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LEONARD E. READ *President*, Foundation for Economic Education

PAUL L. POIROT *Managing Editor*

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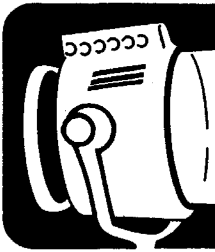

IN SEARCH OF A NEW MONETARY ORDER

HANS F. SENNHOLZ

EVER SINCE President Nixon suspended gold payments, on August 15, 1971, the question of realistic par values of the world's currencies has become a vexing international political issue. Governments and central banks are searching for new rules that permit "more flexible" currency fluctuations. Something beyond dollars and gold is needed, they believe, to provide a solid base for a new monetary order. Return to the old system spawned at Bretton Woods, N. H., in 1944, is out of the question. It was a gold and dollar standard, with the U.S. dollar payable in gold at $35 an ounce while other countries pegged their moneys to the dollar, holding them within a range of 1 per cent up or down from the parity registered with the 118-country International Monetary Fund.

Now, since the suspension of gold payments, the world has been waiting for monetary authorities to find a new monetary system. The process must necessarily be slow, as a political solution is sought to economic problems that were generated by various political considerations. After all, the depreciation of the U.S. dollar, which finally led to the gold payment suspension, was a political act by the monetary authorities of several Federal administrations. The decision to "float" the dollar rather than face the humiliation of a formal devaluation was also a political act. Similarly, the other governments are motivated politically in their attempts at monetary management.

Dr. Sennholz heads the Department of Economics at Grove City College and is a noted writer and lecturer on monetary and economic principles and practices.

While most "experts" make the government, its powers and objectives, their point of departure for monetary deliberation, a few scholars continue to base their inquiries on the fundamental principles that flow from individual choice and action. In their judgment, the factors that affect the exchange relations between various national currencies rest on the economic principles that determine the purchasing power of each and every type of medium of exchange, whether it is a precious metal or government fiat money.

As they see it, the purchasing power of any monetary unit depends on the relation between the demand for and the quantity of money in individual cash holdings. The demand for money is purely individual, although a great many extraneous factors may influence this demand. There is, for instance, the expectation of future changes in the exchange value of money. An expected fall tends to reduce the demand for money and thus its purchasing power; an expected rise brings about the opposite. Also, the availability of goods affects the demand for money. In an expanding economy when more and better goods are offered on the market, the demand for money tends to rise; in a declining economy, where capital is consumed and the division of labor breaks down, the demand for money tends to decline.[1]

The Stock of Money

The supply of money is the stock of money available for exchange. During the age of the gold standard it consisted of gold bullion, gold coins and their various substitutes, such as bank notes, tokens, and demand deposits. In this age of government currency, it consists of fiat money and its substitutes, such as tokens and demand deposits. The substitutes may either be fully backed by money proper or else they are fiduciary, i.e., uncovered. Thus, an expansion or contraction of fiduciary media directly affects the total quantity of money available for exchange.

A change in the money relation through changes in either the demand for money or the stock of money affects changes in the purchasing power of money. As one factor of demand or supply cannot perfectly offset changes in the other factors, money can never be neutral. Now, if there are two or more media of exchange, such as gold or silver, or various fiat currencies, what determines the exchange ratio between the various

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[1] Ludwig von Mises, *The Theory of Money and Credit* (Irvington-on-Hudson, N. Y.: The Foundation for Economic Education, Inc., 1971), p. 97 *et seq.*

media? Their purchasing powers! That is to say, exchange ratios correspond to the ratio of each one's purchasing power in terms of all other goods. Market forces tend to establish the parity between the purchasing powers and thus their exchange ratios. The equilibrium exchange rate is called the *purchasing power parity.*

Gold and Silver as Money

For more than 2,500 years the civilized world used gold and silver as money. These metals became valuable media of exchange because they were not only desirable for nonmonetary uses, but also suited so well for economic exchanges as they were durable, portable, and divisible. Silver was generally used for small transactions and gold in all larger exchanges. And throughout the ages their exchange ratios were determined by their purchasing power parities. If one ounce of gold bought a horse that also could be bought for 10 ounces of silver, the parity between gold and silver was 1:10. If for any reason the exchange rate differed from this parity, arbitrage would soon restore the exchange ratio to its purchasing power parity. If, in our example, the exchange ratio should be 11:1 and the purchasing power 10:1 it would be very profitable to exchange gold for silver and then buy commodities. But such money exchanges would soon drive the ratio back to its parity.

