the child who swept the carpet, but with the broom handle accidentally knocked a costly vase from the mantelpiece—the tragedy of reformers.

Who Abets a Crime

An ordinary citizen who aids or abets a crime is an accomplice—something none of us likes to be called. If a thug is paid to commit a crime, the financial backer is guilty. Except for the moral contradictions in labor legislation, a union would be an accomplice if it told an employer to commit a crime—or else. If the telephone company set out to destroy radio communication as a competitive danger, it would be put in its place. Not so with Petrillo of the American Federation of Musicians. But in each case the public harm is identical.

Cooperation of labor is a most important asset of a manufacturing enterprise. When the union offers cooperation to the employer in return for law breaking, and organized attack in return for law observance, and the law gives its blessing to such offers, "the time is out of joint." But such absurdities are bound to result when one party to the collective bargain is permitted to demand what the other side is forbidden to do. Moreover, it should be noted, we are dealing not with private rights but public law and public injuries, when the status of

the offender or the origin of the offense is not important.

The brutal realism of all this cannot be understood without measuring the industrial warfare which is permitted, even for evil purposes. The words "striking," "picketing" and "boycotting" are mere euphemisms for what is done in their name. They are not merely acts of organized disassociation or Gandhi passivity. In any test of strength they are and always will be inseparable from coercion. Such activities, where any defense against them is attempted, constitute a well-disciplined, and often irresistible, attack on the life of business and the rights of nonconformist employees, as well as the interests of helpless neutrals and the community. Commercial life or death often hangs in the balance for the small businessman and a large number of burials have taken place in the business world on that account.

Strangling Technique

I call it industrial strangling and question whether, in our day, it will ever again be made safe to pursue the civil right to run a business or seek a job while the strangling process is on. It is that organized attack which the courts say may be employed—without violence—to compel the employer to commit a crime or some other antisocial act.

No real attention has been given to this travesty. Like Topsy, it just grew. It came upon us in the dark. Possibly the failure to discuss it is because people cannot believe it. It does seem incredible. I am inclined to think the issue has never had its day in the court of public opinion.

Let us see just how this happened. In 1941 the Supreme Court was called upon to interpret the Norris - La Guardia Anti-injunction Law —, passed after decades of union agitation for relief from judicial interference with its collective activities. That law begins with a statement of public policy to protect the workers in the exercise of full freedom of self-organization for the purpose of collective bargaining. It provides in effect that no injunction shall issue—and as interpreted, that no legal remedy shall be granted—against striking, boycotting or picketing in any case "growing out of a labor dispute over the terms and conditions of employment."

If the words "labor dispute" had been interpreted to mean only a controversy over some demand which could be lawfully granted, the difficulty I am discussing would never have arisen and the license given labor to use its destructive powers would have been limited to the attainment of lawful ends—ends which could be arranged by the peaceful process of collective bargaining, conciliation and arbitration. But the court ruled otherwise. It held that the exemption extended to such attacks, even when seeking criminal or antisocial ends. So long as labor acts in self-interest and does not combine

with nonlabor groups, "the wisdom or unwisdom, the rightness or wrongness, the selfishness or unselfishness of the end" sought, wrote the court, is of no consequence. In the work of industrial strangling, neither law nor ethics are to play a part. "The king can do no wrong." While rights of property and free enterprise are qualified in the public interest, the right to destroy business by union strangling is not even limited by the public welfare.

What Happens to the Law?

This decision and others which followed overthrew the fundamental law of human relations, formerly announced by Mr. Justice Holmes for a unanimous court, that no conduct, however "innocent and constitutionally protected, may be used to accomplish an unlawful purpose," and another unanimous decision of that court by Mr. Justice Brandeis, declaring that "a strike may be illegal because of its purpose, however orderly the manner in which it is conducted." Neither Congress nor any other influential voice had expressed disapproval of these rulings by these two great liberals, but the Supreme Court—or Congress—without comment cast aside these fundamental principles and placed industrial strangling on a pedestal as having an absolute sanctity not extended to any other human right.

Let us look at more examples of the effect of this revolution in our jurisprudence. Under the National Labor Relations Act a union may cause an employer to be summoned before the National Labor Relations Board to compel him to recognize the union as the collective-bargaining agency of his employees. Expensive proceedings may ensue, largely at the cost of the taxpayer, and calling for a secret ballot to decide whether a majority of the employees wish this union or that union, or no union, to act as their bargaining agency. Even then perhaps nothing is settled. The losing union—say it is AFL—may object to the winning union—say CIO—and may immediately embark on an organized campaign to strangle the employer's business because he obeys the law—and keeps out of jail—by recognizing the successful union. If the employer in such a case markets his goods for building construction, where the AFL controls, the goods which he and his CIO employees produce cannot be sold as against AFL opposition. Let us cite another instance. Horn and Hardart, operating the famous automatic restaurant chain, was compelled by law, after a labor board election, to recognize a certain union, but the losing union set out to wreck its business on that account through aggressive picketing and there was no legal remedy if the doctrine of the Supreme Court were applied.

If we are going to continue with the underlying principles of the labor relations acts—and we should—it is sound policy that when labor invokes their provisions, it should be bound by the result instead of leaving the employer between the devil and

the deep sea. *Labor should not be permitted to seek the protection of a governmental tribunal and then organize to overthrow its decision.* Telephone operators should have no right to stop telephone service because they do not like the decisions of the board or the reports of its examiners.

Find the Public Interest

This situation also threatens to undermine various public safeguards which have been built up through the course of years. There are certain strategic activities in modern society upon which the public is so dependent that operating companies *must* continue unceasingly to serve the public without discrimination and at reasonable prices fixed by public regulation. The law says "must." Such are railroads, steamship lines, street railways, bus lines, telephone and lighting companies and certain other agencies which are, or eventually will be, in the same category. But according to the principles laid down by the Supreme Court, the union may say to these public service agencies: "If you serve non-union men or members of a rival union or carry non-union merchandise or merchandise handled or produced by members of a rival union, we will tie up your business." Nor is this a mere theory. Employees of steamship companies have frequently refused to handle "hot cargoes." Employees of railroads have refused to serve connecting lines where labor troubles were brewing. Steamship companies have refused to carry merchandise under threat of strike. Will the time come when subway employees will refuse to carry Westbrook Pegler to his office? To such activities the employer cannot yield without subjecting himself to the possibility of criminal prosecution.

This issue should be brought into the open in order that we may decide, once and for all, after full discussion of the moral implications, whether this is accepted national policy. It is time we learned whether the public really wishes to dish out punishment for law observance. I cannot believe we have deliberately decided upon such a degradation of our political institutions.

A recent application of this same political ineptitude is found in a decision of the Supreme Court rendered last June. Local No. 3 of the International Brotherhood of Electrical Workers had united with local electrical contractors and local manufacturers in New York City to prevent the use of electrical equipment which was not locally produced by manufacturers, and purchased by contractors, employing members of that union. A Chinese wall was built about the city. All outside goods were excluded regardless of the labor conditions under which they were manufactured. For any contractor to resist this boycott spelled business suicide. Interstate business in outside goods was so completely suppressed that the local manufacturers were able to double their prices in the protected market. The cost of

electrical equipment for public works and low-cost housing was more than doubled. Such an arrangement, when imitated by commercial groups in other cities, would necessarily threaten the national integrity of our economy and would be equivalent to a kind of economic secession, contrary to the purposes of the Constitution.

The Supreme Court found this tripartite combination of manufacturers, contractors and union to be illegal, because labor had combined with nonlabor groups, but announced in no uncertain terms that the union could lawfully do the same thing if it traveled alone without uniting with the employers. The court said: ". . . the same labor union activities may or may not be in violation of the Sherman Act, dependent upon whether the union acts alone or in combination with business groups." If the local manufacturers and contractors associate themselves with this union enterprise in order to avoid industrial strife, the law is broken.

Strange Conspiracies

Peaceful settlements of such issues in favor of the union, whether by collective bargaining, mediation or arbitration, become conspiracies on the part of all concerned. Only a continuance of such strike between employers and unions can save the parties from legal reproach. The social objectives of cooperation between management and labor and the peaceful settlement of labor disputes, which is one of the recited policies of the federal labor laws, is undermined when the union may lawfully pursue demands which the employer is forbidden to grant. Whatever the union may lawfully impose by industrial strangling, the employer should be free to accept through collective bargaining, in order to avoid being strangled.

It was a strange dilemma which confronted the courts in the electrical case. The privileged union group joined with the nonprivileged employer group. Should the sin of the nonprivileged group taint the privileged group or should the exemption of the privileged whitewash the nonprivileged? The court gave its answer—that the vice of the employer tainted the actions of the union when the two united, but the court left the union free to wage industrial warfare against the employer to accomplish what both parties are forbidden to agree upon. Does that make sense?

The Apple Cart

A farmer in Putnam County, New York, or New Fairfield, Connecticut, decided to truck apples or firewood to the city market. But no. The drivers' union lay in wait for him. Unless he paid for protection his tires would be slashed and his truck damaged. Congress passed an antiracketeering law making it criminal to exact money by violence in interstate commerce, but the Supreme Court held that union holdups—such as I have described—were not

forbidden, because the question of wages was involved. If the employers of the drivers who benefit by this monopoly arrange this with the union, the antitrust laws are violated, but where the union forces it alone by industrial strangling it is lawful. Again the unions are permitted to fight for what the employers are forbidden to grant.

Striking the Decision

Closely akin to this nonsense is the unqualified right of the union to use its machinery of aggression to overthrow collective-bargaining agreements or arbitration awards. The legal rules I am discussing invite a repudiation of contracts and awards by one party, while holding the other party to observance.

In the month of September, 1945, the building service union plunged the City of New York into chaos by an elevator strike against a decision of the regional war labor board to which it had submitted its case. The union did not even wait to appeal to the national board. Orderly procedure was not to its liking. The adjudication became a scrap of paper. The war labor board was prostrated and it became necessary for the Governor to appoint a new arbitrator to retry the same issues. As Mayor La Guardia said, a dissatisfied party should not be permitted "to reject the decision and shop around for another agency." The employers who stood upon the decision of the war labor board were knocked down and community life was paralyzed, but nobody gets excited over the growing demoralization which flows from such capitulations.

Thurman Arnold found the same dilemma when he unsuccessfully prosecuted union strangling to deprive the public of improved machinery or musical records. On the other hand, the employer may not protect himself competitively by suppressing competing inventions from the market. Some judges have ruled that the owner of a patent may not shelve his own patent and thus deprive the public of its benefits. The union may force the employers into such an antisocial position but the employers may not yield voluntarily in order to avoid an attack. Peaceful settlement is forbidden.

Fate of Neutrals

Sympathetic strikes against employers who have no connection with the parties to the dispute fall into the same category. In such cases the assailants go deliberately out of their way to strangle neutrals. Injury is wilfully inflicted without any justification except to make a demonstration causing greater privation to the public. There may be some rationale to such revolutionary protests under undemocratic governments, but no such justification exists where the voice of the ballot is heard in the land.

In these many ways the right of organized action by labor unions is turned from the cause of social justice and is utilized to bring about the commission

of crimes and the repudiation of contracts and arbitration awards and the blocking of economic progress and industrial peace. There is the same freedom to engage in industrial strangling for criminal and other improper purposes as in the worthy cause of social justice.

There is enough lawlessness and contract flouting and enough racial discrimination and exploitation of the public without tolerating pressures to increase such regrettable practices. There is enough industrial strife in the world without permitting industrial strangling for demands the employer is forbidden to grant or should not grant. We should either give the employer the right to yield or deny the union the right to fight.

Industrial strife as a last resort to obtain social justice, distressing as is such strife, is preferable to a lag in social justice, but industrial strife with its bitterness and antagonisms and its dislocations should never be encouraged for the accomplishment of wrongdoing—or for the attainment of legitimate demands without first exhausting the peaceful approaches of negotiation and mediation. It would be socially desirable to require negotiation and reasonable notice to the conciliation and mediation authorities before industrial strangling were legally permissible.

Tomorrow

In building our world of tomorrow we should pause to take a real look at this problem and then bring our industrial laws and institutions into line with sound social morality. When organized labor is told that it can strangle a business for complying with its pet National Labor Relations Act, it is being taught to think and act dishonestly. With the recent doubling of union membership, with increasing boldness of union conduct and with increasing union conviction that sanctioned situations of this kind cannot be wrong, the resulting ills are bound to multiply.

Our democracy is too mature and experienced to indulge in such antics. It might well listen to the words of Alice, "You incessantly stand on your head. Do you think at your age that is right?" If such travesties are to be tolerated, we may as well resign ourselves to the charge that democracy is a form of government designed to give preferred treatment to pressure groups without regard to sound political and ethical considerations.

The remedy is simple. The lawmakers should forbid industrial strangling for unlawful or wrongful purposes. The exemptions and privileges granted labor unions in order that they may protect their interests of the workers should not extend to the accomplishment of social wrongs. Such a law would not remedy all of the deformities of our labor law but would help and would also serve as a refreshing declaration of industrial justice and the independence of government.

The Mind of Science

“Initially many scientists could and did hope that some principle would emerge which would prove that atomic bombs were inherently impossible.”

—From the official report prepared for the Army by Dr. DeW. Smyth of Princeton.

ALL the statements that follow are from the record of hearings before committees of Congress. They represent the scientific mind working at the level of ordinary understanding. The question it was asked to solve was: What shall be done about the atomic bomb? The answer it gave was that control of the bomb should be turned over to a nonexistent world government and the sooner the better because other nations, too, will be able to make it. There was perfect agreement on the subject of war. It must not be permitted to happen again, at least not on a big scale. There was no idea about how to keep it from happening, save that people must either learn to live together in peace or expect to perish. Meanwhile, the President had announced an agreement with Great Britain and Canada to share control of the bomb and all the information we have with other nations, provided a Commission of the UNO can think of a way to do it under “acceptable safeguards,” meaning by that a way to insure keeping faith. The scientists discussed the problem of safeguards and got nowhere. One said he could not imagine a program of international inspection and espionage that sovereign nations would accept. Another thing on which there was almost total agreement was that science ought to be free to conduct research in its own way; and yet none could dispute Dr. Vannevar Bush, who had mobilized research for the bomb project, when he said that atomic research would have to be controlled in a very rigid manner; nor Major General Groves, who had charge of the bomb project, when he said that the only way to guarantee absolute secrecy on a job like that would be to lock the scientists up and if they escaped or insisted upon leaving, to shoot them. And one group of scientists who had worked on the bomb issued a statement saying that perhaps the only way to make really sure of human survival would be to destroy all science, all scientists, all laboratories and books, which would mean a return to the primordial life, but they did not recommend it.

Last year the Massachusetts Institute of Technology announced the perfection of a mechanical brain, with 2,000 electron tubes and 150 electric motors, that goes automatically step by step through a maze of variables, resolving them with mathematical precision, as if it were thinking, and gives always the right answer. No scientist has yet suggested pushing into its slot such a problem as, for

example: Given the history of man with weapons, find the value of must in a sentence like this: “War must be prevented.” And having found that answer, it might be asked: “And so what are the odds on civilization?”

About the Bomb

Dr. Vannevar Bush, Director of the Office of Scientific Research and Development:

The fundamental knowledge came from many countries, and over a period of fifty years we gradually accumulated the knowledge of the atom, the knowledge of the nucleus, the knowledge of the neutron, until finally that situation had progressed to the point where there were crucial experiments that showed how one could go to work to make an atomic bomb. That was done all over the world by scientists everywhere. When it came to the actual production of the bomb, the application of that knowledge, the extension of the applied science to a useful end—useful in ending the war—the work was done by the combination of scientists, engineers, industrialists, military men, in the closest partnership. If any one of those elements had been absent, the job could not have been done.

Dr. Karl T. Compton, Chairman of the National Academy of Science Committee on the Use of Uranium in War:

The Jap scientists and our scientists got in as soon as they could and agreed entirely on all their scientific findings. They told us that there was no point in going [to Hiroshima] because there was nothing to see; and I said, “What about the odor of dead corpses?” I had recently been through Corregidor, where the odor was still pretty terrible. They said, “Corpses? There are no corpses. There is nothing. Within a radius of two kilometers, there is nothing.” Beyond a three-mile radius, there was spotty destruction, where apparently there must have been focusing effects, where echoes from this blast from two different sources would meet, or something of that sort, and up to as much as ten miles there was some damage, but spotty. It was complete within three miles. . . . One thing we did hear some interesting stories about was the effect of the radiations from the bomb, which would include neutrons and gamma rays, which are like X-rays, and heat and light and everything else. Our scientists had estimated that the

lethal effect of the concussion from the blast would be effective at a greater distance than the lethal effect from these radiations, and, consequently, they had not considered these lethal radiations as playing a part in the number of people killed because if they were killed by those, they would have been killed by the blast effect anyway. But, perhaps because of sound reflection or interference effects, there were small areas within those three miles, where you would have expected the blast effect to have been fatal, but where people were not killed by the blast effect, and within that distance some of them were killed by these radiations. There was one interesting case. I think it was nine guardsmen, who were at the military headquarters, sitting on a bench with their backs against the wall, and it was well within the region where the blast should have killed anybody; but for some reason none of them were killed. But people all around them were killed. The following day one of those men died from these radioactive radiations. Two or three days later a couple more of them died. Up to the time I left all but one of them had died and that one man showed no evidence of any injury whatever. His blood count was completely normal so far as the medicos could find out. He had not been damaged at all. There was a freak.

Dr. James B. Conant, President of Harvard University:

Nothing like this has happened in the course of science or invention, unless it be the invention of fire itself in prehistoric times.

Dr. Theodore Jorgensen, Jr., who worked on the actual bomb:

You know that it has the explosive equivalent of 20,000 tons of TNT, but even so that means no more to you than it did to me that morning on the New Mexico desert before the test explosion. The explosion actually was so terrific that it was greater than anything we could possibly have imagined. I think all people who are to have a hand in the formulation of the atomic-bomb policy on a national or international scale should actually witness another test explosion. They would then know that this atomic bomb is not just another bomb. One of the problems of the atomic bomb is to make people aware of this fact.

Major General Leslie R. Groves, who was in charge of the bomb project:

Almost three years had gone by, almost \$2,000,000,000 had been spent, we had built and were operating our separation plants; but we still did not know that the material would explode or that our bomb would work. On July 16, 1945, we found out that we were right—the bomb did explode. . . . If Hitler had developed this bomb the war would have been over in a few days and the capital of the world would have been Berlin.

For Good

Dr. Vannevar Bush:

There are no immediate great commercial applications just around the corner. It is evident that there can ultimately be applications to the production of power within the reasonably near future, but the matter has not as yet been studied sufficiently to indicate just how economical these may be in comparison with other sources of power. Study by many minds and a great deal of experimentation will be required before the possibilities of industrial application even become clear.

Dr. Albert Einstein:

What now is known is only how to use a fairly large quantity of uranium. The use of quantities sufficiently small to operate, say, a car or an airplane is as yet impossible. No doubt it will be achieved, but nobody can say when.

Dr. Leo Szilard, a German physicist who came to the United States, worked on the bomb project and invented a method for producing plutonium:

Use of atomic power could be attained in three, four, or five years. If we go along this line we will have atomic power soon, but we will not have it on a large scale. If we want to have atomic power on a large scale we have to renounce its use in the next few years and we have to guide the development into channels which will give us atomic power on a really large scale, some ten years from now. If we utilized too soon plutonium in power plants we would not go along the line along which I think we ought to go.

Dr. Karl T. Compton, President of Massachusetts Institute of Technology:

It seems to me that this matter of atomic energy, as far as commercial use is concerned, makes us feel a little the way Noah felt when the dove came carrying a branch. He knew there was land somewhere, but he didn't know what was there.

For Evil

Dr. Albert Einstein:

I do not believe that civilization will be wiped out in a war fought with the atomic bomb. Perhaps two thirds of the people of the earth might be killed, but enough men capable of thinking, and enough books, would be left to start again, and civilization could be restored.

Dr. Robert R. Wilson, representing the 400 Los Alamos scientists:

A single heavy attack lasting a matter of minutes might destroy the ability of a nation to defend itself further.

Dr. J. R. Oppenheimer, Director of the New Mexico laboratories for the bomb project:

I think the intolerable state is very close, because it is not necessary for another nation to have

made a thousand atomic bombs for the situation to be dangerous. It is only necessary for them to have decided that they would pursue an independent atomic program. Then the situation is dangerous. That doesn't take very long. I read in the paper this morning that two people in England have said: "Well, the way the Americans are acting, we had better start our own bomb factories." One of them was here during a large part of the war effort, a very distinguished and fine man. The other is one of the men in the House of Commons. I don't know who he is, but Oliphant is an extremely responsible scientist. . . . Oliphant made the statement in England, and I think it is an example of how little it takes to close the door to collaboration. I don't know anything about the life of Russia, but if I were a Russian scientist and had this thing pulled as it was pulled, if I lived in a country which has just recently become one of the great powers and is very power sensitive and which has always prided itself on its science and on its technology, I would say: "Boys, we had better get to it." I think they will.

Dr. Vannevar Bush:

This is an art which it is very dangerous indeed to practice. . . . This country has never faced a situation like this before, or such a necessity for rigid controls. That has never been so insistent as it is here. There is plenty to fear. One fear that I have is that someone, thinking that he had a new idea on this subject, might start experiments in an attic with the idea that he would develop a new commercial process, and the result might be that he developed so much radioactive energy from this fission process that he would sterilize, perhaps, all of the passers-by. That is entirely possible.

About the Secret

Major General Leslie R. Groves:

The big secret was really something that we could not keep quiet, and that was the fact that the thing went off. That told more to the world and to the physicists and the scientists of the world than any other thing that could be told to them. It was something that we did not know until we had spent almost \$2 billion and had worked about three years.

The secrets, as they are loosely termed in the public discussion, are divided properly, I think, into about three classes. One class of these secrets consists of established scientific facts which were not secret at all. . . . The second classification of secrets is the scientific developments which went beyond this, and most of those developments were not basic. . . . Another class of secrets falls in the industrial sphere. This contains many industrial applications which, in the course of time, will be made known in this country. A man who has worked on this project and who is confronted with a similar problem in industrial life cannot forget the solution that was used

on this project, and he is going to use that information no matter how honorable he is, and he cannot be prevented from doing it. It is just like a child who is given an arithmetic problem to solve and knows the answer in advance. He cannot help but take advantage of knowing that answer. The other class of secret, which is the biggest field, is the ingenuity and the skill of the American worker and the American management, both the top management and the junior management, and that is a secret that I do not think any other nation has, and I do not think anyone is going to have it in a hurry. The net effect is that we are ahead at the present time. It will take the other countries a number of years to catch up. . . . I have talked recently to engineers who told me how fast they can do certain things. Well, they never did it while the job was going despite all of the pressure that we put upon them.