In all countries where gold was the standard money, the exchange ratios between gold coins of different weight and fineness were determined simply by this difference. If one coin weighed one ounce and another coin of equal fineness only one-third of an ounce, the exchange ratio obviously was 1:3. Under the gold-coin standard, commonly called the orthodox or classical gold standard, gold coins were the standard money. National currencies represented a certain quantity of gold of a certain fineness. The U.S. dollar, for example, consisted of 25.8 grains of gold, nine-tenths fine, before the 1934 devaluation, and 15 5/21 grains thereafter, or in troy ounces 1/20.67 and 1/35 respectively. The U.S. $20 gold coin (Double Eagle) contained 30.09312 grams of fine gold, the $10 coin (Eagle) 15.04656 grams, and the $5 coin (Half Eagle) 7.52328 grams. The British Sovereign contained 7.322 grams, the Mexican 50 Peso coin 37.5 grams, the French 20 Francs coin, also called Napoleón, 5.8 grams, and the Swiss 20 Francs coin 5.8 grams.[2] Exchange ratios

[2] Cf. Franz Pick, *Currency Yearbook* (New York: Pick Publishing Corp., 1970), pp. 13-15.

between the various currency units consisting of gold thus were determined by their relative measures of gold.

International Acceptability

The world had an international currency while on the classical gold standard. It evolved without international treaties, conventions or institutions. No one had to make the gold standard work as an international system. When the leading countries had adopted gold as their standard money the world had an international currency without problems of convertibility or even parity. The fact that the coins bore different names and had different weights hardly mattered. As long as they consisted of gold, the national stamp or brand did not negate their function as an international medium of exchange.

The purchasing power of gold tended to be the same the world over. Once it was mined, it rendered exchange services throughout the world market, moving back and forth and thereby equalizing its purchasing power except for the costs of transport. It is true, the composition of this purchasing power differed from place to place. A gram of gold would buy more labor in Mexico than in the U.S. But as long as some goods were traded, gold, like any other economic good, would move to seek its highest purchasing power and thereby equalize its value throughout the world market. As all coins and bullion were traded in terms of weight of gold, there were no "exchange rates" such as those between gold and silver, or various fiat monies.

The Exchange-Rate Dilemma

The departure from the gold-coin standard, set the stage for the present exchange-rate dilemma. At first, governments began to restrict the actual circulation of gold. They gradually established the *gold-bullion standard* in which government or its central bank was managing the country's bullion supply. Gold coins were withdrawn from individual cash holdings and national currency was no longer redeemable in gold coins, but only in large, expensive gold bars. This standard then gave way to the *gold-exchange standard* in which the gold reserves were replaced by trusted foreign currency that was redeemable in gold bullion at a given rate. The world's monetary gold was held by a few central banks, such as the Bank of England and the Federal Reserve System, that served as the reserve banks of the world.[3] But

[3] Cf. Leland B. Yeager, *International Monetary Relations* (New York: Harper & Row, Publishers, 1966), p. 251 *et seq.*

after World War II, the Bank of England which was holding the gold reserves for more than 60 countries, commonly called the pound sterling area, gradually lost its eminent position. It began to hold most of its reserves in U.S. dollar claims to gold, which made the Federal Reserve System the ultimate reserve bank of the world; thus the gold-exchange standard became a *de facto gold and dollar standard.* Finally, during the accelerating inflation and credit expansion of the 1960's in the U.S., the dollar gradually fell from its respected position. Several monetary crises which triggered worldwide demands for dollar redemption greatly depleted the American stock of gold, and created precarious payment situations.

Altogether, in less than four years, we experienced seven currency crises that foretold the end of the international monetary system. In November, 1967, Great Britain devalued the pound and a number of other countries immediately followed suit. In March of 1968, under the pressure of massive pound sterling liquidation, the nine-nation gold pool was abandoned and the two-tier system adopted. The third crisis occurred in France in May, 1969, when political riots, followed by rapid currency expansion, greatly weakened the franc which was later devalued. The fourth crisis erupted in September, 1969, when massive dollar conversions to West German marks forced the German central bank to "float" the mark and then revalue it upward by 9.3 per cent. The fifth crisis occurred in March and early April, 1971, when a new flight from the dollar threatened to inundate several European central banks. In a concerted effort, the U.S. Treasury and the Export-Import Bank endeavored to "sop up" the dollar flood. The sixth crisis began in May, 1971, when a new flow of dollars into German marks, Swiss francs, and several other currencies caused the mark to float anew, the Swiss franc to be revalued upward by 7.07 per cent, and several other currencies to be allowed to float or be revalued. The seventh and last crisis was of such massive proportions that President Nixon was forced to announce the collapse of the old monetary order.

Why the Breakdown of International Monetary Relations?

What had caused this gradual deterioration of international monetary relations? An understanding of the causes may provide an answer to the dilemma, prevent further deterioration, and hopefully find a cure to all its somber consequences.

The popular explanation usually

runs as follows: The rapid worsening of the U.S. international balance-of-payment deficit was the proverbial straw that broke the system's back. From a small surplus of $2.7 billion in 1969, achieved mainly through various government manipulations that amounted to window dressing, the 1970 payments deficit soared to an all-time record deficit of some $10.7 billion, on official settlement basis, i.e., official settlements between governments only. Then, in May, 1971, the U.S. Commerce Department announced that the first quarter 1971 deficit had grown to a record $5.4 billion.[4] And finally, private sources estimated that in 1971, up through mid-August, some $22 billion more dollars flowed out of the country than came in.

These new payment deficits were added to the accumulated unpaid deficits of the U.S. for many years. U.S. dollars and short-term claims to dollars in foreign hands amounted to $43 billion at the end of 1970. After deducting U.S. short-term claims on foreigners our *net* obligations exceeded $32 billion, plus the current deficits mentioned above. And while the U.S. gold stock stood at $11 billion, the lowest level since World War II, it became obvious that the U.S. could not meet its foreign obligations in gold.[5]

Dr. Arthur F. Burns, Chairman of the Federal Reserve Board, probably reflected the official position of the U.S. government when, on May 20, 1971, he blamed foreign governments for the precarious situation. He urged them to release their restraints on imports and American investments, and to help us with our foreign military operating expenses. Raising our interest rates, he asserted, was not the right way to improve the ailing dollar. He advocated more U.S. borrowing from the Eurodollar market through Treasury certificates and, in order to become more competitive in world markets, an "incomes policy" that would restrain the cost-push momentum of American labor.[6] Less than three months later President Nixon announced a 90-day price and wage freeze, to be followed by some government control thereafter, and a 10 per cent surtax on imports to stem the flood of cheap foreign goods.

"National Balance of Payment"

Academic theories basically concurred with Dr. Burns' explanation although some offered different solutions, such as a crawling

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4 *Federal Reserve Bulletin*, Sept., 1971, p. A75.

5 *Ibid.*, p. 94.

6 *The Commercial and Financial Chronicle*, June 9, 1971, p. 16.

peg, a wider bank, flexible exchange rates, or the creation of new reserve assets, such as Special Drawing Rights by the International Monetary Fund.[7] But no matter what solution they proffer, their point of departure is the collectivist concept of the "national" balance of payment. Without any reference to individual actions and balances, they build ambiguous structures that ignore the causes. Balance of payments of a country is that very small segment of the combined balances of millions of individuals, the segment that is based on personal exchanges across national boundaries. As an individual may choose to increase or decrease his cash holdings, so may the millions of residents of a given country. But when they increase their holdings, that is called "favorable" in balance of payments terminology. And when they choose to reduce their cash holdings, that is called "unfavorable." The fact is that drains of gold are not mysterious forces that must be managed by wise governments, but are the result of deliberate choices by people eager to reduce their cash holdings.

Wherever governments resort to inflation, people tend to reduce their cash holdings through purchases of goods and services. When domestic prices begin to rise while foreign prices continue to be stable or rise at lower rates, individuals like to buy more foreign goods at bargain prices. They ship some of their money abroad in exchange for cheaper foreign products or property. Thus, an outflow of foreign exchange and gold sets in. It is the inevitable result of a rate of domestic inflation that exceeds that of the rest of the world and sets into operation "Gresham's Law."

During the 1960's, the decade of the "Great Society," and again during 1970 and 1971, money and credit were created at unprece-

[7] Cf. William Fellner "On Limited Exchange Rate Flexibility," Chapter 5 of *Maintaining and Restoring Balance in International Payments*, Princeton University Press, 1966; George N. Halm, "The Bank Proposal: The Limit of Permissible Exchange Rate Variations," *Princeton Special Papers in International Economics*, No. 6; John H. Williamson: "The Crawling Peg," *Princeton Essays in International Finance*, No. 50; Francis Cassell, *International Adjustment and the Dollar*, 9th District Economic Information Series, Federal Reserve Bank of Minneapolis, June, 1970; Walter S. Salant, "International Reserves and Payments Adjustment," *Banca Nazionale del Lavoro, Quarterly Review*, Sept., 1969; Thomas D. Willet and Francesco Forte, "Interest Rate Policy and External Balance," *Quarterly Journal of Economics*, May, 1969; Friedrich A. Lutz, "Money Rates of Interest, Real Rates of Interest, and Capital Movements," Chapter 11 of *Maintaining and Restoring Balance in International Payments*, Princeton University Press, 1966; Milton Gilbert, "The Gold-Dollar System: Conditions of Equilibrium and the Price of Gold," *Princeton Essays in International Finance*, No. 70.

dented rates prompted by record-breaking government deficits. Private demand deposits, bank credit at commercial banks, and Federal Reserve credit, which is fueling the credit expansion, often rose at rates of 10 per cent or more a year. Therefore, in spite of countless promises and reassurances by the President and his advisers, the U.S. dollar suffered inevitable depreciation at home and abroad. And the August 15, 1971, default of payment was the result of this depreciation.