Dr. Leo Szilard:

With reference to secrets, let me say that clearly the biggest secret was given away with the use of the atomic bomb, because knowing that such a bomb can be made is half of the secret. I believe that the other half of the remaining secret was given away when the War Department released the Smyth report, because that report clearly indicates the road along which any other nations will have to travel. If they do travel along that road they will step by step rediscover what we have discovered, and step by step they will obtain the same results we have obtained. That does not mean that we have no secrets left. We have scientific secrets left and we have what you may call the know-how left. Almost all of the scientific secrets which we have left—and some are important secrets, I believe—relate to the development which may take place in the future. They have practically no bearing whatsoever on the kind of bombs we have used against Japan.

Major General Leslie R. Groves:

As to our employment of foreigners, I cannot tell you the exact figures, but they are extremely limited. They were necessary if we were to accomplish the purpose. . . . I would like to say that the only thing that would preserve security would be to lock everybody up, and when they decided to leave to shoot them and be done with it. That is the only way you could have perfect security.

About What To Do with It

Dr. Albert Einstein:

The secret of the bomb should be committed to a world government. . . . We shall not have the secret very long. I know it is argued that no other country has money enough to spend on the development of the atomic bomb, and this fact assures us the secret for a long time. It is a mistake often

made in this country to measure things by the amount of money they cost. But other countries which have the materials and the men can apply them to the work of developing atomic power if they care to do so. For men and materials and the decision to use them, and not money, are all that is needed.

Dr. Irving Langmuir:

For the future security of the world it is vitally necessary to strengthen the United Nations Organization and ultimately, through a world government, to control atomic energy for the benefit of all mankind.

Dr. J. R. Oppenheimer:

The peoples of this world must unite or they will perish. . . . When we had the possibility of making atomic weapons, certainly for many of us a great argument was that it might be necessary or helpful in shortening the war; but there were many times when we thought we would never get it done in time for that; many times when we thought that the war was so completely won without it that we might as well stop. None of us did want to stop, and the reason was that we thought that since atomic weapons could be realized, they must be realized for the world to see because they were the best argument that science could make—I am not speaking of other parts of human life—for a more reasonable and a new idea of the relations between nations. . . . The immediate problem is to create confidence among nations. That is a thing for diplomats and statesmen, and not for scientists.

Dr. Vannevar Bush:

Certainly this new bomb, with its enormous power, placed entirely new factors in the picture. It certainly requires the approach to this problem from an entirely new angle, a very thorough and very careful approach. It involves such enormous matters as the possible dispersion of industry in this country. It involves such matters as the possible placing underground of great installations. . . . I don't want to live underground. I don't recommend it. . . . Certainly the approach is through political understanding and political machinery. . . . We must prevent any future major war. How do we prevent future wars? That is a very large question, indeed. In my opinion, as an immediate step we want to be sure that this country is very strong in every way, because only if we are thoroughly strong ourselves can we approach the problem of international collaboration with any hope of achieving success.

Dr. Arthur H. Compton:

The only type of international control that would seem to me to be successful would be to put in the hands of an international organization power to investigate what is going on in all the countries that belong to the United Nations Organization, and like-

wise the power to enforce any action by having ability to wage war with atomic weapons. I see no possibility myself of insuring that nations that have atomic weapons available will not use them if it comes to a desperate war. So that as for international control, it seems to me that in the first place the power of investigation by the United Nations, and, in the second place, the support of any action by the ability of the international organization to wage war, is inevitably called for by the present situation.

Dr. Harold C. Urey:

We can blow the enemy's cities off the earth and take possession of the earth, occupy it with our armies and begin the job of running the world according to our own ideas. . . . Atomic bombs must not be made by any country, and they must not be stored any place in the world if we are to have any feeling of security in this or any other country on this all-too-small planet. We are making bombs and storing them and are thus a threat to other countries and are guilty of beginning the atomic armament race. If continued, it will lead to dire disaster.

Dr. Henry DeW. Smyth, author of the War Department's report on the atomic bomb:

I think we have to prevent war. I don't think it means anything to talk about outlawing the atomic bomb. I see nothing for it but to stop fighting. But suppose we say we are going to have atomic bombs, have a war with atomic bombs. Then there is only one thing to do about it and that is to disperse our industries, and disperse, decentralize our large centers of population.

Dr. H. J. Curtis, Association of Oak Ridge Scientists:

I am speaking for a group which has been thinking of the social and political consequences of the advent of the atomic age for several years. . . . In our opinion the American public is not yet fully aware of the magnitude of the problem which confronts the world. One false move in international diplomacy might mean the virtual destruction of this country. . . . The future course of atomic research in this country is entirely dependent on the solution of this problem, and after careful consideration we have concluded that the best interests of this country will be served by turning over the control of atomic energy to an international authority whose function it will be to so regulate the development of atomic energy that the atomic bomb will be used only by a world authority if necessary for the enforcement of peace. Furthermore, this move should not be long delayed because other countries will produce their own atomic bombs within a very few years and at that time an offer to establish an international commission will sound rather hollow.

Dr. Lyle B. Borst, speaking for the Federation of Atomic Scientists:

We are organized to give all possible publicity to the following convictions: (1) that a continuing monopoly of the atomic bomb by the United States is impossible; (2) that there can be no specific defense against the destructive effects of the atomic bomb; (3) and, by all odds the most important, that in view of the existence of atomic power no nation can in this new age feel secure until the problem of the control of atomic power is solved on a world level.

Dr. Leo Szilard:

I would like, therefore, to put before you tentatively the proposition that the best way for putting our foreign policy on a sound basis might consist in staging a demonstration of an atomic-bomb explosion for members of Congress, the President, and such other citizens as ought to witness it. Those of my friends who saw the tests in New Mexico on July 16 tell me how shaken they were by the phenomenon which they witnessed. Most of them were at ten miles distance or farther, and the psychological effect would be no doubt even greater if the demonstration were watched at a smaller distance. The risk which the statesmen would incur individually by watching from a closer distance appears to me small in comparison to the enormous risk which we all would incur collectively if we do not succeed in bringing home to them the nonterrestrial nature of the phenomenon.

About the Future

Dr. Harold C. Urey, University of Chicago, who worked five years on the bomb:

Unless we can devise some plan to prevent the manufacture of atomic bombs we shall live in constant fear of sudden and violent death. A world of vast fear and apprehension will be our lot and that of our children.

Major General Leslie R. Groves:

This whole thing is so complicated and of such magnitude that no mistake can be allowed; it is like a man on skis going down hill who cannot stop. Irreparable damage might result to the United States if a mistake were made now in connection with the control of atomic energy. We are flirting with national suicide if this thing gets out of control. If one mistake is made we may face national disaster.

Dr. H. J. Curtis:

It is definitely up to the world, shall we say, to create an effective organization and soon, and merely the statement that we don't have an organization to turn over the control of atomic energy to at the present time doesn't mean that we shouldn't get busy and formulate one and make that actually the first order of business.

Dr. J. R. Oppenheimer:

I think the advent of atomic weapons has perhaps weakened the general military position of the United States, because we are a concentrated and highly industrialized nation, and above all, we are a rich nation. Atomic weapons ten or twenty years from now will be very cheap industrially and economically. It may take a while before this is a fact, but it is going to be a fact, and the United States has only a very momentary strengthening of its military position with, I think, a long-range weakening of it. It may be that there is a desire on the part of some not to call this too forcibly to the attention of the rest of the world.

Dr. Vannevar Bush:

I see no defense to the atomic bomb in sight. . . . This is a new art. We have just opened the front door. What will come, I am sure I don't know. I simply know that every time in the past when we opened a new art, it has developed extraordinarily when many minds came to work on it. From that standpoint and that generality, I would say yes, in all probability we will have much more powerful bombs.

Dr. Irving Langmuir:

Nobody could now lay down a program of inspection which would be acceptable to anyone. Conditions may be different five or ten years from now. You can't imagine letting a group of Russian scientists come here in the United States and inspect every plant that might possibly be working on atomic energy. Nobody would agree; Congress would not agree to it.

Dr. J. R. Oppenheimer:

There are no specific counter measures for atomic bombs. This is nonsense. There never will be. I think this is definitely the two-billion-dollar straw that will break the camel's back. It comes to a world already just at the breaking point so far as weapons go.

Dr. Irving Langmuir:

We will keep our lead for a certain number of years. But I am thinking of a longer-range program. We have to think about whether we are organized to maintain a rate of industrial progress that will always excel that of Russia. I say there are tendencies in Russia which make it look as though Russia is going up on a very rapidly rising curve. They are starting way below us. Five, ten, or twenty years from now, they may be far ahead. They have a much bigger country, they have a bigger population, they have certain spirits that are more promising for future development than many of our tendencies, and if we don't do something to curb those tendencies to hold us back, if we are going to work on a 30-hour week and if we are going to do that sort of

thing, we will be so far outdistanced by Russia that Russia will not have just enough bombs to destroy our cities, but to destroy every man, woman, and child in the United States, the first button they press. That may come thirty or three years from now if we do not first lay a foundation. We have probably ten years in which we might possibly keep ahead of Russia but even then both nations would automatically have such power that the first one that presses the button destroys the other.

Dr. Lyle B. Borst:

Not more than 5% of the scientists working on the bomb are of an age greater than 35. We are the young people. As scientists we have come to the project directly from school. We know nothing else. We look forward to future lives. . . . There are perhaps no more than 2,000 people within the United States who have adequate information upon the structure of the atomic bomb, its utility, its limitations and its power. We have had time to consider the problem. We have had years to consider the possible social consequences of the atomic bomb. These two categories place us in a different position from the rest of the citizens of the United States. It is therefore our duty to help to enlighten the people. This we have organized to do. We must not only inform the public; we must lead the public.

Joint statement by scientists of a major atomic bomb laboratory:

Atomic energy can force our unwilling regression to the status of primordial man. In the hands of the fearful or the stupid our knowledge may mean our downfall and our end.

All solutions to the problem of preventing world disaster depend upon one condition: No more than one group in the world may be permitted to possess atomic bombs. How may this be achieved?

We have atomic bombs now. We can try to conquer the world and thus eliminate competition. If we choose this course we must do so immediately and be prepared to police the world.

Atomic bomb manufacture by any group can be prevented by destroying all vestiges of modern science and technology, including scientists, libraries, laboratories, and industries. This must be worldwide to be effective. It means the end of modern civilization, but we will be sure of existence.

We must acknowledge that military protection is impossible. We must acknowledge that, since there is no real secret, what knowledge we have has to be shared by all for the good of mankind. We must acknowledge that the problem to be solved has to be solved jointly by all. We must acknowledge that new forces require new solutions unprejudiced by old notions.

Therefore, we must urge among the nations a cooperative unified control of forces which would otherwise destroy us.

No Answer

The Economist, London

THE MAJOR question is what is to happen to the human race. Few of the social implications of the atomic bomb can yet be seen. But the primary conclusions to be drawn from the evidence are, first, that the atom bomb cannot be abolished; secondly, that it is difficult to the point of impossibility to police any restriction of the use of nuclear fission to peaceful ends; and thirdly, that it is certain to be used if ever another major war breaks out.

These conclusions, it will be said, are almost wholly negative. That is regrettable, but they may still be true. Even negative conclusions serve to clear the air. They serve, for example, to show that the favorite doctrine of the moment, that the secret should be "internationalized" by being entrusted to the custody of the Security Council of the United Nations, is merely a piece of escapism. Indeed, it embodies a double fallacy. In the first place, "internationalizing" the secret does not render it harmless; if the use of nuclear fission for peaceful purposes is to be permitted all over the world, any aggressor could quickly and easily possess himself of atomic bombs; and so long as that possibility existed, no other nation could possibly afford to be without the means of retaliation. And secondly, to hand the secret to the Security Council is not to internationalize it at all but to hand it to eleven highly nationalist sovereign states. "Why those eleven?" the remaining forty will very properly ask, and there is no answer.

England's Atomic Project

By the British Prime Minister

IN ACCORDANCE with a recommendation which has been received from the Advisory Committee on Atomic Energy of which the right hon. Gentleman the Member for the Scottish Universities (Sir J. Anderson) is the Chairman, the Government have decided to set up a research and experimental establishment covering all aspects of the use of atomic energy. Accommodation is being provided for the establishment at Harwell airfield near Didcot. I am advised that the danger to surrounding areas from the experimental station is negligible. It has further been decided that in view of the importance of this work to the Service Departments, responsibility for research on this subject which has hitherto rested with the Department of Scientific and Industrial Research should be transferred to the Ministry of Supply. The Tube Alloys Directorate (which is the name by which the technical organization dealing with these matters has hitherto been known) will accordingly become a part of that Ministry.—*Announcement in the House of Commons, Oct. 29, 1945.*

Taxes for Revenue Are Obsolete

By *Beardsley Ruml*

Chairman of the Federal Reserve Bank of New York

Mr. Ruml read this paper before the American Bar Association during the last year of the war. It attracted then less attention than it deserved and is even more timely now, with the tax structure undergoing change for peacetime. His thesis is that given (1) control of a central banking system and (2) an inconvertible currency, a sovereign national government is finally free of money worries and need no longer levy taxes for the purpose of providing itself with revenue. All taxation, therefore, should be regarded from the point of view of social and economic consequences. The paragraph that embodies this idea will be found italicized in the text. Mr. Ruml does not say precisely how in that case the government would pay its own bills. One may assume that it would either shave its expenses out of the proceeds of taxes levied for social and economic ends or print the money it needs. The point may be academic. The latter end of his paper is devoted to an argument against taxing corporation profits.—EDITOR.

THE superior position of public government over private business is nowhere more clearly evident than in government's power to tax business. Business gets its many rule-making powers from public government. Public government sets the limits to the exercise of these rule-making powers of business, and protects the freedom of business operations within this area of authority. Taxation is one of the limitations placed by government on the power of business to do what it pleases.

There is nothing reprehensible about this procedure. The business that is taxed is not a creature of flesh and blood, it is not a citizen. It has no voice in how it shall be governed—nor should it. The issues in the taxation of business are not moral issues, but are questions of practical effect: What will get the best results? How should business be taxed so that business will make its greatest contribution to the common good?

It is sometimes instructive when faced with alternatives to ask the underlying question. If we are to understand the problems involved in the taxation of business, we must first ask: "Why does the government need to tax at all?" This seems to be a simple question, but, as is the case with simple ques-

tions, the obvious answer is likely to be a superficial one. The obvious answer is, of course, that taxes provide the revenue which the government needs in order to pay its bills.

It Happened

If we look at the financial history of recent years it is apparent that nations have been able to pay their bills even though their tax revenues fell short of expenses. These countries whose expenses were greater than their receipts from taxes paid their bills by borrowing the necessary money. The borrowing of money, therefore, is an alternative which governments use to supplement the revenues from taxation in order to obtain the necessary means for the payment of their bills.

A government which depends on loans and on the refunding of its loans to get the money it requires for its operations is necessarily dependent on the sources from which the money can be obtained. In the past, if a government persisted in borrowing heavily to cover its expenditures, interest rates would get higher and higher, and greater and greater inducements would have to be offered by the government to the lenders. These governments finally found that the only way they could maintain both their sovereign independence and their solvency was to tax heavily enough to meet a substantial part of their financial needs, and to be prepared—if placed under undue pressure—to tax to meet them all.

The necessity for a government to tax in order to maintain both its independence and its solvency is true for state and local governments, but it is not true for a national government. Two changes of the greatest consequence have occurred in the last twenty-five years which have substantially altered the position of the national state with respect to the financing of its current requirements.

The first of these changes is the gaining of vast new experience in the management of central banks.

The second change is the elimination, for domestic purposes, of the convertibility of the currency into gold.

Free of the Money Market

Final freedom from the domestic money market exists for every sovereign national state where there exists an institution which functions in the manner of a modern central bank, and whose currency is

not convertible into gold or into some other commodity.

The United States is a national state which has a central banking system, the Federal Reserve System, and whose currency, for domestic purposes, is not convertible into any commodity. It follows that our Federal Government has final freedom from the money market in meeting its financial requirements. Accordingly, the inevitable social and economic consequences of any and all taxes have now become the prime consideration in the imposition of taxes. In general, it may be said that since all taxes have consequences of a social and economic character, the government should look to these consequences in formulating its tax policy. All federal taxes must meet the test of public policy and practical effect. The public purpose which is served should never be obscured in a tax program under the mask of raising revenue.

What Taxes Are Really For

Federal taxes can be made to serve four principal purposes of a social and economic character. These purposes are:

1. As an instrument of fiscal policy to help stabilize the purchasing power of the dollar;
2. To express public policy in the distribution of wealth and of income, as in the case of the progressive income and estate taxes;
3. To express public policy in subsidizing or in penalizing various industries and economic groups;
4. To isolate and assess directly the costs of certain national benefits, such as highways and social security.

In the recent past, we have used our federal tax program consciously for each of these purposes. In serving these purposes, the tax program is a means to an end. The purposes themselves are matters of basic national policy which should be established, in the first instance, independently of any national tax program.

Among the policy questions with which we have to deal are these:

Do we want a dollar with reasonably stable purchasing power over the years?

Do we want greater equality of wealth and of income than would result from economic forces working alone?

Do we want to subsidize certain industries and certain economic groups?

Do we want the beneficiaries of certain federal activities to be aware of what they cost?

These questions are not tax questions; they are questions as to the kind of country we want and the kind of life we want to lead. The tax program should be a means to an agreed end. The tax program should be devised as an instrument, and it should be judged by how well it serves its purpose.

By all odds, the most important single purpose to be served by the imposition of federal taxes is the

maintenance of a dollar which has stable purchasing power over the years. Sometimes this purpose is stated as "the avoidance of inflation"; and without the use of federal taxation all other means of stabilization, such as monetary policy and price controls and subsidies, are unavailing. All other means, in any case, must be integrated with federal tax policy if we are to have tomorrow a dollar which has a value near to what it has today.

The war has taught the government, and the government has taught the people, that federal taxation has much to do with inflation and deflation, with the prices which have to be paid for the things that are bought and sold. If federal taxes are insufficient or of the wrong kind, the purchasing power in the hands of the public is likely to be greater than the output of goods and services with which this purchasing demand can be satisfied. If the demand becomes too great, the result will be a rise in prices, and there will be no proportionate increase in the quantity of things for sale. This will mean that the dollar is worth less than it was before—that is inflation. On the other hand, if federal taxes are too heavy or are of the wrong kind, effective purchasing power in the hands of the public will be insufficient to take from the producers of goods and services all the things these producers would like to make. This will mean widespread unemployment.

The dollars the government spends become purchasing power in the hands of the people who have received them. The dollars the government takes by taxes cannot be spent by the people, and, therefore, these dollars can no longer be used to acquire the things which are available for sale. Taxation is, therefore, an instrument of the first importance in the administration of any fiscal and monetary policy.

To Distribute the Wealth

The second principal purpose of federal taxes is to attain more equality of wealth and of income than would result from economic forces working alone. The taxes which are effective for this purpose are the progressive individual income tax, the progressive estate tax, and the gift tax. What these taxes should be depends on public policy with respect to the distribution of wealth and of income. It is important, here, to note that the estate and gift taxes have little or no significance, as tax measures, for stabilizing the value of the dollar. Their purpose is the social purpose of preventing what otherwise would be high concentration of wealth and income at a few points, as a result of investment and reinvestment of income not expended in meeting day-to-day consumption requirements. These taxes should be defended and attacked in terms of their effects on the character of American life, not as revenue measures.

The third reason for federal taxes is to provide a subsidy for some industrial or economic interest. The

most conspicuous example of these taxes is the tariffs on imports. Originally, taxes of this type were imposed to serve a double purpose since, a century and a half ago, the national government required revenues in order to pay its bills. Today, tariffs on imports are no longer needed for revenue. These taxes are nothing more than devices to provide subsidies to selected industries; their social purpose is to provide a price floor above which a domestic industry can compete with goods which can be produced abroad and sold in this country more cheaply except for the tariff protection. The subsidy is paid, not at the port of entry where the imported goods are taxed, but in the higher price level for all goods of the same type produced and sold at home.

The fourth purpose served by federal taxes is to assess, directly and visibly, the costs of certain benefits. Such taxation is highly desirable in order to limit the benefits to amounts which the people who benefit are willing to pay. The most conspicuous examples of such measures are the social security benefits, old-age and unemployment insurance. The social purposes of giving such benefits and of assessing specific taxes to meet the costs are obvious. Unfortunately and unnecessarily, in both cases, the programs have involved staggering deflationary consequences as a result of the excess of current receipts over current disbursements.

The Bad Tax

The federal tax on corporation profits is the tax which is most important in its effect on business operations. There are other taxes which are of great concern to special classes of business. There are many problems of state and local taxation of business which become extremely urgent, particularly when a corporation has no profits at all. However, we shall confine our discussion to the federal corporation income tax, since it is in this way that business is principally taxed. We shall also confine our considerations to the problems of ordinary peacetime taxation since, during wartime, many tax measures, such as the excess-profits tax, have a special justification.

Taxes on corporation profits have three principal consequences—all of them bad. Briefly, the three bad effects of the corporation income tax are:

1. The money which is taken from the corporation in taxes must come in one of three ways. It must come from the people, in the higher prices they pay for the things they buy; from the corporation's own employees in wages that are lower than they otherwise would be; or from the corporation's stockholders, in lower rate of return on their investment. No matter from which source it comes, or in what proportion, this tax is harmful to production, to purchasing power, and to investment.

2. The tax on corporation profits is a distorting factor in managerial judgment, a factor which is prejudicial to clear engineering and economic analysis of what will

be best for the production and distribution of things for use. And, the larger the tax, the greater the distortion.

3. The corporation income tax is the cause of double taxation. The individual taxpayer is taxed once when his profit is earned by the corporation, and once again when he receives the profit as a dividend. This double taxation makes it more difficult to get people to invest their savings in business than if the profits of business were only taxed once. Furthermore, stockholders with small incomes bear as heavy a burden under the corporation income tax as do stockholders with large incomes.

Analysis

Let us examine these three bad effects of the tax on corporation profits more closely. The first effect we observed was that the corporation income tax results in either higher prices, lower wages, reduced return on investment, or all three in combination. When the corporation income tax was first imposed it may have been believed by some that an impersonal levy could be placed on the profits of a soulless corporation, a levy which would be neither a sales tax, a tax on wages, or a double tax on the stockholder. Obviously, this is impossible in any real sense. A corporation is nothing but a method of doing business which is embodied in words inscribed on a piece of paper. The tax must be paid by one or more of the people who are parties at interest in the business, either as customer, as employee, or as stockholder.

It is impossible to know exactly who pays how much of the tax on corporation profits. The stockholder pays some of it, to the extent that the return on his investment is less than it would be if there were no tax. But, it is equally certain that the stockholder does not pay all of the tax on corporate income—indeed, he may pay very little of it. After a period of time, the corporation income tax is figured as one of the costs of production and it gets passed on in higher prices charged for the company's goods and services, and in lower wages, including conditions of work which are inferior to what they otherwise might be.

The reasons why the corporation income tax is passed on, in some measure, must be clearly understood. In the operations of a company, the management of the business, directed by the profit motive, keeps its eyes on what is left over as profit for the stockholders. Since the corporation must pay its federal income taxes before it can pay dividends, the taxes are thought of—the same as any other uncontrollable expense—as an outlay to be covered by higher prices or lower costs, of which the principal cost is wages. Since all competition in the same line of business is thinking the same way, prices and costs will tend to stabilize at a point which will produce a profit, after taxes, sufficient to give the industry access to new capital at a reasonable price. When this finally happens, as it must if the industry

is to hold its own, the federal income tax on corporations will have been largely absorbed in higher prices and in lower wages. The effect of the corporation income tax is, therefore, to raise prices blindly and to lower wages by an undeterminable amount. Both tendencies are in the wrong direction and are harmful to the public welfare.

Where Would the Money Go?

Suppose the corporation income tax were removed, where would the money go that is now paid in taxes? That depends. If the industry is highly competitive, as is the case with retailing, a large share would go in lower prices, and a smaller share would go in higher wages and in higher yield on savings invested in the industry. If labor in the industry is strongly organized, as in the railroad, steel, and automotive industries, the share going in higher wages would tend to increase. If the industry is neither competitive nor organized nor regulated—of which industries there are very few—a large share would go to the stockholders. In so far as the elimination of the present corporation income tax would result in lower prices, it would raise the standard of living for everyone.

The second bad effect of the corporation income tax is that it is a distorting factor in management judgment, entering into every decision, and causing actions to be taken which would not have been taken on business grounds alone. The tax consequences of every important commitment have to be appraised. Sometimes, some action which ought to be taken cannot be taken because the tax results make the transaction valueless, or worse. Sometimes, apparently senseless actions are fully warranted because of tax benefits. The results of this tax thinking is to destroy the integrity of business judgment, and to set up a business structure and tradition which does not hang together in terms of the compulsion of inner economic or engineering efficiency.

Premium on Debt

The most conspicuous illustration of the bad effect of tax consideration on business judgment is seen in the preferred position that debt financing has over equity financing. This preferred position is due to the fact that interest and rents, paid on capital used in a business, are deductible as expense; whereas dividends paid are not. The result weighs the scales always in favor of debt financing, since no income tax is paid on the deductible costs of this form of capital. This tendency goes on, although it is universally agreed that business and the country generally would be in a stronger position if a much larger proportion of all investment were in common stocks and equities, and a smaller proportion in mortgages and bonds.

It must be conceded that, in many cases, a high corporation income tax induces management to

make expenditures which prudent judgment would avoid. This is particularly true if a long-term benefit may result, a benefit which cannot or need not be capitalized. The long-term expense is shared involuntarily by government with business, and, under these circumstances, a long chance is often well worth taking. Scientific research and institutional advertising are favorite vehicles for the use of these cheap dollars. Since these expenses reduce profits, they reduce taxes at the same time; and the cost to the business is only the margin of the expenditure that would have remained after the taxes had been paid—the government pays the rest. Admitting that a certain amount of venturesome expenditure does result from this tax inducement, it is an unhealthy form of unregulated subsidy which, in the end, will soften the fibre of management and will result in excess timidity when the risk must be carried by the business alone.

The third unfortunate consequence of the corporation income tax is that the same earnings are taxed twice, once when they are earned and once when they are distributed. This double taxation causes the original profit margin to carry a tremendous burden of tax, making it difficult to justify equity investment in a new and growing business. It also works contrary to the principles of the progressive income tax, since the small stockholder, with a small income, pays the same rate of corporation tax on his share of the earnings as does the stockholder whose total income falls in the highest brackets. This defect of double taxation is serious, both as it affects equity in the total tax structure, and as a handicap to the investment of savings in business.

Shortly, an Evil

Any one of these three bad effects of the corporation income tax would be enough to put it severely on the defensive. The three effects, taken together, make an overwhelming case against this tax. The corporation income tax is an evil tax and it should be abolished.

The corporation income tax cannot be abolished until some method is found to keep the corporate form from being used as a refuge from the individual income tax and as a means of accumulating unneeded, uninvested surpluses. Some way must be devised whereby the corporation earnings, which inure to the individual stockholders, are adequately taxed as income of these individuals.

The weaknesses and dangers of the corporation income tax have been known for years, and an ill-fated attempt to abolish it was made in 1936 in a proposed undistributed profits tax. This tax, as it was imposed by Congress, had four weaknesses which soon drove it from the books. First, the income tax on corporations was not eliminated in the final legislation, but the undistributed profits tax

was added on top of it. Second, it was never made absolutely clear, by regulation or by statute, just what form of distributed capitalization of withheld and reinvested earnings would be taxable to the stockholders and not to the corporation. Third, the Securities and Exchange Commission did not set forth special and simple regulations covering securities issued to capitalize withheld earnings. Fourth, the earnings of a corporation were frozen to a particular fiscal year, with none of the flexibility of the carry-forward, carry-back provisions of the present law.

Granted that the corporation income tax must go, it will not be easy to devise protective measures which will be entirely satisfactory. The difficulties are not merely difficulties of technique and of avoiding the pitfalls of a perfect solution impossible to administer, but are questions of principle that raise

issues as to the proper locus of power over new capital investment.

Can the government afford to give up the corporation income tax? This really is not the question. The question is this: Is it a favorable way of assessing taxes on the people—on the consumer, the workers and investors—who after all are the only real taxpayers? It is clear from any point of view that the effects of the corporation income tax are bad effects. The public purposes to be served by taxation are not thereby well served. The tax is uncertain in its effect with respect to the stabilization of the dollar, and it is inequitable as part of a progressive levy on individual income. It tends to raise the prices of goods and services. It tends to keep wages lower than they otherwise might be. It reduces the yield on investment and obstructs the flow of savings into business enterprise.

Bank Structure of the U.S.S.R.

(Official Paper)

This statement about banking in Soviet Russia is from the Information Bureau of the Embassy of the U.S.S.R. What it describes is a conventional and necessarily solvent banking system under a regime of absolute state capitalism. Marxian ideology has nothing to do with it. The principles, the methods and technique, even the terms are all from the book of capitalism—e.g., central bank, gold reserve, note issue, cash balances, working capital, long and short-term credit for industry and agriculture, savings, surplus, profit and loss. Almost you might think you were reading an elementary text on banking in a system of free private enterprise; and in fact the only technical difference is that here the state is everything. It owns the bank, all the cash balances, all the reserves, all the working capital. Industry, it is the state. Profit is state profit. When there is borrowing and lending at interest it is the state borrowing from itself and lending to itself, and when you read that the funds with which the State Bank finances the economy "are chiefly derived from the free resources of the economy itself" you need a moment's thought to make the translation. The "free resources of the economy itself" consist of all that is left over from what the people are permitted by the state to consume.

THE basis of the present banking and currency mechanism of the Soviet Union was laid at the end of 1921, when the State Bank of the U.S.S.R. was founded and authorized to issue bank notes. By

a separate law passed at the same time, the new bank of issue was endowed with the monopoly right to acquire both home-produced and imported gold, as well as other currency metals and foreign currency.

The foundation of the State Bank was the first step toward the reform of the currency, which was completed in 1924, when, in addition to bank notes of comparatively large denominations (the lowest being ten rubles), treasury notes of smaller denominations were introduced. Both forms of currency circulated freely and were exchangeable at par, and both were legal tender. Subsequently, when the currency had been definitely stabilized, the State Bank took over the treasury issue, maintaining the regulation cover for the joint issue. The State Bank thus became the sole repository of currency reserves and the responsible regulator of the entire currency system.

Once the currency had been firmly stabilized, it became possible to proceed to introduce a more effectual organization of short-term and long-term credit. Of the two, short-term credit was the more important problem to tackle, for on its solution the regulation of the production process and to a large extent the stability of the currency depended.

The First Decade

In the first ten years or so of its existence, the State Bank was only one of the banks engaged in economic financing. There were other smaller banks which had been especially formed to finance specific branches of industry. Furthermore, in addition to bank loans, there was a system of financing by bills of exchange drawn by one business concern on an-

other. The existence of this system naturally interfered with the utilization of the banks as instruments of rigid control over the financial activities of business organizations.

Accordingly, in 1930, steps were taken to reform the whole credit system. The reform was based upon two underlying principles: (1) All short-term financing was an exclusive prerogative of the State Bank, and (2) bills of exchange were abolished and no business firm had the right to grant credit to another. All short-term financing thus became bank financing, concentrated in the State Bank, of which all the business organizations in the country became the direct clients. The other banks were converted into exclusively long-term financing institutions.

Financing Business

Simultaneously there was begun the gigantic undertaking of reconstructing the working capital of business enterprises. Its effect was to set limits to bank financing. Every enterprise was assigned definite working funds essential for the fulfillment of its production program. These funds formed part of its assets and were at its full disposal and management. They were originally provided out of the State budget or out of the accumulated profits of the given enterprise, or from both sources. And it is from either or both of these sources that further working capital is provided when the production program of an enterprise is increased.

But although producing enterprises now had sufficient working capital to insure normal operation, nevertheless the need for funds arises which they are unable to meet, and which it would be inexpedient for them to meet, out of their working capital. This applies chiefly to expenses involved in purely seasonal production processes, or in the accumulation of seasonal stocks of raw material, fuel, semi-manufactures and the like. These sporadic and purely seasonal expenses are financed by the State Bank, thus obviating the freezing of capital which would result if working funds were maintained at a level sufficient to cover seasonal demands.

Furthermore, the State Bank finances producing enterprises to the full value of finished goods between the time they leave the factory to the time they are delivered and paid for. Thus working funds are not tied up while the goods are in transit.

Production Loans

Lastly, the bank comes to the aid of a producing enterprise when, as a result of deviations from the production program by which the level of working capital was determined, or from other causes not depending on the client (transport difficulties, for example), working capital proves inadequate. If the deviations from the production program, however, are due to the fault of the enterprise, the bank refuses to supply additional credit, and the financial difficulties of the enterprise become the

object of investigation by the competent government authorities.

As bank loans are provided on the basis of an analysis of the borrower's financial and economic position, they have become one of the most valuable and effective forms of control by the government over the activities of State enterprises.

But there are branches of industry whose production processes are not subject to seasonal fluctuation—or vary only to an insignificant degree. This would render them practically immune from the control of the bank. As many of these branches—machine building, for example—are of great importance to the country's economy, an experiment was recently made in reconstructing the working capital of these nonseasonal industries. A certain part of their working capital is contributed by the bank, in the form of repayable, or revolving, credits. Whenever a particular enterprise is constrained to utilize any portion of this part of its working capital it automatically comes under the control of the bank.

Interest

The conditions under which the bank grants loans are not governed by hard and fast rules, but are based upon a review of the general conditions prevailing in the given branch of industry. As interest rates in a planned economy do not play the role of a regulator of credit, they remain stable at one level year after year, thus guaranteeing the stability of the credit system and the profits of the bank. These rates at present vary between two per cent and four per cent, depending on the nature of the loans.

The State Bank finances the economy of the country to an amount of many billions of rubles annually. The funds for this purpose are chiefly derived from the free sources of the economy itself, which all flow into the bank as the sole bank of settlement in the country. Every producing enterprise and business organization is obliged to maintain its cash balances with the State Bank and to make all payments, with the exception of minor sums, through the bank. Enormous funds are thus constantly flowing into the bank, leaving a huge and constantly growing aggregate deposit on account.

The economic nature of these deposits should be noted: they consist of the cash resources of the enterprises and organizations of the national economy. Their earnings and profits, as we have mentioned in another place, go into the state budget.

The chief item of the State Bank's resources consists, of course, of the deposits on the accounts of producing enterprises, business organizations, collective farms, etc. But another item of no inconsiderable dimensions is the account of the state budget, which in times of peace, besides the usual cash reserve, is swollen by the large excess of revenue over expenditure.

These resources of the State Bank are further supplemented by the bank's own funds, which are derived from budget assignments and from its own profits, part of which are paid into the budget, while part remains with the bank.

Like every bank of issue, the State Bank has another source of funds in the note issue. Its revenue from this source, which depends on the growth of the currency in circulation, is determined not by the plan for financing the national economy, but by what is known as the bank's cash plan. This plan is based upon an estimate of the dynamics of cash transactions, as determined chiefly by retail trade, the wages fund, tax payments, savings, etc., from which the currency policy to be pursued is deduced. The currency in circulation is accordingly expanded, contracted, or left stable. The State Bank's credit plan receives revenue from currency issues as a corollary of the cash plan. If the sum should prove

inadequate to balance the credit plan, the budget, that chief fountainhead of financing of a Socialist economy, comes to the rescue.

The State Bank is responsible for the proper drawing up of the cash plan, and by virtue of this it is the regulator and guardian of the internal currency of the country.

The position with regard to foreign exchange rates of the Soviet currency unit was simplified by the laws of 1926 and 1928, which prohibited the import and export of Soviet money. In 1936, fixed exchange rates of the ruble were established.

It should be noted, however, that these fixed rates are chiefly intended for the purpose of internal accounting of foreign trade operations, as, for example, when a Soviet industrial enterprise, having received machines or other goods purchased abroad, has to record the transaction in its books in Soviet currency.

Telepathy of the Free Price

*F. A. Hayek**

WE MUST look at the price system as . . . a mechanism for communicating information if we want to understand its real function—a function which, of course, it fulfils less perfectly as prices grow more rigid. (Even when quoted prices have become quite rigid, however, the forces which would operate through changes in price still operate to a considerable extent through changes in the other terms of the contract.) The most significant fact about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action. In abbreviated form, by a kind of symbol, only the most essential information is passed on, and passed on only to those concerned. It is more than a metaphor to describe the price system as a kind of machinery for registering change, or a system of telecommunications which enables individual producers to watch merely the movement of a few pointers, as an engineer might watch the hands of a few dials, in order to adjust their activities to changes of which they may never know more than is reflected in the price movement.

Of course, these adjustments are probably never "perfect" in the sense in which the economist conceives of them in his equilibrium analysis. But I fear that our theoretical habits of approaching the problem with the assumption of more or less perfect knowledge on the part of almost everyone has made us somewhat blind to the true function of the price mechanism and led us to apply rather misleading standards in judging its efficiency. The marvel is that in a case like that of a scarcity of one raw

material, without an order being issued, without more than perhaps a handful of people knowing the cause, tens of thousands of people whose identity could not be ascertained by months of investigation, are made to use the material or its products more sparingly; *i.e.*, they move in the right direction. This is enough of a marvel even if, in a constantly changing world, not all will hit it off so perfectly that their profit rates will always be maintained at the same constant or "normal" level.

I have deliberately used the word "marvel" to shock the reader out of the complacency with which we often take the working of this mechanism for granted. I am convinced that if it were the result of deliberate human design, and if the people guided by the price changes understood that their decisions have significance far beyond their immediate aim, this mechanism would have been acclaimed as one of the greatest triumphs of the human mind. Its misfortune is the double one that it is not the product of human design and that the people guided by it usually do not know why they are made to do what they do. But those who clamor for "conscious direction"—and who cannot believe that anything which has evolved without design (and even without our understanding it) should solve problems which we should not be able to solve consciously—should remember this: The problem is precisely how to extend the span of our utilization of resources beyond the span of the control of any one mind; and, therefore, how to dispense with the need of conscious control and how to provide inducements which will make the individuals do the desirable things without anyone having to tell them what to do.

*From an essay entitled, "The Use of Knowledge in Society," in the *American Economic Review*.

The Labyrinth and the Minotaur

*A fantasy about reality, touching the American businessman,
from The Economist, London.*

THE American businessman has more than a little in common with Plutarch's Theseus. Having been at least fairly prominent in the successful fight against Europe's Bull of Marathon, and against the eastern sons of Pallas, he now returns to the problem of the sacrifice, which, just as Theseus faced it, has two major parts—the labyrinth and the Minotaur.

Just now he is in the labyrinth, which is made up of the most confusing variety of views and counsel of what is immediately ahead. The economists alone present an almost endless choice of paths, to which are added a large additional number by other soothsayers in the form of trade association personnel, labor leaders, radio and press commentators, agriculturalists and politicians. Some of these can be identified:

1-a. Commodity prices, and along with them costs, are going to rise substantially owing to the vast and still expanding volume of money.

1-b. Commodity prices are going down, and costs along with them, because the productive capacity of the country will flood the market with goods.

2-a. The spread between commodity prices and costs is going to narrow as prices are held down either by controls or by competition, while costs are going to rise because of labor's present and future demands.

2-b. Commodity prices will not move significantly in either direction.

3 The various forces which are expected to drive commodity prices up, down and sideways are of course expected to produce somewhat similar effects upon employment and production. Most labor spokesmen and some in government circles foresee millions of unemployed before long; the Committee for Economic Development is visualizing jobs for all and output much above prewar.

4-a. Interest rates have seen their lowest point, and will rise, perhaps slowly or perhaps rapidly.

4-b. Interest rates may be expected to stay around present levels, and perhaps move lower.

5-a. The stock market is about to undergo major liquidation.

5-b. The stock market is about to move to much higher levels.

At the end of the labyrinth is, of course, the Minotaur. This is a mingled form where four strange shapes combine (Plutarch recorded only two). One part is Depression. One is World Chaos. One is a

revived New Deal. The fourth is Socialism in some form. The Minotaur may be met almost at once, or he may be reached only after several years, but there is all but unanimous agreement that he awaits, breathing fire and consumed with hunger for the sacrifices. Businessman Theseus, after wandering in the labyrinth, must, of course, slay the Minotaur or be consumed. Not only will he be consumed if he is not victorious, but with him all the virgin minds and hopes of future generations will perish.

When the Minotaur is slain, Ariadne must provide the thread to guide Theseus out of the labyrinth (she hasn't come through yet), he must bore holes in the bottoms of the ships of the planners so they will not overtake him; he must remember to hoist the white instead of the black sail, so as to be properly identified, and be prepared to meet the demands of the crowd singing, as Plutarch says they did in Theseus' time:

"Bring us honey in pints, and oil to rub
on our bodies,

"And a strong flagon of wine, for all to go
mellow to bed on."

Clearly, private business will need all the attributes Plutarch attributed to Theseus if it is to perform the task that is being assigned to it by many government servants, by most labor leaders, by all critics—and, most surprisingly of all—by a large number of businessmen and their spokesmen themselves. The ebullience manifest in this self-appointment to carry the whole burden, most marked among some manufacturers, amounts to something verging on political daredevilry. The view is being encouraged that any slightest deviation from cornucopian prosperity and fullest employment, by whatever cause induced, would be solely and completely the fault of private business.

The responsibilities of other groups in the community for national welfare are being as understressed as those of the businessman are being overstressed. Lip service is being paid in some quarters to the obligations of government, but the emphasis among the planners is generally on the necessity of picking up the pieces through public investment after the (inevitable) default of private enterprise in providing full employment. Little recognition is given to the fact that government, labor, and agriculture are also parties to the future, and will, in fact, have a large part in shaping it.

Disillusionment of a Socialist

"The curse of the Marxist mentality is its utter incapacity to envisage social reform except by a process which inevitably involves the destruction of political liberty."

D. R. Davies

In the New English Review

From the extreme left there now is coming a literature of disillusionment, which has, among other merits, the one of fine writing; and this is both important and interesting because for many years the best political writing has been on the radical side. Every writer knows how much easier it is to write well against something than for something.—Editor.

NOW, I cannot pretend to give a full record here of the process which finally shattered my Socialist faith. This would require a volume at least. I can only hope to indicate the highlights of the process sufficiently to demonstrate the peril to which the Socialist mentality (even more than Socialism) exposes, not only British democracy, but the whole tradition of Western civilization as well.

The process began, to the best of my belief, with the triumph of Nazism in Germany. I recall a day when I realized, as in a flash, with an acuteness almost physical, that Fascism might spread all over Europe. This was in midsummer, 1934, almost exactly six years before it actually did overrun Europe. That night I expressed my fears at a drawing-room meeting in Bloomsbury. I was taken severely to task by a prominent Marxist, who explained very beautifully that that was impossible. By the character of Capitalism in its imperialist phase, etc., the thing was *impossible*. We Marxists had history nicely taped. But for the first time I felt a slight tremor of doubt of the infallibility of Marx. My intuition, fear, impression, whatever it be called, persisted. The booming of the Marxist analysis failed to drown the still small voice.

Seed of Doubt

I found among people to whom I communicated my fears that, with rare exceptions, non-Socialists were more awake to the evil possibility that Nazism might conquer Europe than Marxists. This was a most awkward, unpleasant discovery, the implications of which I refused at the time to contemplate. But it planted a fatal seed of doubt in my mind.

In the torrid atmosphere of the Moscow Trotskyist trials that seed quickly ripened. Curiously enough, it was my Trotskyist sympathies that intensified my doubts. I thought then, as I still think, that, in the conflict between Stalin and Trotsky, Trotsky was the orthodox Marxist and Stalin the heretic. But at the same time, those fantastic events were undermining my Marxism. Starting as a pro-

tagonist of Trotsky, I found myself before long being compelled to question the whole Marxist foundation, which involved the collapse of my Trotskyist sympathies as well. It was with a disturbed and semi-open mind that I then read such books as Mr. Eugene Lyons' "Assignment in Utopia" and W. H. Chamberlin's "A False Utopia."

The result of all this was that I was ceasing to be one of the faithful, one of the blind worshippers of all things Soviet. In this result was concentrated the essence of my disillusionment. Subsequent events, studies and pursuits, in effect, simply explicated in clearer, more conscious terms the scepticism induced by the trials. Long before the last of them I was being oppressed by a growing suspicion that Marxism was not merely wrong, but disastrously wrong. In the heat of that suspicion—and here is the vitally significant point—*my whole Socialist mentality was beginning to dissolve*. As yet I hadn't begun to question the doctrinal content of Socialism. That came later. But the mentality and attitude which had invested the doctrines of Socialism with unchallengeable certainty was collapsing. The collapse forced upon me a thoroughgoing radical revision of all my ideas and prejudices regarding the problem of society.

The Doctrine

It is not within my purpose here to embark upon a reexamination of Socialist political and economic doctrines, which all stem from the basic dogma of nationalization. That may be a task well worth attempting on some other occasion. I can conceive that such an examination conducted by disillusioned Socialists, even though they might lack the hard competence of the trained economist, might be of considerable value to the statesman saddled with responsibility for state affairs. Well-meant measures of social reform frequently fail through misconceived psychology, which might be remedied by men who, having been emancipated from the Socialist mentality, have, at the same time, escaped enslavement by the capitalist mentality. This, let me repeat, is beyond my immediate purpose, which is much narrower and far more important and urgent. My purpose is to formulate a simple yet profound issue—to *dissociate the idea of social progress from Socialism*, which, in objective reality (whatever the subjective intention) can secure expanding material consumption (and this is far from certain) only at the cost of the suppression of personal liberty. Per-

sonal liberty is incomparably the greatest fruit of European development. Socialism means such a reformation of society as will be inseparable from a deformation of the person. Such a result is not *social progress*. It is social retrogression. Here is the decisive, fatal political issue of our age.

The curse of the Marxist mentality is its utter incapacity to envisage social reform except by a process which inevitably involves the destruction of political liberty. It is plainly futile and worse than futile, perilous, to distinguish here between Socialism and Marxism. Experience has disastrously demonstrated that the nearer a Socialist party comes to power, the closer it approximates to the Marxist mentality. Whilst paying lip service to the ideal of personal liberty, it nevertheless nibbles its foundations away *before attaining to power*. This is the lesson of recent developments in the Labor party. Let me instance a few.

The Marxian Mind

Two facts emerge quite clearly from the recent history of the Labor party: first, the accession to controlling positions, on an increasing scale, of men who are Communist in everything but name; second, a significant shift toward the Marxist mentality by the established leaders of the party. As examples of the first, I might instance the enthusiastic election of Mr. Aneurin Bevan to the party executive, and the accession of Mr. Harold Laski to the chairmanship. Instead of going into the wilderness with Mr. Pollitt, as I heard him once say he was prepared to do, he has donned the purple of party power. Even that comparatively mild dose of power has been rather too much for him. It doesn't require any great faculties of imagination to envisage how Mr. Laski would behave if he got state power. If the very mild beer of the party chairmanship made him tipsy, the whisky neat of state power would make him roaring drunk.

More significant still is the steady acquisition of the Marxist quality of mind by the older, non-Marxist leaders. So far as I know, Mr. Attlee has not repudiated his former proposals to limit Parliamentary liberties. Nor, so far as I know, has Sir Stafford Cripps, once more prominent in the party hierarchy. His intentions are excellent. But if "patriotism is not enough," good intentions are even more insufficient. His lack of judgment is so abnormal that he is capable of administering political poison under the impression that he is prescribing a cure sweeter than honey.

This phenomenon is not an accident. It is the necessary consequence of Socialist propaganda. You cannot go on, year after year, preaching the gospel of class war, with its caricaturing of political opponents; with nationalization as the only and sovereign remedy; with the subordination of all values to material consumption, you cannot do these things without creating in your followers the demand for rele-

vant action. It is precisely this demand which has opened the way to party control for so many of the Marxist Left. It is precisely this demand that is bringing about the gradual submission of the older leadership to the Marxist mentality, which is the only method by which *complete* party control by the Marxist Left can be slowed down. It is Marxist domination on the instalment plan. That playful cub of sentimental idealist Socialism of the early nineteen hundreds has grown into a formidable beast of prey, which must now be fed on something much more gory and substantial than the milk of Christian Socialism or the ginger-beer of the Socialism of Keir Hardie and Ramsay MacDonald. So the Morrisons and the Attlees and the Bevins edge another step towards Marxist mentality, with the best of intentions, of course, and with illusions unshaken. But whatever may be the illusions of the Socialist leaders, let the British people not share them. Let them be crystal clear on this one thing: *that the British tradition of personal liberty and democratic freedom cannot be safely entrusted to men who are consciously or unconsciously developing the Marxist mentality.*

Good Intentions

To this issue the good intentions of the party leaders are utterly irrelevant. Their intentions will prove to have about as much power to control events as leaves have to direct the wind by which they are blown hither and thither. Once the nation commits itself to the objective of the supersession of the individual by the state, it is launched on a flood that will carry it very far indeed from its "bourne of time and place." One step will inevitably involve the next right to the end of the sinister progression, when it will become clear even to the blind, but too late, that personal liberty is lost. The unimpeachable intentions of Labor party leaders are no compensation whatever for their lack of historic insight, which can anticipate now the character of the emerging situation. When Mr. Churchill stated in his first election broadcast that Socialism involved a Gestapo, he was, of course, stating a truth obvious to a non-Socialist mentality. Labor party leaders avoided the issue by the simple device of indignantly denying that a Gestapo was any part of their intentions. Mr. Churchill never said that it was. Nobody in his senses would accuse the older Parliamentary Labor leaders of any designs to govern by Gestapo, whatever may be thought of some of the others. But once launched upon Socialism, they would no longer be free agents. They would be compelled to follow the deadly logic of the situation—or clear out. That, in all probability, is what would happen. They would be ruthlessly pushed aside by the ironsides. That is what Mr. Churchill had in mind. And he is right. If his insight into the Nazi purpose was correct, his insight into the historic logic of Socialism is equally correct.

Books

Russia

"The Secret of Soviet Strength," by Hewlett Johnson, Dean of Canterbury. International Publishers, New York.

"The Pattern of Soviet Power," by Edgar Snow. Random House, New York.

"The Basis of Soviet Strength," by George B. Cressey. McGraw-Hill Book Company, New York.

"New Russia's Primer," by M. Ilin, in Russian, translated by George S. Counts and Mucia P. Lodge. Houghton Mifflin Company, New York.

"Russia and Postwar Europe," by David J. Dallin. Yale University Press, New Haven.

"One Who Survived," by Alexander Barmine. G. P. Putnam's Sons, New York.

IT MAY be said of any country, one's own included, that many things are both true and untrue, besides illusory things that are neither true nor untrue; and if it is truth you want it lies somewhere beyond facts in a sense of proportion. But in Soviet Russia, where thinking and seeing are planned, there are further complications. Take, for example, the Sovfoto. In a recent number of the *Information Bulletin* from the Embassy of the U. S. S. R., there is one of an airplane taking on a cargo of chickens. The caption is: "Planes Serve the Farmer—Transporting Fowl by Aircraft." Graphically, no doubt, the picture is true. And yet, if you are expected to deduce from it that Russia's economy now is so rich that she can afford to transport farm produce by air, when in fact she is more likely to be short of chicken wire, then the picture is false and all the more false for being graphically true.

Now suppose you are in Russia to do a book, and you happen to be confronted with the contradiction of a plane loading chickens while yet the chicken itself as an article of food is a luxury. How will you relate one fact to another? The evidence seems to be that you will interpret them in a manner agreeable to your private demonology. If you hate what the Russians hate—if your demon, too, is capitalism, that system which the Dean of Canterbury thinks "utterly failed to feed, clothe, house and educate us," led the world to disaster, and now lies in wait to pounce upon the new way of life and devour it in the gristle—then you will see in the chicken plane astonishing evidence of the development of civil aviation in the Soviet Union, and forget about chickens. In the same way, you will see Russian industry not as it is but as it will be in the day of overcoming, and beyond that you will see the wonderful sequel of a mass Utopia, all factory made and perfectly planned, as it is described in "New Russia's Primer":

"After socialism is built there will no longer be dwarfs—people with exhausted, pale faces, people reared in basements without sunshine or air. Healthy, strong giants, red-cheeked and happy—such will be the new people.

"But to accomplish this we must have new cities and

new houses, our whole life even to the last kitchen pot must be changed.

"Down with the kitchen! We shall destroy this little penitentiary! We shall free millions of women from housekeeping. They want to work like the rest of us. In a factory-kitchen one person can prepare from fifty to one hundred dinners a day. We shall force machines to peel the potatoes, wash the dishes, cut the bread, stir the soup, make the ice-cream.

"Down with the dark and small and crowded dwelling!

"We shall build large houses—communes with light spacious rooms. Let us understand once for all that it is impossible to work, rest, study, cook, and receive guests in the same place. There must be separate rooms for rest, for play, for reading, for dining, for receiving guests. And children must have rooms of their own. Adults frequently complain that children interrupt their sleep, their study, their conversation. But let not the grown-ups annoy the children and interfere with their noise and games.

"Already we have such houses. The newspaper *Pravda* writes that in Moscow on Khavsky Street a 'house commune' has recently been built.

"It is a very large building. On the first floor there is a light and spacious dining room; on the second an auditorium with a balcony for lectures, entertainments, and moving pictures. Next to the auditorium are several rooms for circles, for libraries, for noisy and quiet rest, rooms for the receiving of guests. The third floor is a many-roomed gymnasium. On the flat roof of the building benches are placed and flower beds arranged. In summer people will rest and take sun and shower baths here. In winter the roof will be converted into a skating rink, and merry skaters will cut figures on the ice high above the streets of Moscow.

"For little children several rooms are reserved on the first floor. Here are playrooms (make as much noise as you please!) and classrooms and shops and verandas.

"All rooms are light and cheerful.

"Colors are selected so that they may delight and not tire or injure the eyes.

"But we need not merely new houses: we need new socialistic cities. . . .

"There will be no village. Bread and meat and milk will be secured from factories in *sovkhoses* and *kolkhoses*. Around each of these agricultural factories other factories will be constructed—food, flour, conserve, meat, refrigeration. All of these will constitute a single union of factories, but agricultural rather than industrial. And around each of these unions a city will rise—an agricultural city. This means that the difference between city and village, between peasant and workman, will disappear. Even the words 'peasant' and 'workman' will pass away.

"Only the word 'laborer' will remain.

"This will happen after we construct socialism."

But if, on the other hand, you are an individualist because you were born that way your demon will be omnipotent government in the meaning of the brass serpent. Those who behold it in a worshipful manner shall live. It will feed and clothe and house them, make them happy, tell them what to think,

save them from the pains of self-responsibility. All that will be required of them will be obedience. So you will hate communism, and hating it, you may see, or think you see, something odd about the *Sovfoto* representing transportation of fowl by aircraft. The plane appears to have landed out of the sky on a barren plain against a flat and empty horizon, with no sign of agriculture about. And as for their mass Utopia, overflowing with planned happiness, you may say you would prefer free wretchedness in a slum dwelling. This, too, is conviction and not arguable.

It is in some such way that one must account for what happens to those who write books about Soviet Russia. First they believe and then they see. The endless dispute is not about what they see, for in fact what they see is usually there; the dispute is about the meaning. Nor is it often or ever a question of sincerity. Most of the writing, especially on the Russian side, fairly sweats with sincerity, even too much. Some of it is courageous. It takes a kind of fanatical courage for a dignitary of the Anglican Church like the Dean of Canterbury to condone the mass murder of political minorities. In "The Secret of Soviet Strength," he writes:

"The 'purges' have troubled many. They are better understood today than in 1936, when they occurred and were used by an unscrupulous press to shock the world. Heralded here and in the United States as instances of ruthless suppression of internal revolt and independent political thought, they now appear as safeguards against the Quisling brood.

"And never must we forget that Russia has been struggling through all these years to introduce a new order to a hostile world. There could be no question of swapping horses in midstream. If you decide to build a cantilever bridge you must not change halfway through to a girder construction. Russia decided for good or ill to try a Socialist regime: the discussion of any other in midstream was futile and dangerous.

"So much, then, for the criticism that Russia restricts the liberty of discussion on fundamental issues. When Russia is stable and secure she may learn much from us. We, in the meantime, may learn from her."

This quotation is from the American edition of the Dean's book. In the preface he addresses it to the American people, saying he has reason to believe that the scales are falling also from American eyes, only a little more slowly than from British eyes. Therefore his "we" includes us. And he is telling us that what we may learn from Soviet Russia is that while a socialist regime is being established and until it is stable and secure, the discussion of any other regime may justifiably be repressed by murder, on the ground that it is "futile and dangerous."

The purpose of his book, the Dean very earnestly says, is to reveal to American understanding the moral secret of Soviet Russia's strength. You could hardly conceive a more extreme example of the total

failure of communication, for at this point American understanding comes to a full stop. It cannot pass. The Dean's endeavor recoils upon itself. Marxian religionists here, as in England, read him eagerly. Why do they read him? Certainly not to be persuaded. What he does for them perhaps is to effect a moral reconciliation between the red dialectic of their minds and the red impulse of their hands; not to omit the fact that they share with the Dean a ghastly jest, which is that since they are a minority and dangerous to the existing order, they are, according to their own principles, subject to liquidation, and owe their survival to the softness of those whom they would destroy. So it is that what happens to those who write books about Russia happens also to the people who read them, and for all the understanding that has come out of it, meaning by that a sympathetic and rational knowing of one people by another, a very great part of this literature might as well never have been written.

Even where there is no mortal conflict of ideas, no mutual fear, no restraint on the civilities of exchange and travel, such a thing as a perfect understanding of one people by another is unknown. The limitations are defined by T. S. Eliot, in an essay entitled "The Definition of Culture":

"For to understand the culture is to understand the people, and this means an imaginative understanding. Such understanding can never be complete: either it is abstract, and the essence has escaped, or it is *lived*; and in so far as it is *lived* the student will tend to identify himself so completely with the people whom he studies that he will lose the point of view from which it was worth while to study them. Understanding involves an area more extensive than that of which one can be conscious; one cannot be outside and inside at the same time. What we ordinarily mean by understanding of another people, of course, is an approximation towards understanding which stops short at the point at which the student would begin to lose some essential of his own culture. The man who, in order to understand the inner world of a cannibal tribe, has partaken in the practice of cannibalism has probably gone too far: he can never quite be one of his own folk again."

But even though the inner mind of a people may be unknowable to the foreigner, there must be nevertheless a visible outwardness. They have an environment upon which they have acted. Among other things visible in that environment and measurable will be the means to power, and these will be physical facts bearing their own weight, adding up to a kind of certainty. So you think.

Observe that of the six books listed at the beginning of this article three have titles that lead you to expect the answer to this question: What are the realities of Russian power? That ought to be an answerable question. Power now has but one sign. All other appearances of power are but aspects of one, namely: industrial power. An army without industrial power behind it is helpless. A

foreign policy without industrial power is meaningless. Even the secret of atomic energy may be of no use whatever unless you have also, to give it reality, a prodigious industrial power. But in all these "imperative" books about Russia there is no answer to that question, and the attempts to answer it tend to obscure it only more.

For Edgar Snow the secret of Russia's power is the Red Star. It is as simple as that. By the Red Star he knows what Stalin thinks; by it he foretells what Stalin's successors will think and what they will do. The life of other nations may be unpredictable, but the future of Russia is written in the palm of her hand. This is important, or may be, only because Mr. Snow is one of a kind. He belongs to the elect and the friends of Russia give his books a wide vogue.

Mr. Cressey is one who by travel in Russia has verified all of the encyclopedic facts. He presents them in a very workman-like manner, well organized and documented, and steps warily through the mysteries of Soviet statistics. Geostrategy is his theme. The elements of Geostrategy are ten. The first one is size and the eighth one is natural resources. There is a strange disparity between, on the one hand, Russia's actual strength, and, on the other, her size and the magnitude of her natural resources. Whatever her actual power may be, it seems always that it could be very much greater. The natural elements of strength were the same in Tzarist Russia as in Soviet Russia. Mr. Cressey looks at that fact and explains that Soviet Russia now emerges as one of the great powers of the twentieth century because something new has been added; and that something new, he thinks, is "a dynamic, political and social system." He gives this thought one line only and goes on to discuss the other eight elements of Geostrategy. Some are favorable and some are unfavorable, and both to an unusual degree. The climate is a liability and this affects people. "It is unlikely," he writes, "that a league of nations will ever have its capital in Moscow or in Yakutsk; nor will exceptionally healthy people live in those areas. Maps of climatic energy give lower rank to most of Asia than to Europe or North America. On the other hand, the Soviet people have developed conspicuous patriotism and unity and have been welded together by the pioneering tasks of the Five-Year Programs." Many of the largest projects under these programs, however, were designed, built, and put into operation by American firms. "The bulk of Soviet Russia's steel and iron industries," says Mr. Cressey, "its nonferrous mining and processing, some of its chemical production, much of its coke roasting and gas recovery, practically its entire automobile and tractor industry, and the largest of its hydroelectric plants are based on American machinery and processing." Mr. Cressey's book is the rare exception. He looked at what he saw and has

generalized his facts with almost complete objectivity of mind. But since, for all that, he leaves the question as he found it, only more polished, one may be upon notice that there is no such thing as a textbook answer.

For David J. Dallin, a Russian expatriate, whose books are interminable and all with one theme, the great secret about Russia is no secret at all, only that people will not take the trouble to understand it. To know what to expect and to be prepared for the worst, one has only to follow the red revolutionary thread that runs unbroken through the zigzag pattern of Russian diplomacy. Soviet Russia's foreign policy, he finds, has not really changed since Lenin said: "We shook each other's hand, I and the French monarchist, aware that each of us would readily hang his partner. But our interests coincided." That was in 1918, when Lenin was about to sign a separate peace with Germany, and was at the same time seeking French and British support for continuing Russia's war against Germany. This he afterward explained to his associates in these words: "Against the advance of the Germans we utilized the predatory counter-interest of other imperialists. We resorted to maneuvering, dodging, falling back, which are obligatory in all wars, while waiting for the moment when the international revolution finally ripens." This was the strategy of the revolutionary moment—the moment to come when "thieves fall out," and Mr. Dallin thinks it is basic Soviet strategy still, which of course makes debris of much wishful thinking about the future. He says: "An expansion of Russia on a great scale, as well as Russia's possible revolutionary influence upon the rest of Europe, would in American eyes cancel all schemes for stabilization. Expansion of Russia as a State and her possible role as a hotbed of revolution are incompatible with American interest. In this respect America shows greater independence than Britain. While London is struggling in a network of political contradiction and often is inclined to yield for the sake of a compromise, Washington can permit itself the luxury of an appeal to principles. Nevertheless, there exists a great affinity of the British and American policies in Europe."

This is all very interesting and historically brilliant. But if you want to know with what realities of power Soviet Russia will be able to implement her sinister foreign policy Mr. Dallin will leave you where you were. From reading his books you would never know that, as Mr. Cressey says, "something new has been added." The index of this book consists almost entirely of proper names—names of men and parties and countries, and if you look there for industry you will find only *industrial party*, which was a political faction that was purged, and nothing else.

Dr. Hewlett Johnson, who writes Communistic doctrine as Dean of Canterbury, intended to be both

engineer and missionary, and so he took a degree in science at the University of Manchester before going to the church. It is, therefore, with some authority that he undertakes in the first part of his book—the part he recommends you to read last in order that you may have the feeling first—to examine “the real sources of Russia’s military, economic and political power.” But all that one may learn from the examination is that the achievements of Soviet Russia are of three degrees—wonderful, more wonderful, most wonderful. When the United States began to lead the world in the multiplicity and complexity of its machines, Tzarist Russia was the nation farthest behind, but now Soviet Russia “challenges the whole world by its rate of progress . . . all Russia rolls on Moscow’s ball bearings . . . Moscow specializes in fine cutting and measuring instruments, Leningrad in heavy steamer and hydroelectric generating plants,” and, “having outstripped the most advanced countries in the field of known agricultural machinery, Soviet Russia blazes wholly new trails in appliances and techniques.” With their own brains and their own hands, disciplined by an inspired and imaginative planning, the Communists suddenly overtook the world in science, know-how and technology, and in many instances surpassed it, or so you would think, and the secret of it all was moral. “In short, Russia has done the moral thing in industry and it proves to be successful.” These words are in italics; so is the Red Dean’s statement of what this moral requires: “It demands a plan; it also demands public control of land, mines, factories, and every species of machine necessary for large-scale production.” And this control, he adds, is “moral, advantageous, and profoundly Christian”—as profoundly Christian, no doubt, as the purge by mass murder of those who should be so absurd as to go on saying that they would prefer a free world. Nowhere in the Dean’s examination does it appear even faintly that modern industry in Soviet Russia is founded on machines, technology, blueprints, and skill of personnel, bought from capitalistic countries, principally from the United States, or that without the American engineers who designed and built and piloted into production the first plants she probably never could have carried out her five-year plans.

So we come to Alexander Barmine’s book, “One Who Survived.” Barmine, like Dallin, writes as a Russian expatriate. After a career in the Red Army he passed to commercial diplomacy and represented Soviet Russia’s export monopoly in foreign trade. While buying American machines and American technology for an industrial foundation, and squeezing the cost of it out of the Russian stomach, the planners decided that Soviet Russia’s industrial career in a competitive world must begin at once. What article of export was the sign of a great industrial nation? The motor vehicle. Therefore, Soviet Russia would export motor vehicles. What follows,

as Barmine tells it, causes one to think of how naval strategy might be written from the point of view of the *Pinafore’s* deck, as if it were real. First, the Auto-Moto Export Trust was formed. Then Barmine was sent forth to sell motor vehicles in foreign trade. But Soviet Russia had no automobiles to sell because its automobile industry had been set up with Ford machines and Ford technology, by Ford engineers, under a Ford contract forbidding the product to be exported. The Auto-Moto Export Trust, therefore, had to buy automobiles in other countries for export. Once Barmine brought his Persian customers to Moscow to be impressed, but the Auto-Moto Export Trust was either unable or unwilling to provide a car to take them around in. In any case there would be no point in demonstrating a Russian-built Ford car which could not be sold. Then he tried to buy an American car. Failing in that, he hired one from the Intourist Bureau. What happened to his Persian customers he does not tell, but he did organize a truck race in Persia to demonstrate a three-ton Russian truck, named “Zis.” It turned out to be the strongest and toughest of all competing. And, as he says, he took orders from Persia and Afghanistan on the strength of this performance. But the Russian truck named “Zis” was a vehicle built to American specifications in the Stalin plant at Moscow. One odd fact about the Barmine book is that he seems not to be aware of how fantastic and unreal it was. He seems to be more concerned with the frustrations of the manager of Russia’s export trust.

All of Soviet Russia’s industrial achievements have been separately prodigious. This is explained by the fact that in a totalitarian system enormous energies may be commanded by one obsession at a time. What this does to the rhythm and symmetry of an economy is another matter. Take, for example, the tractor. The central will having decided that Soviet Russia should go at one jump from the scythe and wooden plough to mechanized agriculture, the first thing was to sign a contract with eight American automotive engineering firms to build, equip, and pilot into production four great tractor plants. One year after the first plant was opened at Stalingrad Soviet Russia was the leading tractor producer of Europe. That was in 1930. Five years later, with all the plants operating, Soviet Russia’s total output of tractors was at the rate of 112,566 units a year, this comparing with the production of 156,858 in the United States. That is to say, Soviet Russia, starting from nothing, in five years arrived at a production of tractors amounting to more than seventy per cent of the American production.

But the tractor in Russia was a political animal. There was no economic necessity to mechanize Russian agriculture. It was primitive in method and equipment, and yet during the Tzarist’s regime there was always a large export of foodstuffs,

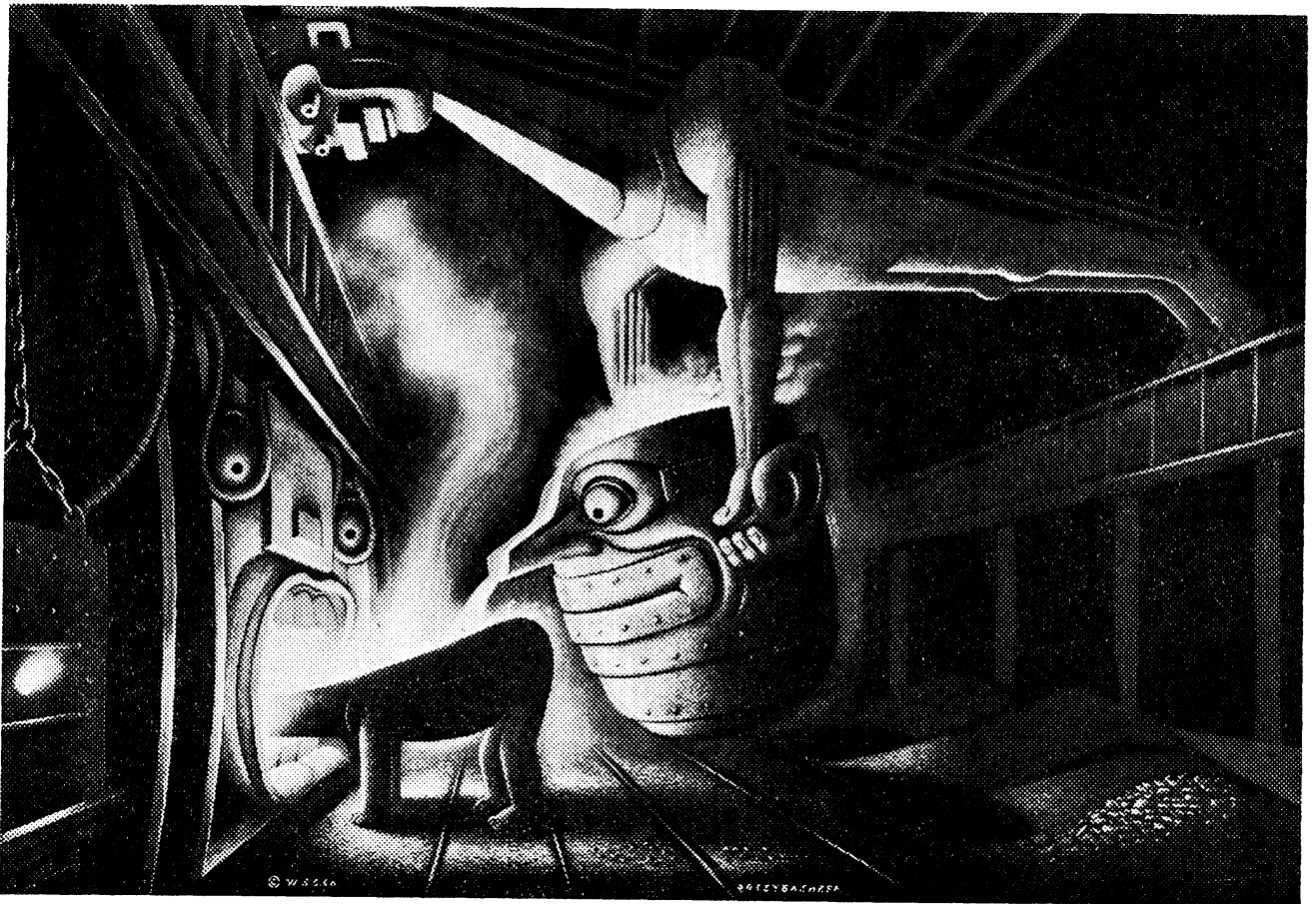
amounting roughly to 300 million bushels of grain a year, besides butter; whereas the Communist regime brought famine, and never since has there been as much as people have wanted to eat. The necessity to mechanize agriculture was political. It was the way—the only way perhaps—of pushing agriculture into the frame of a Communist economy, the solution being to add the peasant to the proletariat, thereby making him dependent upon the state. In every other country the tractor had been an evolutionary phenomenon. In Russia it was revolutionary and violently imposed. In every other country using tractors, horses disappeared gradually. In Russia the horses were slaughtered first.

Another achievement was hydroelectric power; and that, like the tractor, was politically conceived. The great Dnieper Dam first existed as a plus sign in a Lenin formula. The formula was: "Rule of the Workers + Electricity = Socialism." Again the stomach was squeezed. Again American engineers and technicians were hired to build what turned out to be one of the wonderful hydroelectric plants in the world, but certainly the Russian people needed, and still do need, many things which in the

scale of simple human wants come long before electricity; even such things as pots and pans they did without in order to have electricity first.

There is a deeper level, and as you come to it language begins to fail for the reason that it is almost impossible for one who belongs to the industrial civilization of the West to imagine how Russians think and feel about machines. For us the machine is a tool; it may be complicated, even wonderful, and yet it is a tool and nothing else. For the Russian it is something more. And to express what that is in words is extremely difficult. If you will gaze attentively at one of Artzybasheff's anthropomorphic drawings of the machine you may begin to understand it. Glimpses of it appeared in the first Soviet films years ago—a Russian way of seeing the machine that came through even the lens of a camera. Now this Russian artist brings it all the way through. As he draws the machine, so the Russians see it. They see it as a creature. There is at least one further subtlety. This is a creature that may be either good or evil, just as of old in the animistic religions the gods were friendly or unfriendly. The machine in the hands of the capitalist

As Russians See the Machine



One of a series of drawings made for the Wickwire Spencer Steel Company by the Russian Artist Boris Artzybasheff

is malevolent. It tortures people, enslaves them, and in the end may devour them. But the same machine in the hands of Soviet Russia becomes a benign deity that performs its marvelous feats with whimsical good humor, knowing all the time what the proletariat is about, and watching it with an air of specious severity.

If the machine ever does come alive and begins to behave in a wilful manner, that will happen in Russia, and the Russians of all people will be the least astonished, if at all. A passion for machines may proceed from idea. Certainly in itself it is not a positive sign of either mechanical genius or mechanical instinct. The ultimate question remains. Are the Russians really a tool-minded people? If they are, the industrial map of the world will undergo a great change. If they are not, the Russian power is hollow and anything may happen to it. G. G.

The Nature Cure

WHAT George Terborgh has identified as the sixth component of the New Deal's late theory of a mature American economy—the theory that was invented to justify deficit spending—was a bad mythology of a preceding period named the New Era. After World War I, there was a time of very painful readjustment entirely controlled by the natural laws of a free economic system. This period of readjustment continued for roughly two years and was followed by a decade of marvelous and ecstatic expansion, called the New Era because so many people believed that prosperity had suddenly entered a limitless dimension. And from this ecstasy, of course, there was a violent reaction. Then the New Deal appeared, with its promise to save everybody from the wages of economic sin, stop liquidation, restore prices, and so to plan matters thereafter that such a thing could never happen again.

Concerning the works of the New Deal, people became divided, and still are, but one thing it accomplished beyond any dispute, and that was to give the New Era an utterly bad history, which was the same as to give free enterprise a bad name because free private enterprise had been responsible for the New Era and could not deny it. Seldom has the New Deal's interpretation been challenged and never with great spirit; and as for the natural laws that were formerly trusted to keep the equilibrium or to restore it, the fashion now is to think of them as man-made instruments of misery, not because they did not work, but because in working they inflicted pain. Mr. Truman is of that persuasion. In his recent message on the government's wage-price policy, he said: "After the last war this nation was confronted by much the same problem. At that time we simply took off the few controls that had been established and let nature take its course. The

results should stand as a lesson to all of us. A dizzy upward spiral of wages and the cost of living ended in the crash of 1920—a crash that spread bankruptcy and foreclosure and unemployment throughout the nation."

Such was the New Deal's interpretation and it is the one now commonly accepted. It is, therefore, not an unexciting event to find a defense of the natural process such as Professor Benjamin N. Anderson writes in "Financing American Prosperity." He is contributing here to a symposium of economists. The title of his essay is "The Road Back to Full Employment," and that is in itself a challenge, since the popular idea is that full employment is something we must go forward to, not back. Section 4 of this essay under the subtitle, "Our Last National Recovery to Full Employment," follows:

We had a clean-cut test of equilibrium doctrine *versus* purchasing-power doctrine in the years 1921-1923. There was an immense decline in the purchasing power of the people of the United States, including the laborers, between 1920 and 1921. The index number of commodity prices at wholesale dropped from 248 in May of 1920 to 141 in August of 1921. For most corporations, profits were turned into losses. Wage rates declined, but very much more moderately. Unemployment, which had stood at 558,000 in 1920, rose to 4,754,000 in 1921. The aggregate purchasing power of labor was sharply reduced. Dividend income was radically reduced.

But in the hard year from August of 1920 to August of 1921, we were working rapidly toward the reestablishment of economic equilibrium. And in August, 1921, the tide turned and an upward trend began. We reached full employment again by the beginning of 1923, in which year unemployment averaged only 749,000. On the basis of the Federal Reserve Index of Production (base, 1923-1925) physical volume of production had dropped from 89 in July, 1920, to 65 in July of 1921. In August of 1921 this index began to rise. Through 1922 there was strong improvement and the index reached new highs in early 1923, the figure being 103 in March and 106 in April of 1923.

United States Government Expenditures¹

In Millions of Dollars

Fiscal year 1920.....	6,408
Fiscal year 1921.....	5,116
Fiscal year 1922.....	3,373
Fiscal year 1923.....	3,295

¹Not including public debt retirement.

The idea that an unbalanced budget, with vast pump-priming government expenditures, is a necessary means of getting out of a depression received no consideration by the United States Government in the period of 1920-1923. It was, rather, the business of the United States Treasury to look after the solvency of the government. The most important relief that the government felt that it could afford to business was to reduce as much as possible the amount of public expenditure, which had risen to great heights during World War I, to reduce taxes and to reduce public debt.

²"Financing American Prosperity," a Symposium of Economists. The Twentieth Century Fund, New York.

Taxes were reduced, but remained above expenditures:

Ordinary Receipts of the United States Government

In Millions of Dollars

Fiscal year 1920.....	6,695
Fiscal year 1921.....	5,625
Fiscal year 1922.....	4,109
Fiscal year 1923.....	4,007

The public debt was rapidly reduced, as the following figures show:

United States Government Debt

In Millions of Dollars

June 30	
1920.....	24,298
1921.....	23,976
1922.....	22,964
1923.....	22,350

Nor was it felt necessary, during this period, to flood the money markets with a gigantic volume of excess reserves. The Federal Reserve banks' re-discount rates during the crisis of 1920-1921 were 6% and 7%. Necessary credit was extended to protect solvent enterprises. But nobody dreamed of interest rates such as we see today.

Open-market Commercial Paper Rates in New York City

Prevailing Rate on Prime Commercial Paper—4-6 Months

	High	Low
1920.....	8	6
1921.....	7¾	5
1922.....	5	4
1923.....	5½	4½

Nor did the government increase public employment with a view to taking up idle labor. There was reduction in the Army and Navy in the course of these years, and there was a steady decline in the number of civilian employees of the Federal Government.

This policy on the part of the government generated, of course, a great confidence in the credit of the government, and the strength of the gold dollar was taken for granted. The credit of the government and confidence in the currency are basic foundations for general business confidence. The relief to business through reduced taxes was extremely helpful.

Let the reader who still believes that government deficit spending is a sure cure for unemployment contrast the 1920-1923 policy of our government with the deficit spending policy of 1933-1939. The average unemployment, 1920-1923, was 5.2% of the working force, or, eliminating 1920, 6.5%. For 1933-1939, it was 18%, or, eliminating the year 1933, 16.5%. The best year of the whole period, 1937, showed unemployment at 6,372,000, or 12% of the working force; 1939 showed over 9 million unemployed, or 16.7%.

No one will ever know what might have happened if the depression that began in 1930 had been left to nature. Whether it would have cured itself or not, the history is that the economic doctors failed to cure it. G. G.

Gaunt Prophecy

By John Rustgard*

I AM convinced that what we have been witnessing is that which Spengler calls "Der Untergang des Abendlands," erroneously translated "The Decline of the West." In other words, it is the beginning of the end of Western civilization. The so-called realistic philosophy, based on the falsehood that all men are created free and equal, will yield to some new view of life and thereby create a new social order. Years ago I arrived at the conclusion that democracy was fast reaching its finis. According to the Law of Dollo, development (1) proceeds by leaps, (2) it is irresistible, (3) it is limited.

Louis Dollo was an anthropologist, but his law is universal and applies to human institutions as well as to human beings, animals and plants. No organism can grow or renew itself. Our old slogan that "the cure for democracy is more democracy" recognizes this law. It also admits we cannot go on forever, and that not until the old is destroyed can the new sprout and grow.

We shall have international peace in the future, but not as a result of the San Francisco conclave. We have created a Slavonic empire so powerful that no one dares to cross its path or thwart its will. The atomic bomb may deter it for a few years, but after that the peace of the world will be *Pax Slavonica*.

Stalin started this war as Hitler's partner in crime. He and his are aggressors by nature. He was aiming for the northern part of Norway when Hitler suddenly sent 300,000 troops into that part of the world. That stopped Stalin at that time, but he is now again demanding Spitzbergen and a firm position in northern Norway. It was Hitler's action in Finland and Norway that brought the friendship between the two warmongers to a close. By the time the German armies had reached the Caucasus and the Caspian Sea our government was in position to make any kind of terms with Russia, but we followed the insane policy of just giving, giving and then giving some more without as much as a promise, much less a guarantee, from Russia. Now the dumbest of us know that the present rulers of Russia are fully as aggressive as Hitler ever dared to be. And it is entirely indifferent whether they are so or not, for our attitude will drive their successors into aggressive wars.

There are some forces to which our official peacemakers insist upon closing their eyes. These are:

1. The surest way to turn a friend into an enemy is to lend him money;
2. To yield to an aggressor is to invite him to further aggressions;
3. After a fierce but profitable war the victorious

nation becomes very nationalistic, and after a rest will call for more wars.

History, both ancient and modern, abounds in proofs of these assertions. Confining ourselves to this country, we remember that John Adams was defeated for a second term as president because he refused to declare war on France over some real or imaginary slight to our legation in Paris; his son, John Quincy, met a similar fate because he refused to make war on England over our northern boundary; Polk was elected with the slogan "fifty-four—forty or fight." That boundary would have taken us up to the south line of what was then known as "Russian America"—now Alaska.

Polk did not make war on England; he had no navy, but he satisfied American bellicosity by making war on little, defenseless Mexico. We are also reminded that when McKinley asked Congress to declare war on Spain he had on his desk a letter from his representative in Madrid informing him that the Spanish Government would give us a quit-claim deed to Cuba if we would take over its responsibilities in that island. This was not disclosed to Congress because the Republican Party at that time needed war.

And so it is everywhere and always will be. The slogan of every country is: "Our country, may it always be right, but right or wrong, our country always." Thus it is that whenever a ruler feels shaky in his seat, he knows that by making war on somebody he will rally the people to his support.

Why do our leaders insist upon closing their eyes to these facts?

If our leaders had, before we agreed to aid Russia, demanded of that country that she abandon her aggressive policy and withdraw to her boundaries as they were at the time she joined Hitler, the situation would be different today. Even as late as last January there was a chance to talk business with the Russians. At that time I suggested to our then Secretary of State that we offer the Germans to stop at the Rhine for the time being, provided they would vacate the western European countries. If this had been accepted the two dictators could have fought each other to their hearts' content. It would simply have resulted in the complete exhaustion of both, because neither could afford to yield to the other. Then we could have talked to both of them.

Now we are in a position where Russia is in far better shape to recover after the war than we are. She has no debts except to the United States and they will be canceled; and she has no labor unions to dictate terms to her government. People in Russia will go to work and produce.

But what of the Four Freedoms which we promised in the world?

The drift is definitely and irresistibly to the left in all democratic countries. This must and will end in socialism, and, remember, socialism and democ-

racy are incompatible. The two, therefore, never did and never will exist together. Some three years ago, or more, I put myself on record prophesying that within five years after the end of the war there would not be a democracy left in Europe, save possibly in Switzerland and the Scandinavian countries, and that in the latter locality democracy would last only a very short time longer, if any. At the same time, I maintained that democracy in the United States would come to a close within ten years after the termination of the war. What has happened since has strengthened my conviction that democracy is done, because we have created an organization within the country that is stronger than the government. The growth of such a body cannot be reversed. It must go on till the collapse comes. What will happen then depends upon how many men we have who comprehend what is taking place and who are ruthless enough to do what is necessary to bring order out of chaos. I am sure that future society cannot be successfully built on the falsehood that all are born free as well as equal. Humanity shall have to face the fact that we were born neither free nor equal, and must build society accordingly.

The effect after the First World War was the very reverse of its declared purpose. It did not end all war, nor did it make the world safe for democracy. It gave us Mussolini, Stalin, Hitler, and many more dictators. The present war will not establish the Four Freedoms; it will wipe out what we have of them. However, as freedom of speech refers only to the criticism of government, we shall not be seriously injured. The denial to the great majority to talk politics will not set the world back very much.

I can see a Russian system in store for all of us. While I do not like the prospect, it does not deter me. Russia is still young and raw. The rulers may be largely bandits and similar criminals, but they are improving. The aristocratic spirit which steadily makes itself more and more manifest among the rulers is the result of a progressively greater sense of responsibility. This will result in the development of a constantly higher sense of individual as well as class honor. It is the constant diminution of this sense of honor which is so very deplorably noticeable in a democracy or any classless society. The cause of the degradation of our sense of honor is due to the removal of responsibility from the individual and the class and the spread of it all over the masses. What is everybody's duty is nobody's duty. Hence, no sense of responsibility.

That the Western way of life with Western thought will rapidly disappear, I have no doubt. Nor do I doubt that there will develop much that is new and better. I only wish I were a century younger so I could take part in the creative work before us.

Complete economic collapse also stands at our door knocking. It comes not because it is inevitable,

but because we have elected to guide us through the storm men who are unwilling to face the facts before them. Many will suffer because the suffering has been made inevitable by those in whose hands we have placed the government of the American people.

But let us not judge our rulers too harshly. I have no doubt that future historians will decry F. D. R. as the least honest and the least intelligent man who ever occupied the White House. But what was he but the instrument of fate? None of us knows the ultimate effect of our own activities. We are all but tools in the hands of the Creative Intelligence. When people need what we call a bad man over them they will get him. There is nothing to do but for each to follow the light he has. I long since ceased to pray for candy and teddybears and ask only for guidance, and then do the best I can. I am con-

stantly reminded of the fact that both world wars produced effects the very reverse of what we thought we fought for. But we cannot say we fought in vain.

Although we have lost what we thought we fought for, I feel greatly relieved that Germany is completely beaten—never to rise again. Had Hitler won, the Germans would never have quit until they had completely exterminated some races and enslaved the others. We cannot think of the Russians as race maniacs. They are likely to respect all races and all cultures. That is something. Maybe it was the only way in which race prejudice could be eradicated.

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The Gentlewoman from Illinois

A Speech by Representative Jessie Sumner in the House

MR. SPEAKER, today there is much for which Americans can and should be grateful. But I believe that we are headed for grave future troubles which could be averted if Congress would only stop voting the treacherous New Deal policies, foreign and domestic.

A sponsor of the New Deal foreign policy was recently awarded the Nobel peace prize, of all things. But it seemed apparent way back in 1943 when the policy was christened in vodka at the Moscow Conference that this policy, completely violating Jeffersonian principles, could only lead to a world communistic superstate and continual war. Lately the welkin has rung with lamentations for poor Poland, poor Yugoslavia, poor Greece, and other lost tribes victimized by the policy. There is public discussion of whether or not the United States should fight Russia. A picture magazine, picked up at random, shows bathing beauties being polled upon the question.

The United States began subsidizing Russia in the early thirties with the gold-buying program. Russia would not be much of a menace today if she had not been given everything she asked unconditionally, or if Congress had not supported and financed that New Deal policy. Congress must not continue to promote war and misery abroad and at home through financing the building up of Russia or any other foreign government violating the Atlantic Charter. War is not the way out.

War against Russia could not relieve us of the fear of having our cities destroyed by atomic bombs

in the future, perhaps by some small country. Destroying Russia would not destroy communism. Win or lose, another deadly war is likely to sink the United States into a communistic system as complete as Russia's and no doubt the Communists count on that.

There will always be Communists, regardless of what they call themselves, as long as communism continues to be a lucrative political racket. A nation can even fall into communism without realizing it—the way our nation has been doing. The communistic state consists of a privileged caste supported by slaves of the government. Communism is what you get when the government continually tries to buy the support of part of the people by giving them special privileges at the expense of the rest of the people.

Even before the recent war the United States had blithely voted itself more communistic programs than taxpayers could afford to pay for and still keep their private property. Every additional deficit spending orgy creates more money, depreciates the value of the dollar, makes the standard of living more expensive. Already there is so much depreciation of the currency through deficit spending, accompanied by communistic production controls, that the standard of living grows rapidly more and more expensive.

All we hear nowadays is strikes, strikes, strikes. Congress is thinking of outlawing strikes, but willfully continues to vote more deficit spending, which is a fundamental cause of strikes. Congress deficit-

spends to buy more communism at home, then deficits—spends to buy more communism in Russia, Britain, and other foreign countries. If you really want to destroy communism the place to do it is right here in Congress.

The New Deal foreign policy has made the United States the arsenal for both sides in a growing war for power between the Russian and British empires. It seemed that anybody with any sense of caution would know better than to vote for the monstrous Bretton Woods bill which donated billions of dollars both to Russia and Britain. But perhaps you were stampeded. All the leaders of pressure groups favored it. They always favor every major New Deal measure. Your political leaders tell you that you cannot afford to alienate them. But do you not think the average American is beginning to see through the racket?

Ideas That Have Soured

Certainly the people do not seem to stay sold long on New Deal programs these days. Look at the pet New Deal measures passed lately. Look at the glamorously advertised San Francisco Charter. It was impossible to find any political leader with the temerity to oppose it publicly. But within a few weeks it was as dead as the Atlantic Charter which it buried. True, the proponents are trying to use the necessity of securing universal atomic bomb restriction agreements as an excuse for frightening the American people into an all-powerful world superstate. But surely it will not take Americans long to see through that one too, since it is worse.

What would the American people get but slavery out of a world government sure to be either a dictatorship run by imperialistic governments or a democracy run by the people—in a world in which the overwhelming majority of the people would not understand the value of traditional American principles of government even if you explained it to them?

Look at the other pet New Deal measures voted lately, the Bretton Woods bill, the slave-labor bill, the nurse-draft bill, and so forth. They were ardently supported by all your House leaders. But the blunder of voting for them was apparent even before they could be rushed back from the Senate.

What a Christmas Present!

Look at the New Deal measures you are asked to pass before Christmas: the full employment bill, the conscription bill, the UNRRA appropriation, and the bill giving an international bureaucrat power enough to take the United States to war.

What a Christmas present for the American people!

The kindest thing you could do for the new President is bury this already putrefied New Deal pro-

gram, instead of hanging it around his neck like a dead albatross. Not that he has not asked for it.

Plagiarized from Russia

The full-employment bill is a Communist trap. Earl Browder, erstwhile Communist leader, let the cat out of the bag in his book called "Teheran," only to be liquidated for talking too much. In that book Mr. Browder told Communists that, for the present, Communists would endorse private enterprise, saying they were giving private enterprise a chance to create full employment. Come the next depression—come it surely would with the United States deficit financing to the extent of billions of dollars to foreign governments as he advocated—Communists would then be in a perfect position to say that private enterprise had had its chance, had failed and now "let somebody do the job of creating full employment who knows how."

The principal clause in the full-employment bill—the clause guaranteeing the right to work, is lifted bodily from the constitution of the Russian Soviet Union. That clause was the snare from which the Russian Government construed the authority to force every Russian to do slave labor for the government or else be sent to starve in Siberia. Your political leaders tell you that you cannot afford to risk having it said next campaign that you voted against full employment. But nonsense, every member of Congress can truthfully say he votes for relief work. Certainly you cannot afford to vote your country into this Communist trap. It is cunningly devised to indict and convict individual enterprise and private property in advance and ensnare free American workers into slave labor.

The communistic conscription bill comes from a War Department which, like our State Department, needs a bit of shaking up. During the war Britain enjoyed a veto on promotions of some of our ablest officers. Fellow travelers were given key positions. Some of our ablest military men, though gagged by military discipline and thus prevented from speaking publicly, say privately that the proposed conscription bill will give the United States a mere false sense of security, like France before World War II.

A Defense Program

They say that what the United States really needs for adequate defense is:

First. A program to convert the scientist and industrial genius peculiar to America into striking power. This must be a continuous process and is rather expensive but would save money in the long run in that we would not invest heavily in obsolete equipment.

Second. Military intelligence of the critical areas throughout the world so that we may know what to strike with atomic bombs.

Third. A small, highly trained air army; that is,

an army which could be loaded air transport and sent anywhere in the world rapidly.

They say that what we should be doing about conscription is using our influence to induce all nations to abandon it. The above described program, it should be added, does not exclude use of ROTC, Organized Reserves, and National Guard.

They say of the proposed conscription army that it will not give us military security but will cause us to believe that we have it and nothing is worse than a false sense of security. They insist that the fact that Japan has just surrendered, disarmed, and demobilized 8 million soldiers is a classic example that manpower in no way constitutes security. This is only common sense.

You Will Break Your Promise

You know ahead of time that you will probably break your promise and keep draftees longer than a year the way you did before. Some of you argue that the American people would not favor this really adequate defense program because of the expense, but surely the average American does not want to buy the United States a false sense of security, a "broomstick" army. Moreover, the program described above would be cheaper. Some of you insist that you need this conscription army to enforce American wishes at the peace table. But waving the broomstick got us nowhere with Japan—except to Pearl Harbor—and the Russians are no deafer, nor blinder than the Japanese. Anyway you do not need an army to stop current aggression. All you really need is enough backbone to stop voting any aid whatsoever to violators of the Atlantic Charter.

Your leaders tell you that you cannot vote against UNRRA and risk seeming hard-hearted, that you need a record as a humanitarian. Well, wait until your constituents find out that the European governments who are distributing the UNRRA aid are the same governments who are causing the misery and starvation. And that the aid you vote is sold by them to finance more misery and starvation. Maybe your constituents will call that screwy. But they will hardly call it humanitarian.

Inverted Charity

UNRRA is now a principal weapon in the struggle for power likely to precipitate a war which may destroy the last remnants of civilization. A vote for UNRRA is a vote to condemn to death by starva-

tion, this very winter, multitudes of innocent anti-communistic Europeans. Because voting for UNRRA you put it out of your power to give our American surplus supplies to a good American organization, like the one used after the last war, composed of hard-boiled veterans, which could be organized almost overnight and which, like last time, would feed all hungry Europeans giving innocent anti-communists a chance to live. Surely it is not "humanitarian" to vote to feed people knowing that with the same vote you are nourishing a war for the United States to fight in which those same Europeans are likely to be killed, like turkeys, fattened for a macabre feast.

Of course it is politically ticklish to vote against anything, even war, if it is labeled "peace." But the leaders who proclaim the loudest that the organization set up at San Francisco is a "peace" organization are the same old war "mongers" who talked "keeping out of war" while demonstrating that they simply don't know how to get along with foreign governments except by either bribing them or going to war against them. And don't think your constituents will not notice that; surely they are not stupid.

Voting War Now

It is only a matter of time until Americans discover, perhaps from sad experience, that by voting Americans armies to the "UNO" peace organization you will, in effect, have voted the United States into more war. It does seem that the best way to keep fences mended would be to stop straddling fences all the time. How can you say you favored bringing the boys home as soon as possible while you are still voting the schizophrenic New Deal foreign policy creating the increasing wars and revolutions now keeping our soldiers abroad—and making it likely that more multitudes of America's finest and fittest will be buried abroad?

Today the American people are beginning to learn that it is communism, voted by Congress, which is weakening our country at home. They will soon learn that what they are getting abroad is not peace but war and mass murder which Congress could prevent, if Congress would only stop voting for it. Surely it is only a matter of time until you stop voting for the New Deal policies, foreign and domestic. Why not stop in time to avert the disastrous consequences?

The Governing Idea

POWER rotates. The concentration varies. Sometimes it is big business, another time big labor, another time big intellect, big public money or big government jobs. But whenever and wherever it is found, it is the task and high privilege of every true liberal to oppose it in the interest of man's freedom from the governing idea.—*John W. Bricker.*

Our Changing Balance Sheet

Item: Minerals

By William E. Wrather

Director of the United States Geological Survey, Department of the Interior

BEYOND any question of doubt the territory of the United States contained, only a few decades ago, a greater known quantity of a variety of useful minerals than any similar area anywhere on the earth. Nevertheless it is true that the scientific, technical and industrial achievements of the past thirty years, however important they have proved to be from the standpoint of human progress, have, for the most part, been accomplished at the expense of definitely limited supplies of mineral resources. Unlike water, air and timber, natural fuels and ores do not renew themselves once they are taken from the earth and used. They are exhaustible in a very real sense; and when the normal rate of their depletion is expedited by the insatiable appetite of all-out war production, the cost, in terms of dissipated national assets, calls for the most serious thought and planning of which we are capable. . . .

On the basis of present knowledge of our mineral resources, there is reason for pessimism as to our supplies of some of the supposedly common metals. Their production during recent years has not been balanced by comparable discoveries of new reserves. Our current situation seems to indicate a trend toward imminent national shortages. This is accentuated by the fact that abnormal war demands required full attention to production and only minor attention to the proving up of new reserves—at least in the case of the metals.

A Skimmed Residue

As a result of the war, our proved reserves are indeed dangerously low, and unless the deficiencies are overcome by immediate and successful exploration on a grand scale, it is reasonable to predict that we will have to depend upon foreign sources of supply.

It is evident that the cream has largely been skimmed off our richest and most advantageously located mineral deposits. Each year it becomes more difficult and more expensive to find and appraise new reserves; and the quality of the reserves that have been discovered and outlined in recent years shows a trend toward lower grades. Labor and equipment costs of mining are rising steadily, and we must conclude that the costs of extraction will very likely have the effect of progressively narrowing the industrial utility of various minerals although extensive low-grade deposits might appear to be adequate for our long-range needs. Low-grade foreign ores can be concentrated and delivered to the United States at prices that will be competitive in

many cases with domestic products. From the standpoint of foreign trade and world stability this may represent a healthy development. It will certainly be a challenge and a stimulant to American technologic ingenuity.

Iron

Let us now briefly summarize the domestic reserve situation, beginning with iron. Most of our high-grade iron ore reserve lies in the Lake Superior district. In that locality the ore that can now be mined at a profit must have a metallic iron content of nearly 50%. Lower grades will scarcely bear the transportation costs to present smelting centers. Ore containing as much as 68% of iron was produced in the area in its early development; but the deposits now being worked have an average grade of approximately 52%. Of the original 3 billion tons of commercial grade ore, nearly half has been mined. Probably within another ten years or so the quality advantage that these ores have enjoyed in the domestic market will have been largely canceled out.

When that time comes the Lake Superior district will still possess the greatest reserve of iron ore in this country, but it will comprise lower grades of ore that cannot be worked at a profit by present methods or at present prices. Since that region has been supplying about 85% of our needs, we will then either have to improve the methods of mining, treating, and transporting iron ore—or else import enough iron to sustain our industrial economy with a probable further shift of the smelting industry from inland points to the Atlantic seaboard. Iron mining will undoubtedly become of more importance in a number of our states where smaller deposits are known and will be accompanied by an increase in iron ore imports.

We will probably never run out of iron ore in this country; but the cost of producing iron will increase with the years, as lower grade and widely scattered small deposits become our chief reliance. Price differentials between domestic and foreign iron will no doubt tend to equalize, and imports will therefore increase. Tariffs, quotas, cartels or international agreements are important factors in such situations but they obviously lie outside of the scope of this paper.

Copper

Next to iron our most important metal commodity is probably copper. Because of the tremendous

wartime demand for copper much of our known reserve has been severely depleted. At the prewar production rate of approximately 800,000 tons per year, and at the prevailing price of 12 cents per pound, our copper mines can be operated profitably for about thirteen years on present proved reserves. No allowance is here made for inferred ore which will ultimately swell the total. This does not mean that our copper reserves will be exhausted in thirteen years. It does mean, however, that the rate of copper production will fall off sharply unless exploration results in the discovery of additional ore. The alternatives to successful exploration and improvement techniques are high-priced copper and increased dependency upon foreign supplies.

The situation with regard to lead and zinc in this country is similar to that of copper. Our known reserves of lead are sufficient only to maintain a normal four-year supply of recoverable metal at present prices. By inference, based upon geologic knowledge, we can assume that exploratory drilling and extension of mine workings in present producing districts will probably prove up additional reserves to guarantee an eight-year supply. We can therefore estimate that we possess a total known, indicated and inferred lead supply equal to a twelve-year demand.

For zinc, the outlook is somewhat more encouraging, at least as far as the immediate future is concerned. Our inventory shows a probable ten-year supply remaining to be mined, and the possibility of proving up as much more.

Plenty of Aluminum

For the past twenty years the United States has imported more aluminum ore than has been domestically produced. Expanded war needs, and the curtailment of imports caused the Federal Government to pursue a comprehensive program of exploration in this country of all grades of alumina-bearing material that might be utilized through existing or proposed techniques. In addition, intensive experimental work was carried on to devise processes that would extract alumina satisfactorily from the more impure grades of bauxite ore, high-alumina clays and certain crystalline minerals that contain this light element. As a result, our aluminum plants were able to process during the war some raw materials that were considerably below the standards that were regarded as minimum before the war. Improvement in techniques will unquestionably be carried still farther.

It is estimated that we have approximately an eight-year supply of bauxite ore of prewar acceptable grades. However, wartime research and plant production experience has demonstrated that we can now consider as recoverable reserves the very generous supply of lower-grade bauxites of Arkansas, Georgia, and the Gulf coastal area. By lowering the ore standard still further, as will doubtless be done,

and by including high-alumina clays, our reserves can be further increased.

Magnesium is even more plentiful. Reserves available in magnesian limestone and natural brines are enormous; and obviously, we can never exhaust the source of this metal within the waters of the seas.

Strategic Minerals

The so-called "strategic minerals" are defined as those considered to be essential to national defense, for supplies of which we must depend chiefly on sources outside the United States. Included in this group are antimony, chromium, manganese, nickel, mercury, tin, tungsten, and others.

Throughout the war period the Geological Survey and the Bureau of Mines jointly carried out an intensive program of exploration of known and prospective deposits of the ores of these minerals. By virtue of the information thus secured and through generous subsidies to prospectors and mine operators, our output of these materials was increased to more nearly meet wartime needs. Many strategic mineral industries that flourished during the war will probably be forced to close down when world market conditions again become stabilized. Without the support of artificial price structures our strategic minerals are likely to continue to be strategic, in spite of the fact that our reserves are now known to be considerably larger than was thought to be the case before the war. We will no doubt continue to import them in large quantities.

Industrial Minerals

There is another group of minerals customarily referred to as the "non-metallic" or industrial minerals. They include such commodities as salt, sulphur, phosphate, potash, fluorspar, natural abrasives, special types of clay, cement-making materials and other substances used widely in agriculture, manufacturing, construction, and processing industries. Except in the case of fluorspar, there seems to be no cause for concern regarding our domestic supplies for immediate future needs; although the trend in recent years indicates that the demand for them will continue to increase rapidly, and supply problems may develop in the years ahead.

Coal

We are comparatively well informed concerning our coal reserves. The geology of coal beds is relatively simple, which enables us to make a reasonably accurate appraisal of our coal resources. In the eastern states, and in Illinois and Kentucky, the reserves of anthracite and bituminous coking coals have been seriously depleted; but even in these states the reserves of other coals available and suitable for heat and power needs are enormous. Considering the country as a whole, we can safely say that from the standpoint of quality, quantity, and geographic distribution, the United States is more

greatly blessed with coal supplies than any similar area anywhere in the world. We will have plenty of coal hundreds of years from now.

Oil

Our petroleum situation is not so comforting. By a prodigious effort we met war requirements and substantially maintained our reserve position throughout. Our wartime experience in maintaining an adequate flow of petroleum and its products furnished convincing proof that no matter how much oil we may have in the ground, it can be withdrawn only at limited rates. Wells cannot be forced beyond the ability of the reservoirs to release the oil contained in them. For this reason, our frequently quoted "fourteen-year supply" could under no circumstances be produced in that period. If we were to be faced with the necessity of depending entirely upon our present proved reserves, without the benefit of additional new discoveries, we would not be able to bring this amount of oil to the surface in less than fifty years, and our rate of production would decline year by year.

The crux of the situation is this: that if we expect to continue producing petroleum in this country at a normally increasing rate to meet the growing demand, our reserves must be continually bolstered by equivalent discovery of new fields. There is an unknown but definitely fixed number of oil pools within the earth. Therefore, every time one is found the number remaining to be discovered is reduced. As it becomes increasingly difficult and expensive to find oil in the United States, and as the number of possible discoveries is further reduced, the rate of discovery is certain to decrease.

For a number of years the United States has been supplying 60% or more of the world's petroleum requirements. This cannot go on indefinitely. Our marketing position can be maintained, in all likelihood, only if we increase our imports of crude oil, or expand our producing and refining activities abroad—or both.

It remains to be seen how soon and to what extent our domestic petroleum situation will be affected by production of liquid fuels, lubricants and other synthetic products, from coal and from oil shale. That such developments are on the immediate horizon seems to be definitely indicated in the light of progress that has been made within the last eight or ten years in Germany, England and elsewhere in the conversion of these plentiful raw materials into products that compete in performance with those derived from natural crude oil. To assume that similar techniques and methods will not be applied in the United States within the near future is to underestimate American ingenuity and enterprise. The introduction of synthetic products into our domestic and foreign markets will proportionately simplify our petroleum supply problem—

just as we supplemented our oil supply during the war by utilizing fractions of natural gas to make high octane gasoline, synthetic rubber and toluene. Synthetic petroleum products will undoubtedly assume a permanent place in our industrial structure.

A New World Customer

Lacking proof—as we do—that the United States can maintain in the postwar period a mineral production rate comparable to or greater than its prewar production scale, and faced with the probability of still greater requirements as a result of increased industrial development, we must assume that the volume of our mineral imports will steadily increase in the years ahead. This conclusion should be accepted as a logical consideration in the framing of a national mineral policy. It represents the only safe approach.

Years of intensive geological study will be required before we will be able to evaluate properly the potentialities of the mineral resources in our own country. We must expand our activity in this field of endeavor if we are to properly serve the national interest. Because of the very nature of the problem an adequate inventory necessitates long-range, continuing studies; and a knowledge of our own resources should be supplemented by reliable information regarding available sources in other parts of the world. . . .

As long as we have only piecemeal information on scattered localities, any nationwide mineral inventory will have to be based more on opinion than on fact. When we consider the vital importance of national mineral policies, as factors in postwar international economics, no time should be lost in gathering world-wide information on mineral resources—particularly those most likely to contribute to our national economy. Until we *know* what we possess, or can secure from elsewhere, we cannot intelligently plan for the future.

The exploration and appraisal of mineral resources is a function of geological and engineering enterprise. During the war period this need was fully recognized by the Federal Government. The staff of the Geological Survey was enlarged to meet emergency requirements for information regarding supplies of mineral commodities in this country and other countries of North and South America.

This is the age of minerals; and nearly every technological advance involves the greater use of mineral raw materials. The supremacy of this nation in translating technologic discoveries into industrial expansion, better living, improved transportation and communication, has been attained at the expense of rapid depletion of the mineral capital that has made this progress possible. We cannot maintain that supremacy unless we have uninterrupted access to mineral raw materials, wherever they may be available.

The Atomic Competitor

By Clark Goodman*

UNDER the compelling stimulus of war, large-scale sources of atomic energy have been developed. Thus far this energy has been used solely for military purposes in the form of atomic bombs. Such explosives contain either U-235 or plutonium. U-235 is a rare form of the heavy substance uranium which occurs in deposits such as the Colorado carnotite or Canadian pitchblende. In the pure form required for atomic bombs, U-235 is far more costly than platinum. Plutonium is similar to U-235 but is a relatively inexpensive substitute. It is in the production and utilization of plutonium that petroleum may find an atomic competitor.

Yet plutonium does not occur in the earth—it must be manufactured. The raw materials for this man-made element are pure graphite and uranium. In the production of plutonium ordinary uranium suffices. Blocks of graphite and uranium are stacked checkerboard fashion until a large pile is obtained. When larger than a certain critical size, this pile undergoes spontaneous atomic combustion, known technically as nuclear fission, and releases prodigious amounts of heat and intense radiations. Part of the uranium disintegrates, while an equal amount is changed to plutonium. The graphite is not used up but simply moderates the reaction. The plutonium can be separated chemically and fed back into the pile to produce additional heat and radioactive radiations, or it can be used in atomic bombs or in compact sources of atomic energy.

It's the Heat

The heat produced from "burning" a pound of uranium or plutonium is equal to that from 1,000 tons of coal or fuel oil. Each of the three piles at the Hanford plant in Washington wastes about this much heat per day when in full-scale operation. The fission reaction releases about 32 billion Btu per pound of U-235 or plutonium, and the radioactive decay of the fission products releases an additional 8 billion Btu. This energy is more than a million times the heat of combustion of a good grade of coal (14,000 Btu per pound) or of 100-octane gasoline (22,000 Btu per pound).

By means of heat exchangers, it probably would be relatively simple to use some of this energy for household or other low-temperature heating. For obvious reasons, few if any houses or factories are located near these piles. In order to utilize such heat for industrial purposes, it would be necessary

to operate the pile at temperatures comparable to those of modern steam power plants. Apparently, the problems involved in this transition are very large. Smyth has summed them up in the statement that "the technological gap between producing a controlled chain reaction and using it as a large-scale power plant is comparable to the gap between the discovery of fire and the manufacture of a steam locomotive."

In the Next Decade

If developments in this field are allowed to flourish unhampered by military restrictions and government controls, it seems probable that these problems can be solved in a reasonably short time, and that atomic energy will be available for industrial purposes within the next decade. The question will then be: can atomic power compete with petroleum, coal, and water power on an economic basis?

Inasmuch as coal is the most economical fuel for large installations, it would appear that natural uranium piles may compete with coal, particularly in the generation of electric power. The piles could be located near the populated areas, but sufficiently remote to prevent radiation hazards. The heat released would be used to produce steam to drive turbo-electric generators. This electric power would actually be a by-product from the production of plutonium and radioactive fission materials and the treatment of substances by radiation. As in all of these speculations, the economics depend upon the demands for and the restrictions on the use of fissionable materials. Some of the heat from these large piles also might be used to operate thermal or diffusion plants for separating U-235 from uranium.

The natural uranium and graphite piles which may compete with coal are far too bulky to be used in units for mobile power. By using uranium that has been enriched in U-235, or to which plutonium has been added, the size of the pile can be considerably reduced. The use of heavy water (deuterium oxide) as a moderator in place of graphite also allows substantial reduction in size. Although heavy water is more expensive and difficult to obtain than graphite, piles containing this liquid moderator have been built at Chalk River, Ontario, and at the Argonne site near Chicago.

With the decrease in size of power units, the competition with petroleum would probably begin in replacing fuel oil in large transports and naval vessels. Full speed ahead would be achieved by pulling out the cadmium "throttle." A distinct advantage for naval vessels would be that "refueling" would

*Abstract of a paper delivered by Dr. Clark Goodman, Assistant Professor of Physics at the Massachusetts Institute of Technology, at the general session of the American Petroleum Institute in Chicago.

be infrequent. An additional consideration would be that the atomic fuel is nonflammable. Shielding would be a major problem, and would add considerably to the weight and size of the units. Such applications of atomic energy might be entirely ruled out on this basis alone.

Pure U-235 and plutonium in excess of the critical sizes can be assembled—provided cadmium, boron, or some other neutron absorber is present in sufficient amount to prevent the chain reaction. If the absorber were gradually removed until the critical point is reached, a controlled release of energy from a very compact source might be possible. However, with pure U-235 or plutonium, this procedure would be extremely sensitive—a slight movement of the absorber might result in a violent explosion. For this reason, compact units will probably use a mixture of U-235 and U-238 containing not more than about twenty per cent of the lighter isotope and some moderator in order to obtain a safe degree of controllability.

Even more problems than arise with the larger units must be solved before diminutive atomic engines will be possible. For military purposes such engines might supply the power for guided missiles or robot planes. In order to compete seriously with diesel oil and gasoline, atomic engines must be adaptable to trains, trucks, planes and automobiles. For these purposes the shielding problem would be most acute.

Candidate Atoms

Of course, all of these considerations have been limited to the source of atomic energy now known; *i.e.*, to nuclear fission of heavy elements. It will be recalled that the consolidation of light elements into medium-weight elements releases comparable amounts of energy. Although such nuclear syntheses have never been accomplished on a large scale, they have been achieved in minute amounts in the laboratory. If future research extends the range of available atomic energy to include the light elements, many of the foregoing limitations may be removed. In addition, these light elements would probably be far more plentiful than the relatively scarce fissionable elements, uranium and thorium.

Within the bounds of available information, it would appear that petroleum and coal will probably continue for at least another generation as the primary sources of energy for transportation and heating. Water power and coal will probably generate

most of the electricity during the next fifty years.

Although atomic energy may gradually enter as a competitor, its most extensive applications will probably be in new fields of human endeavor. Industrial processes at extremely high temperatures, ultra-high-speed transportation, the production of radioactive materials for industrial and medical purposes as well as for some scientific investigations, the manufacture of rare elements by transmutation, and the treatment of materials by radiation are among the more likely specialized uses of fission energy in addition to the continued production of atomic explosives.

One Anxiety Less

For some time the more conservative members of the petroleum industry have been concerned about what the world would use for fuel when the petroleum and coal reserves were exhausted. Prior to 1935, new discoveries more than offset the increased consumption of petroleum. During the past ten years the discovery rate has rapidly declined while production has soared. Although there will be a postwar respite, this trend is likely to continue for some time. However, the petroleum industry now has somewhat less occasion to regret the expenditure of a large part of the earth's supply of chemical energy. By the time this source is exhausted, there should be plenty of atomic energy available.

Although this change seems inevitable, it will certainly not be rapid. Few of us will live to drive atomic automobiles or fly jet planes powered by nuclear energy. When this time arrives, there will still be a petroleum industry, but it may have changed rather remarkably in character. Instead of petroleum being primarily used for fuel, it will be the raw material for all kinds of organic substances.

Already it sometimes seems a waste to burn hydrocarbon molecules when they can be converted into valuable compounds like synthetic rubber, toluol, polymerized lubricants, plastics, and medicinal substances. The war has emphasized the importance of petroleum as a source substance in organic synthesis. An increase in the availability of atomic energy, together with an increase in the knowledge of the organic chemistry of petroleum, should result in considerable expansion of the chemical utilization of petroleum. The refinery of the future will be more of a chemical factory than a producer of fuel.

THERE have been two zones of discovery and invention—the central European zone which takes in the southern Scandinavian countries and England and around in there, sort of an irregular ellipse, and then there has been the northeastern United States, with the strip out on the West coast. About 90% of all discoveries and inventions have come from those two zones, and they have been competitive zones.— *C. F. Kettering, President the American Association for the Advancement of Science.*

Stalking Lend-lease

*Statement by Representative Albert J. Engel
of Michigan*

THE WAR DEPARTMENT subcommittee of the Appropriations Committee consists of eight members, five Democrats and three Republicans. I am ranking minority member. This subcommittee drafts, holds hearings on, passes upon, and steers through the House and through conference with the Senate all War Department appropriation bills. These bills have aggregated \$214 billion in the past five years, which is one and one-half times the assessed valuation of every piece of property in the United States as it was before the war.

This committee is absolutely dependent upon the information given us by the War Department justifying these appropriations, unless it goes out into the field and sees for itself just what becomes of the money. This \$214 billion was spent and scattered all over the world. It was with the appropriation in mind that this committee took an 86,000-mile trip and actually saw what became of the money and how it was expended.

It was, in my judgment, one of the most profitable trips from a taxpayer's point of view that any Congressional committee ever made. It has already paid, as far as I am concerned, large dividends. It enabled me to advocate and help to bring about increases in the \$52 billion recision bill that I never could have justified had I not made the trip. This bill, you will recall, cancels and returns to the Treasury war appropriations heretofore made to various bureaus and departments and will save the taxpayers an amount that is more than twice the amount our World War I national debt reached at its peak. . . .

Across the Hump

We were supposed to stop and have two conferences—one with junior officers and one with enlisted men—at Karachi, India. To my amazement and surprise, we spent two and one-half days at New Delhi and then Army officers made every effort to get us out of Karachi without seeing the enlisted men and junior officers.

We stopped off there for lunch and were told to get back on the plane at 1:15 to start for Abadan. In going through the officers' club on my way to the officers' mess a number of young Air Corps officers who had been flying transport planes "over the hump" and all over that area stopped me and wanted to know why they could not talk to us. While talking to them, Major General Richards, budget officer for the Army, who was an officer on our plane, called me saying that we would have to eat and start at 1:15. I got a cup of coffee and a

sandwich, came back, and talked to the junior officers while the rest were eating. They again complained that they were not given a chance to tell their story, and I stated then and there that I was going to remain and hear their story, regardless of anything else.

I just got going with a pencil and pad when the group came out and General Richards tried to hurry me to the plane, the other committee members having gone ahead. I informed Major General Richards that I was going to stay there and get the facts. He came back again and told me the plane was going to leave. I told him to take the plane and go. I was going to get the story if it took me until Christmas and if he wanted to leave he could. He then turned to a second lieutenant who had been talking to me and ordered this second lieutenant to report to his commanding officer everything he had said to me.

Here we had the anomalous situation of a Congressional committee trying to get information being blocked by the chief budget officer of the War Department. What I said at that time just is not printable. When I got through saying it the Army officers left. While I was talking, some of the other committee members came back, with the result that we remained and heard the story of these men, and the officers, other than those present, including Major General Richards, left at my insistence. I was then able to get a little information unhampered.

Strange Cargo

I had perhaps seventy-five to one hundred lieutenants and captains there, all flying officers who had been on duty bearing the brunt of the flying across the Hump and elsewhere. I took penciled notes. I took information only from men who saw what they told me. I have their names with this result:

1. We flew 750 tons (1,500,000 pounds) of Indian cotton across the Hump by air for the British who sold it to the Chinese. The cotton was worth about 15 cents a pound or \$225,000 which the British got. I was told it cost us from \$1 to \$2 a pound to haul this cotton across the Hump or from a million and a half to three million dollars, which they undoubtedly charged against lend-lease, if it was charged against anything. I saw a part of the cotton in the air warehouse waiting to be shipped at Chabuam, India, and 371 tons had already been shipped according to their records.

2. They transported cargo after cargo of springs, mattresses, commodes, bedsteads, dressers, etc., for officers by air. This material was shipped by air

from Khartoum, Egypt, to Karachi, India, 2,000 miles, and from Cairo, Egypt, to Karachi, 3,000 miles. One group told me they carried by air 570 Simmons mattresses, 270 springs, 240 bedsteads, chairs, commodes, dressers, a quantity of barbed wire, and other things. This was only a part. I examined the records and found a great deal more of this type of property had been shipped by air. An officer, and I have his name, had shipped to him an Austin car from Karachi to New Delhi, India, and shipped it to Karachi because he did not like the paint on the car. A quantity of tile was shipped by air from Bombay to Karachi to build a patio for the officers' club at that place. The patio was built after V-J day.

3. A great deal of equipment was hauled from Africa to India thousands of miles only to be burned after it got there. I have the name of the officer who said he saw them burn probably a gross of flying gloves worth \$2 apiece, 75 parachutes, and a great many new A-2 flying jackets. He saw them smash aircraft parts and instruments with an ax. A Lieutenant Renshow, I was told, did the smashing, acting on orders. A Major Griffith from Calcutta, an Air Corps shipping supply officer, was sent to Karachi from headquarters to get rid of the sup-

plies within a week. I have the name of the lieutenant who heard him say that. I was informed that the same type of flying jackets and equipment they were destroying had been taken from the men going back to the States and which they were taking back with them. A load of empty Coca-Cola bottles was shipped out. A printing press weighing 8,000 pounds was shipped from Karachi to Agra and from there to Gaya where it was left unused. I was informed that the officer at Gaya made the statement it was the only way he knew to get rid of it.

Another officer informed me that they destroyed and dumped tools and instruments in the original packages; that an enlisted man showed him welding tools that he had taken from the packages before destruction. Among the things that were destroyed, I was informed, were ten beacon lights worth \$3,800 apiece; twenty Pratt & Whitney engine cylinders worth \$700 apiece; ten magnetos for airplane engines. Incidentally, the Austin car was shipped on June 28, 1945, weighing 2,760 pounds shipping weight. All this information was obtained in spite of every attempt made by the budget officer of the War Department to prevent my obtaining it. The information was furnished by officers and men who actually did the flying.

Canada's Trade Jam with Britain

Canada is not in the British sterling bloc. Her money is in fact tied to the American dollar. It follows that any British trade policy tending to put dollars at a disadvantage touches Canada on a lively nerve. On December 11, The Financial Post of Toronto printed a startling article under the headline: "Britain Tightens Empire Net Against Canadian Exports." It was in part as follows:

BRTAIN'S embargo against many Canadian goods is reaching far out into Empire countries, which means additional pressure on Canadian exporters to build British plants if they do not wish to lose access to this market.

Canadian manufacturers tell *The Financial Post*:

1. India, Egypt, Australia, Iran, Iraq and the British West Indies are being forced to follow the U. K. lead and refuse import licenses on many Canadian products.

2. Trade with European countries which have financial arrangements with Great Britain has been reduced virtually to barter level.

3. Even if Canadian manufacturers establish plants or license manufacture of their products in Britain, there is no guarantee that they will be able to take any of their profits out of the United Kingdom. Indications are, in fact, that they won't.

4. Reports from London and Washington sug-

gest Britain is "dealing herself out" of the Bretton Woods agreement, which would make possible the restoration of multilateral trade.

5. The situation is considered so critical in Ottawa that it has been raised to cabinet level.

6. Button manufacturers, liquor and wine exporters, jewellers, household appliance companies, tool manufacturers are among the firms whose export business is currently blocked. Food products "right across the board" are restricted to shipments through the British Ministry of Food and none can be sold or exported for private account.

To Sell More and Buy Less

One export official, in closest touch with the situation, said that Canadian manufacturers were being forced to the belief that more than the protection of Britain's dollar position was at stake in the current impasse. "Britain has said she wants to sell more to Canada and buy less from us," he said, "but it goes further than that. She has intimated that she wants Canada to stay out of markets we weren't in before the war. Britain's doing everything possible to see that we don't."

Confirmation of the fact that countries in the sterling bloc are being forced to follow the U. K. lead was given by E. Barker, President of Modern

Tool Works Ltd. Through agents in Melbourne, Modern Tool had received firm orders from Australian firms, but the goods were not shipped because the necessary dollars could not be obtained by the import firm. The agent's explanatory letter said:

"We . . . have just returned from an interview with the Division of Import Procurement, Sydney, who control the importation of machine tools and the granting of licenses for dollars into Australia. The result of the interview was that the Commonwealth Treasury has given that Department strict instructions that no machine tools are to be ordered from America when they are available from Great Britain."

What of the Profit?

A Toronto washing machine manufacturer revealed the newest financial twist which affects not only exports but manufacture in the United Kingdom by Canadian firms. The company had attempted to fill export orders only to be advised that the British Board of Trade would not grant import licenses.

In line with British suggestions which, while not made officially, bore stamp of approval in high government circles the Toronto firm arranged to license manufacture of its products in U. K. The deal proceeded satisfactorily until inquiries were made as to what proportion of profits could be taken out of the U. K. business by the Canadian firm.

"When specific instances of transfers of capital come up they will be dealt with on their merits," the company was advised.

H. MacDiarmid, Canadian Exporters' Association, reported that at least fifty manufacturing and exporting concerns had registered written or verbal protests concerning import restrictions from sterling countries.

"An impressive number of members have found it necessary to complain to this office that import licenses have been refused," he said. "It has reached a stage that amounts almost to a restriction of trade."

Information received from member companies, he reported, indicate that it is virtually impossible to obtain import licenses into any markets controlled by the British Colonial Office. Countries in the sterling bloc which achieve a favorable balance of dollars are not permitted to use them for purchase in Canada, but must transfer them to the British dollar pool.

Statement of Policy

A week later appeared a second article, under the headline: "Official Silence Now Broken on Trade Jam with Britain. Ottawa Gets Policy Statement from Britain as Evidence of Restrictive Practices

Mounts." But the statement of policy allayed few misgivings and raised some new ones. The second article was in part as follows:

FOLLOWING a week in which evidence of further restrictions on Canadian and other countries' trade with British had piled up, Trade Minister MacKinnon reassured Canadian business with the first clear statement on what Britain is doing—and says she plans to do. Answering doubts as to whether Britain's restrictive policy might be of a permanent nature, Mr. MacKinnon stated that he is now informed the policy is an interim one only.

As a result of recent revelations about the effect—real and apprehended—of British policy on Canadian exports to Britain and the sterling bloc, the Canadian Government addressed a formal request to the British Government as to how far it planned to carry its policy.

The reply from London showed that the British Government did not wish it thought that "pressure" was being brought to bear, officially and by the government, on Canadian exporters to build British plants in order to retain sterling bloc markets.

Despite the message as to the intent of the government in London, Ottawa was looking closely at other recent developments in Britain's policy to help meet her dollar shortage problem.

Those developments involved air and sea transport, Canadian price-ceiling policy and British (hence Canadian) agricultural policy.

Depending on Three Things

Britain's reported aim is to relax import restrictions as soon as possible. The statement said that when relaxation would come depends on:

1. The extent of financial assistance from abroad;
2. The amount of improvement in U. K. exports;
3. The amount of reduction in U. K. expenditures on external commitments consequent upon the war.

"The United Kingdom Government hopes, too, that it may be possible to proceed to a more definite policy before very long," said Mr. MacKinnon.

Explaining the British view, he added:

"Essential supplies of foodstuffs and raw materials have for the present to receive priority and in the case of manufactured goods import licenses have perforce to be restricted to such goods as are urgently needed to supplement home production and quicken her economic recovery."

The British statement about "pressure" on Canadians to build plants in Britain was phrased this way:

"Certain Canadian firms have approached the United Kingdom for facilities to establish production in the United Kingdom. I am informed, however, that it is not the policy of His Majesty's Government in the United Kingdom to use the import

licensing system to bring pressure on Canadian firms to do so."

Hope

Hope that U. K.-Canada trade may be restored to something approaching a normal basis was expressed earlier by Finance Minister Isley.

Introducing the bill to boost export credits to \$750 million, Mr. Isley said a U. K. loan would come later. He hoped such a loan would reduce the U. K.'s rigid austerity policy, enable her to "take from Canada in the next two or three years most of the products which our economy has been organized to supply her in the past."

Later debate brought from Trade Minister MacKinnon indication that clarification of British trade policy toward Canada had been requested and may be forthcoming soon.

Mr. Isley replied to members who wanted a full debate on trade and loan policy now: "There are a lot of nervous people around who are afraid that the United Kingdom is going to sell us down the river . . . I do not expect they will, but if they do, then we will have to adapt ourselves to that situation."

Additional applications of U. K.'s "save-the-dollars" policy became apparent during the week and started some United States observers asking where "austerity" ended and economic warfare began. Most spectacular of these was cancellation of landing privilege for Pan American Airways' expanded service between New York and London, just as the new flights were about to begin. The British move followed announcement that Pan American would cut its passenger fare to \$275, compared with the \$575 wartime rate still being charged by American Overseas Airways and British Overseas Airways. Pan American is now left with the two landings a week guaranteed by a reciprocal 1937 agreement.

Official British explanation is that Pan American's fare is "uneconomic." Corollary to that is the argument that Britain can't afford to lose the dollars of revenue she'd have to sacrifice to meet this "uneconomic" competition with British Overseas Airways Corporation.

More Self-Sufficiency

Most ominous for Canada during recent weeks have been signs that the new Labor Government in England has adopted an agricultural policy even more nationalistic than that of Conservative Agriculture Minister W. H. Hudson, long a supporter of agricultural self-sufficiency and the subsidized British farm. But the new policy is said to stress self-sufficiency not only in fruits and vegetables, but also, as far as possible, in wheat. Wheat acreage is

reportedly being expanded, and large-scale mechanized wheat farming encouraged, with a view to economizing on imports.

One recent estimate of the possible effect of British "austerity" on Canada's export position indicates that 28% of our 1938-39 exports to Britain and the countries influenced by sterling are vulnerable . . . face extinction under an "austerity" policy.

How To Show a Profit

Emmet Crozier

New York Herald Tribune

All Puerto Rico's attention was focused on a "distribution of profits" to the workers at Central Cambalache, staged with dramatic effect a short time before the last general election. Senor Munoz Marin, leader of the Popular party, handed out the checks, standing before a microphone.

"This is the profit that used to go to the capitalists," he said, as he waved each check in the air. "This is the money that formerly enriched the sugar barons."

The "profits" thus distributed amounted to \$46,891.98 for about ten thousand workers, or about \$5 apiece. The proceedings, broadcast to little knots of listening farm laborers, coffee pickers and needle workers all over the island caused quite a bit of talk during the campaign. The Popular party won in a landslide.

The Arithmetic

Profit and Loss operations, 1943-44, of the Central Cambalache, sugar cooperative operated by the Land Authority of Puerto Rico:

Gross Income (excluding subsidies)	\$436,950
Total Expenses:	
Direct agricultural costs	\$309,973
Overhead	149,575
	\$459,548
Loss	\$22,598

ADD SUBSIDIES:

From Commodity Credit Corp	\$30,903
From Agricultural Adjustment Administration, (in excess of legal rate)	31,523
From molasses pro rata	13,829
	76,255

NET INCOME ("Profit") shown by statement
of L. A. of P. R. \$53,657

*Includes \$6,766 payment to manager of the cooperative. This item, which properly belongs under expenses, would increase the cooperative's actual loss to \$29,364, and reduce its "profit" after subsidies to \$46,891. The latter amount was distributed to the workers as profit.

Why We Can't Buy Full Employment

By Bradford B. Smith¹

*Abridgement of a pamphlet written for AMERICAN AFFAIRS and issued with the Winter Number as a supplement.
See announcement on inside back cover.*

I

THE strategists of a planned economy know how to make beginnings look innocent. The first bill ever to be debated in the American Congress proposing to make the government directly responsible both for the size of the national income and the state of employment was the thin edge of a wedge. That it was so regarded by its active sponsors may be understood from their willingness to accept any kind of amendment that might be necessary to get it passed, even amendments that could be so construed as to make the bill seem to mean really nothing at all. At the same time everybody knew that if the bill was passed in any form it would have to be followed at once by more legislation, and that if it failed to pass the idea it represents would be with us still, to be revived at the first onset of unemployment or to become a slogan in the next campaign.

Let us concern ourselves, therefore, not with any particular form of a full employment bill, but with the idea that inhabits it in any form. What is the idea? It is new in American thought but as old as the hills of human history. In its oldest form it was the idea of a ruler who clothed and fed and housed his people. He gave them security. All that he required of them in return was obedience. In the modern form it is the idea that the state, or in our case the Federal Government, shall assume an unlimited ultimate responsibility to provide remunerative employment, or employment opportunity, for everybody who is able and wants to work.

To "spend our way into endless prosperity"—that is the nub of the matter, and that is the idea now to be examined.

The first pitfall in the path of those who would examine the "full employment" proposition is the deceptive title. The words, "full employment," make a powerful emotional appeal to hope and fear. They do not describe the idea they cover. "Whoever is against this idea is against full employment for honest workers" must be instantly recognized as a smear-type bid to "slip something over" on the basis of emotion and ignorance rather than of knowledge and reason; and the charge should discredit those who make it. We should be more interested in actually making progress toward stabilized prosperity than in resolutions that we want it.

¹Economist, United States Steel Corporation. The views expressed are those of the author and are not to be taken as an expression of the corporation's attitude or policy.

The second pitfall is our own fear. There is profound danger that in panicky search for postwar "security" the common sense, self-reliance and independence with which American men and women customarily make their decisions will be submerged.

II

Three Ways To Find the Money

One: Taxes

If the pitfalls on the way to considering the idea of spending our way into prosperity are avoided, we are then face to face with the question that each must ask and answer for himself. It is an important question, if for no other reason than that the sponsors of the spending idea are for the most part strangely, even hopefully, silent about it. Yet it is a most obvious and common-sense question. It should be pulled out into the open, faced squarely and answered fairly. The question is:

Where is the money to come from that the government proposes to spend?

Money that is spent must come from somewhere even if it is only the counterfeiter's press. Perhaps the most familiar source of the money that government spends is the taxes it takes from the people. So if we assume that the money the government spends is taken, dollar for dollar, from the people in taxes, then we must deal with a specific question:

Will government spending of taxes taken from the people provide any more buying of goods and employment of people than if the people were allowed to spend the money themselves?

The simple arithmetic of this would seem to supply a negative answer. If one has \$100 to spend and the government takes \$20 away from him in taxes, then he can spend only \$80 in the markets. If the \$20 taken by the government is given to a government employee or some other person, then that person can spend the \$20 in the markets that the taxpayer was prevented from spending. But the total amount spent in the markets remains just the same as if the taxpayer had been allowed to keep and to spend his money himself. If the amount spent is unchanged, one can only suppose that the goods produced and the employment in producing them must remain substantially unaltered. Taking money

from one person and giving it to another leaves the amount that the two spend unchanged. The simple arithmetic seems to be that minus one and plus one add up to zero.

There is, however, another matter which one might consider in answering the question. It is the effect that the taxes might have upon those who pay them.

Is the owner of a business going to be inclined to work as hard as before and hire more people—and, for that matter, are the other workers in the shop going to work as hard—if they can't have for themselves what they earn but have to hand over a good part of it to the government as taxes?

Anyone may answer that.

Two: Borrowing

If the tax collector isn't used, the government still has two other ways to get money to spend. It can borrow money and it can print money. So, the next logical question would appear to be:

What is the effect of the government's borrowing and spending?

The ordinary arithmetic would appear to be helpful in achieving an answer to this. When the government prints bonds and sells them, except to the commercial or reserve banks, there is a transfer of money from the people to the government. This money, which is given by the end buyer to the government in exchange for the bond it has printed, obviously cannot be spent by him in the markets. It is also obvious that the government cannot send more money back to the market than has been diverted from the market into bonds. As in the case of the tax-and-spend idea, the borrow-and-spend alternative appears simply to take one away from the markets and then add one back to the markets. That would leave us exactly where we started.

There are two differences, however, between borrowing and spending and taxing and spending. The first is that the bond buyer presumably invests his money voluntarily in the bond the government has printed; the second is that the government must some time either pay back with interest what it borrowed or else repudiate its debt and leave the bond holder in possession of worthless paper. These two differences between borrowing money or getting it by taxation naturally raise some questions about the effect of the borrowing transaction upon employment:

Does the buying of the bonds the government prints tend, like the taking of money in taxes, to prevent people from using their money in hiring workers to produce goods for sale?

The answer at first glance seems to be "no" because the bonds are bought voluntarily, an indication that the people who buy them have the money

to spare over and beyond their other spending intentions. But this may not be the final answer. Before it can be considered final we must know whether people in general have enough faith in their government to believe that the money which is borrowed will be paid back with interest; and next, whether they expect the debt to be paid out of future taxes. If the people do believe they will be paid back out of future taxes, we are right back to where we were in considering the spending derived from taxation, except that in the minds of the people the taxation is deferred for a while.

The next question is:

If the government did not print and sell bonds, would people just do nothing with their money and hoard it?

The answer to this question does not have to rest upon opinion, for the records of the past can be examined. There is no evidence whatsoever of significant hoarding before the depression of the Thirties.

This is so obvious that no one of repute has ever publicly attempted to prove by the facts that it was the hoarding of money which terminated the prosperity of the Twenties and initiated the depression of the Thirties. According to the records compiled by the Federal Reserve Board, the velocity of check deposits (the rapidity with which people drew out by check the money they deposited in bank check accounts) was greater in 1929 than it had been for twenty years before, or has been since. People were spending the money they had more rapidly than at any time within the period examined by the Board, while government debt had been *decreased* rather than increased in the late Twenties. There are theories that unemployment has been produced by hoarding money but no facts to prove them. It is more probable that unemployment causes money hoarding than that hoarding causes unemployment. The hoarding theories have the cart before the horse.

Three: The Printing Press

When business is depressed and there is unemployment, many people quickly associate that depression and unemployment with nonspending of money. They say that if people had more money to spend then other people would start producing to supply the spenders' demands. This is the simple reasoning that has been the invitation to financial disaster time after time in the monetary history of the world. It is the invitation to the printing and free distribution of money. Each time the invitation has been accepted, there have been those who said that previous history could be disregarded because "this time things are different" (for example, "We now have a mature economy") and "we now know how to manage money without getting hurt." Indeed, there have always been those who have been

able to make their neighbors believe it was wise and safe to monkey with money.

So we must investigate what happens when government gets the money it spends *not* by taking it in taxes and *not* by borrowing it from individuals on the promise of paying it back but by just printing it and passing it out. We must first make two brief but important digressions in order that we may honestly satisfy ourselves of the consequences of printing money. One of the digressions has to do with the modern and hidden technique of printing money. The other has to do with what happens to money which consumers spend.

If the government should print money wholesale it would scare people, for too many of them have heard about "continentals," "greenbacks," the "trillion-to-one" depreciation of the German mark. So, just to print money in too obvious a fashion would require a great deal of explaining and reassuring, and this could well prove rather inconvenient. There is a less obvious way of achieving the same results that not so many people know about, and which, incidentally, was practiced in the "trillion-to-one" German mark inflation. It is to print government bonds instead of money, and then to use the commercial banks to turn them into "deposit money"; or else to give the printed bonds to the Reserve Banks, which then print Federal Reserve Notes against them. This process could be termed the "double-print" method of inflating money. It may be good or bad according to how one looks at it, and each must judge for himself. The first thing to do is to pull out into the open and look at it.

Two realizations should result from this digression into the nature of modern money-printing presses. The first realization is that we have a hidden device which is the approximate monetary (if not, as yet, psychological) equivalent of printing-press money which has been vigorously and almost uninterruptedly employed by the government since 1933, and which has already inflated our money six times over. The second realization is that "printing" money in this way involves printing the bonds first; the spendthrift system seeks free money to spend in which the taint of the press is buried in the public's lack of knowledge. But the rise in the debt cannot be suppressed. It is not surprising, therefore, that those of the spendthrift school of thought should try to persuade people that a public debt is a good thing after all—that we owe it to ourselves—that though every baby is born with a debt on his head, he is born with a bond in his fist, and so on.

Attend the Dollar

The second brief digression, to establish a setting in which each may examine to his own satisfaction the effects of government spending of "printed" money is about what happens to the dollar that is

spent. There is no mystery about how these things work that anyone cannot readily pierce by walking down Main Street, using his eyes, ears and head, and using his common sense to fill in the gaps. He will find customers walking into stores with money and walking out with goods, and will soon discover, of course, that the customers are the storekeeper's only continuing source of money. The storekeeper pays out virtually all the money the customers pay in. He pays it out to cover his costs of conducting the business or as an expenditure for himself of the part that is his own wage. He is too smart to keep much money idle around the place—it is better to invest it in goods he can sell at a profit (he hopes) or to lend it to someone to earn interest.

Production Creates Buying Power

Since the owner of the business disposes of as much money as he gets from customers then the reverse is true: Customers in general receive from all business enough to buy—if they want to—what it offers for sale. When A equals B, then B equals A. The thing balances out with need neither for increase nor decrease in money, both of which disturb rather than promote the balance. This is a fact of great importance. Nothing can be produced without buying power, mostly in the form of wages, being distributed adequate to buy it. The very act of getting things produced automatically provides the buying power to get them sold. The production in itself produces the necessary buying power.

In fact, there is no other kind of buying power that is any good for augmenting total buying power. Thus, to get a little ahead of ourselves, let us suppose that a counterfeiter with large sums of fresh new money comes into the market and buys things. His buying puts prices up. Therefore the wages of workers will buy less than the equivalent of what the workers contribute to production. The total buying power is after the episode exactly as it was before the episode; namely, just enough to buy what was produced. The counterfeiter's apparent buying power represents real buying power stolen.

Or, if the counterfeiter should happen to have the authority to tell the people that they could not spend all their money, as through price and ration laws, then there is still no addition to buying power. What happens then is that the counterfeiter merely makes active his counterfeit dollars in substitution of the producers' dollars, which, by edict, are rendered nonexchangeable for goods the workers have produced.

Thus, attaining and maintaining "full employment" is far more a matter of enlarging and maintaining the profit incentive to hire people to produce than of seeking artificially to maintain or expand so-called buying power. Adequate real buying power is the certain and automatic by-product of production (assuming that it will not be extinguished by

money and credit contraction), whereas supplying new money in the absence of incentive to employ may perpetuate rather than correct unemployment. Left alone, unemployment would be self-curing, if it were not aggravated by misguided wage policy.

There is only one way for a *new, self-sustaining* job to come into existence. Let anyone who disputes it define any other way. A new, self-sustaining job comes into existence when, and only when, an employer in the hope of profit spends his money to buy tools of production so that people can be hired to go to work and produce the *marketable* values that will cover their wages and employer's profit.

If to cure unemployment it is essential to improve the prospective profit in hiring people, and if the maintenance of employment requires the maintenance of profitability in hiring people, then we know how to go about determining whether government spending of "printed" money can be effective. The earlier question can now be rephrased:

Will spending of "printed" money improve or maintain the prospect of profit in hiring people?

At the outset it should be recalled that keeping the "printing" process obscure by first printing bonds that are later to be turned into money by the banks instead of printing money directly must raise a good deal of doubt about the process. Secondly, whoever gets the first spending of the "printed" money, whether it be the government or someone upon whom the money is bestowed, gets something for nothing from the rest of the community. At best, "printing" money is but hidden and deceptive taxation. The morals of the matter are for each to decide for himself. The "printing" of money is far more certainly a device for dividing what is produced between those who produce and those who do not than for multiplying production. The division is effected either by denying to productive workers the free expenditure of their wages in markets by price controls and rationing, or by the bidding up of prices so that the worker's wage cannot buy the equivalent of what he contributes to production, while the spender of the *new* money takes the rest.

Who Shall Get It?

Thirdly, it must be readily apparent that the only real hope of expanding employment in the production of goods for sale is that the last-named effect does in fact occur: that the dollars of sales by employers increase more than the dollars they pay in wages (and other costs), so that the widening margin restores a lost prospect of profit to compensate the employer in buying tools, hiring people and producing goods for sale—in short, that prices be relatively advanced over real wages.

Finally, there is a fifth matter that those who would "print" money to cure or prevent unemployment must carefully consider. To whom and for what purpose will the government disburse the

money it "prints?" It is important also because of a distinction between wartime and peacetime spending which must be clearly discerned lest the innocent be harmed and the trusting be betrayed. Spending in wartime is undertaken only in compensation for working to produce the war goods that are needed. It is not undertaken as compensation to people for not working. Here is the first great distinction between wartime spending of "printed" money and peacetime spending of "printed" money as it was practiced in the years before the war.

Wartime versus Peacetime

Again, war requires that the peacetime arrangement of production be destroyed and a new program of wartime production be initiated. Spending in wartime occurs only *in aid of* that transition rather than *in resistance to it*. When guns were to replace butter in our program of production, the money was paid first to the enterprises which produced guns and relatively denied to the enterprises producing butter, thus expanding employment opportunity in gun production at the expense of other production. And it was only as people shifted in response to the changing patterns of the nation's war demands that they received "printed" money. Spending in wartime provides profits for conforming to national need; spending in peacetime tends to siphon profits off from those who *are* conforming to national need for the benefit of those who *are not*.

In peacetime the almost inevitable consequence of spending "printed" money—certainly as evidenced in the record of the past—is *to resist rather than to assist* the production shifts that customers and consumers dictate in the way they expend their dollars.

Thus, today, when wartime production is subsidizing and peacetime production is the will of the people, there are proposals for public spending in the forms of public works, various sorts of bonuses, enlarged unemployment compensation, and foreign gifts disguised as loans. These all constitute compensations to people for *not* shifting their productive effort to what is demanded by the public.

No one should ever allow himself to be deceived into believing that because the government spent money in wartime to pay for production that was desperately wanted, we can in peacetime gain full employment by paying "printed" money to people for *not* working and so to prevent them from producing what is wanted at wages dictated by the whole community as a customer.

When people become unemployed it is their *selling power*, not their *buying power*, that has failed. They are unemployed because they are out of the market, and they are out of the market because they would charge more for the product of their labor than others will pay. This becomes a vicious circle. It is strange reasoning which would cure the situation by subsidizing their buying power when it is

their selling power that is at fault. The common-sense way to break the spiral would be to acknowledge and obey the market-place decision by reducing the cost and price, instead of spending public funds to fortify the high cost and high prices and thus to perpetuate the unemployment.

III

The Spiral to Statism

There is good reason to believe that the adoption of unlimited government spending to promote economic welfare would constitute a major victory for totalitarianism in America. By totalitarianism, collectivism, statism or whatever name one may choose, what is meant is a system in which government decides what is to be produced, by whom, when, where and in what amount and at what price or wage—in short, a system in which a bureaucrat, armed with power to fine and imprison, decides what men are to do for a living and how much living they are to get or not get for doing it.

For those who want that kind of country—and there may be many who think it is preferable to a country in which the worker's freedom to work is protected by the presence of numerous independent employers competing for his services—enactment of such legislation may properly be regarded as a major milestone. It is also possible that there are many who do not want that kind of country but who, nevertheless, think the idea of seeking full employment by government spending is a good thing to play with and to whom the step into statism it represents is not clear.

Let us suppose that in accordance with popular misconceptions we establish laws which provide a very few simple things, to wit:

- (a) Profits from production are to be severely taxed.
- (b) Hiring people is to be made expensive.
- (c) Labor organizations shall have monopoly power to demand higher than market-place wages.

(d) Ceiling prices for all the things workers and their tools produce.

With these simple provisions, chronic unemployment is guaranteed and that is all that is required to start and to maintain the spiral into statism. For once substantial unemployment is guaranteed, the unemployment itself constitutes the reason for the government to spend money to support the unemployed. But if the government spends money then that in turn constitutes the reason to increase the very taxes diminishing the incentive to hire people. Thus, further unemployment and bigger public spending to alleviate it is self-generated and the vicious-spiral is closed.

Under statism most people can finally be put to work by the government and the rest of them be permanently supported in not working. But most people would be forced to work for real wages which are less than the value of what they produce. If the government takes the responsibility to see that everybody gets an income it must take also the authority to make people work for compensation dictated by bureaucracy. Responsibility and authority ever go together. If the government assumes the responsibility to see to it that labor is continuously employed then labor is no longer free. Why not? Because the government assume also the authority necessary to fulfill that responsibility, and this will mean authority over labor. The assumption of authority is certain; the fulfillment of responsibility is not. Such a state of affairs may be what is wanted and each must counsel with himself as to whether it is what he wants. But no one should be such a fool as blindly to assume that he can be guaranteed a job doing what he wants to do at wages he wants. One who asks the government to guarantee him a job must sacrifice his freedom to select his job and his employer, and the freedom to work or not to work at the wage the employer can pay him, which would be the full value of his services as determined by the community as a whole when functioning under voluntary, competitive markets.

The Water's Edge

The part of the Constitution that is the sheet anchor of our liberties is the Bill of Rights. With all humility, I propose the war referendum amendment as a cap-sheaf for the Bill of Rights, to round out and perfect that immortal instrument of freedom. It would do this by giving the people who comprise this nation the fundamental power over the making of war. It seems a strange anachronism, indeed, that in a democracy the people do not have that power. A citizen of the United States may vote for constable or dog catcher or he may cast his ballot for or against the construction of a pesthouse or a neighborhood sewer, but he has no opportunity to vote on whether or not his son shall be sent into the hell of a foreign war. This indicates a very serious defect in our Constitution which should be remedied. May I in all sincerity pose this question: "Why should our democracy stop at the water's edge?"—*Representative Ludlow of Indiana.*

The Colmer Committee on **Russia and Germany**

The Special Committee on Postwar Economic Policy and Planning of the House of Representatives appointed seven of its members to go to Europe and see for themselves. Besides Wm. M. Colmer of Mississippi, chairman, the explorers were: Clifford R. Hope of Kansas, Jay Lefevre of New York, Jesse P. Wolcott of Michigan, Charles A. Wolverton of New Jersey, and Orville Zimmerman of Missouri; also Marion B. Folsom, of the Eastman Kodak Company, as director of staff. They saw all of Europe and parts of the Middle East and talked with everybody from the Kremlin to the Vatican. The full report is a heavy document. What follows is an abstract of only that part of it which deals with Russia and Germany. One of the interesting collateral facts about it is that all the findings were unanimous.

RUSSIA

RUSSIA, for several reasons, will play a critical part in the establishment of a stable world economic order. In the first place, the Russian system holds the key to a considerable part of the solution of the German reconstruction problem. In addition, Russian influence in the countries of eastern Europe at the present time determines the possibility of economic operations in those zones by other powers and the character of the economic as well as the political systems of a very large part of Europe. In spite of the heavy losses of the war, the Russian population within the new Soviet boundaries is something approaching 200 million and constantly increasing because of a high birth rate. Direct control is presently exercised in Europe over another 100 million people. Russian power extends over the resources of the Polish mining and industrial areas, Czechoslovak mining and industrial areas, and the food and industrial areas of Hungary, Austria, Yugoslavia, Rumania, and Bulgaria, together with the Rumanian oil fields and the mineral resources of this entire territory. Without speaking of Russian influence on the border states of the entire European area, the Mediterranean and the Middle East, Russia's position on the continent of Asia will also become one of territorial dominance as Russian production and settlement shifts eastward beyond the Urals.

It is impossible to arrive at any accurate figures as to the existing levels of Russian production. Estimates vary largely and there are no official statistics available. It is, nevertheless, certain that, with the occupied regions of Europe to draw upon, the potentialities of Russian production have been tremendously increased. Apparently technicians have been taken from Germany and other countries, along with machines, in order to rebuild Russian industry and to enlarge its scope.

It is sheer guesswork how long it would take Russia, aided only by the stripping of European factories, to recover its former level of production through the rebuilding of the Dnieper dams and industrial facilities that have been destroyed as far east as Stalingrad. The rapid

rebuilding of Russia depends upon two factors:

(1) The cutting down of expenditures on armaments and the reduction of the huge standing armies that Russia has heretofore felt it necessary to keep;

(2) The availability of large-scale foreign loans to supplement direct reparations.

The only two available sources for large-scale assistance to Russia are the British Empire and the United States, with the latter in the position of being able to give more immediate and large-scale assistance. Most of the other industrial countries of the world will be fully occupied with their own recovery for a period of several years. The capital goods which Russia badly needs and wants immediately can come only from the United States.

That there is a mutually complementary basis for an extensive trade between the United States and Russia cannot be doubted. Russian needs for capital equipment, construction equipment, transportation equipment, and machine tools have been stated in terms of several years' total production of the American system in some of these categories. The rebuilding of the devastated parts of Russia and the equipment of its factories will require imports unless the process is to be a very slow one.

To the committee it seems obvious that there is a relation between the degree to which Russia cuts back its own armament production and reconverts its plans to civilian needs and the magnitude of the need for loans from the United States or from other foreign sources. It seems to the committee doubtful policy for the United States to afford loans which will in effect permit Russia to maintain a scale of armament production totally disproportionate to that of other major powers, particularly if the World Security Council is regarded as a guaranty against future aggression. The bearing of the size and magnitude of Russian armaments on other armament, particularly of the countries surrounding Russia, is also something that can no more be overlooked.

GERMANY

THE general formula, set up at Potsdam, in the judgment of the committee, contains several self-contradictory directives to our occupying authorities. Large reparations from Germany and the stripping of its normal industries on the grounds that they may potentially be used for war are not compatible with maintaining a minimum standard of living for Germany and are certainly not compatible with a sound German contribution to general European recovery. The interpretation of the directive leaves a latitude which can be used to stress either the Draper-Hoover report of the experts called upon by General Clay to advise him as to the minimum standard of living for Germany, or it may stress the crippling of Germany demanded in certain quarters. The committee wishes strongly to urge that the stress should fall on supporting the Draper-Hoover report.

In the first place, there is little possibility for many

years to come of the German standard of living reaching even the lowest standard of the surrounding countries from the point of view of food alone, to say nothing of the destruction of something approaching two thirds of the housing in nearly all the major German cities.

The total population of Germany, including those who have been forced into the occupied zones by a mass migration from the east, is not far short of 66 million people in a shrunken territory which had to export heavily to feed a much smaller number of people in prewar times. Most of the food-surplus area of Germany is in the eastern zone and is subject to whatever drain the Russian occupying forces put upon it. The Russian armies have not an elaborate supply system like our own but continue in peace as in war to live, in the main, from the supplies of the countries where they are quartered. In any case, not only is no food flowing from east to west, but the west and south must presently feed the greater part of the swollen population of Berlin, which normally drew its food supply from the Russian area.

The French, to only a slightly less degree than the Russians, appear to have stripped their occupation territory of herds, livestock, work animals, and food products that were movable.

On all the evidence that the committee could assemble, it seemed clear that the food conditions, as well as those of shelter and fuel, would be more serious in Germany than anywhere else in Europe this winter. While it is true that in the country districts—in spite of poor harvests in the British and, to some extent, in the French zones and a continued stripping of the Russian zone—the population will probably have barely adequate supplies, the picture of the cities is truly desperate. The people in the cities have no adequate means of earning a living and are reduced to selling off their remaining possessions.

It must be emphasized to the Congress of the United States that once again the American taxpayer is being called on to shoulder the burden for a considerable part of the relief, not only of our own zone but indirectly, through supplying the larger part of Berlin, of the Russian zone. Wheat and flour provided from the United States for the British and French zones have been more prodigally used than in our own, and stock piles have not been built up for the winter.

The committee does not feel that the American people can face the responsibility for permitting widespread starvation in Germany. This problem is not simply one of immediate relief, though it is primarily that; it will be a continuing problem if Germany is not permitted to resume a sufficient industrial activity to pay for its necessary imports and to provide its people with the minimum necessities for health.

The alternative to permitting a catastrophe, where the United States is one of the chief Allied control powers assuming responsibility, is either to restore Germany as far as possible to a minimum subsistence level or to continue affording relief through payments falling eventually in the main on the United States.

The committee, therefore, urges on Congress a thor-

ough inquiry into our responsibilities in Germany with a view to clarifying the exact nature of the directives under which our military authorities are now operating.

Somewhere in the neighborhood of 10,000,000 people have been pushed from Prussia, Poland, and the eastern borders of Germany in the Oder and Yser valleys farther west. In spite of every effort many of them have wound up in the destroyed city of Berlin, which has a population already over 3,000,000 people. It is estimated that upward of 3,000,000 people have been forced from the Russian zone over into the western occupied zones, or have managed to slip across the border.

The committee feels that to strip transportation equipment and the machinery of factories capable of manufacturing it, as well as to strip other basic German industries beyond the point recommended by General Clay's advisory committee of experts, can mean only one of two things: (a) that a considerable part of the German population must be "liquidated" through disease, malnutrition, and slow starvation for a period of years to come, with resultant dangers to the rest of Europe from pestilence and the spread of plagues that know no boundaries; or (b) the continuation both of large occupying forces to hold down "unrest," and the affording of relief mainly drawn from the United States to prevent actual starvation.

If a "hard peace" requires the elimination of 8 or 10 millions of Germans, it would be much more humane to eliminate them at once. The committee cannot refrain from asking the simple question: "What incentive under this plan exists for Germany to turn to democratic ways?"

The industries of all the countries surrounding Germany have depended in the past on the superior production efficiency of Germany for needed parts and machine tools. If the intention were to deprive Germany of all possibility of exports adequate to buy the food and raw materials that it needs to keep a minimum standard for its population, this method could be followed, though it would tremendously delay the recovery of all of Europe and might lower for a very long period the whole productive capacity of Europe. It is not the industry of Germany alone that is in question but of the Scandinavian states, Holland, Belgium, Luxembourg, France, Switzerland, Italy, and the smaller countries of Europe, including those in the Russian zone of occupation. It is impossible merely by shifting machinery to create the combination of skilled workers, management, organization, plant location, and other resources necessary to industrial production.

If the whole future recovery of Europe is to be geared to fear of the bogey of a Germany, reduced in its boundaries and stripped of its war-making capacity as modern Germany is, the recovery of Europe becomes hopeless.

The committee feels that a proper internationalization of the economic linkages of western Europe with the Ruhr and the Saar is a far more desirable solution. Such an economic union would permit the building up of natural grid systems of electric power and the interdependence of industries which would in effect both help to break down prewar trade barriers and to make impossible a war by Germany alone on any of its neighbors.

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An American Affairs Pamphlet

Why We Can't Buy Full Employment

By BRADFORD B. SMITH

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