Blaming the Creditor

Refusal to make gold payments by the United States, the richest and most powerful country on earth, casts serious doubt on future monetary cooperation. The immediate prospect for world-wide monetary reform is not too bright. The U.S., as the defaulting debtor, is taking the position that it is up to the countries with huge surpluses in their international payments to adjust their currencies upward against the dollar. It is Washington's basic premise that the U.S. was unfairly treated in international commerce and that it is time for correction. Convinced of the indispensability of the U.S. dollar as a world reserve currency, the U.S. is defiantly waiting for the others to act.

Bad debtors, when called upon to make payment, often make such charges against their creditors. It is shocking, however, that the U.S. government should prove to be such a poor debtor. Even its basic assumption, the indispensability of the dollar, no longer goes unchallenged. Sterling balances look more attractive today than dollar holdings. In fact, the holdings of deutsche marks by central banks and treasuries probably exceed $3 billion. Foreign airlines and shippers have ceased to accept U.S. currency. And Eurodollar bonds are all but unsaleable in European capital markets, while mark, guilder, and Swiss franc securities remain in demand. The foreign position generally rejects the Washington charge of unfair treatment. If the U.S. had adopted appropriate domestic policies, foreign officials argue, it would not have accrued its huge international payments deficits. Therefore, they want the U.S. to share the burden of realignment. They are seeking a devaluation of the dollar along with realignment of their currencies. And above all, no one is suggesting that the U.S. dollar continue to serve as an international reserve currency.

After all, managed currencies are the products of political manipulations by parties and pressure groups, and all are destined to be destroyed gradually by weak administrations yielding to popular pressures for government largess and economic redistribution. No such currency can serve for long as the international reserve currency to which all others can repair. The U.S. dollar is no exception.

In the chaotic conditions of late 1971, the world may still have the following options:

(1) It may continue on its present road of fiat money and inflation, government manipulation of exchange rates, trade restrictions, and exchange controls. The goal is "national autonomy" in monetary and fiscal policies, an essential objective for all forms of central economic planning. On this road we are bound to suffer not only more inflation and depreciation, but also a gradual disintegration of the world economy and its division of labor. Our ultimate destination is a world-wide depression.

(2) Or the world may choose to turn off this road of self-destruction and seek stability in sound money. The very monetary authorities that have created the chaos and are now sitting in judgment over the international monetary order must relinquish their rights and powers over the people's money. This road leads to the various forms of gold standard, from the gold-exchange to the gold-bullion, and finally the gold-coin standard. For gold is the only international money the quantity of which is limited by high costs of mining and the value of which is independent of political aspirations and policies. Only the gold standard can afford monetary stability and peaceful international cooperation.

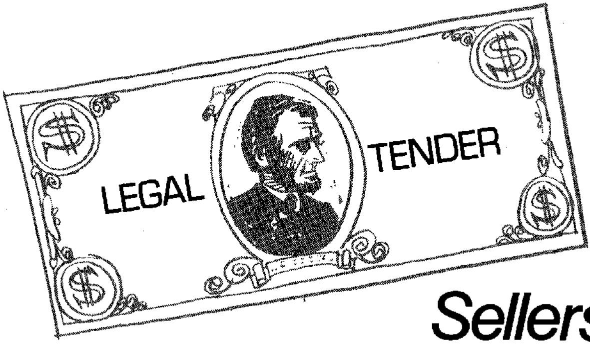
Freedom is the Answer

IDEAS ON LIBERTY

THERE IS NOTHING wrong with money that freedom will not cure. This is another way of saying that the Good Society which many reformers have sought by way of monetary reform cannot be achieved that way; if it is ever to be achieved, it will be done by freedom. So, then, the fight for sound money, to have meaning, must be related to the broader fight for freedom. It is only one of the several battles that must be fought.

FRANK CHODOROV, from "Shackles of Gold"

PAUL L. POIROT



Sellers Beware

A PLEASANT premise underlying socialism is that everyone should be able and willing to pay prices high enough to cover costs. Then, no one ever would be obliged to work for less than "a living wage." Such is the foolish dream of persons who do not understand the process and the advantages of free trade.

True, one trades in order to gain something of greater value to him than what he gives up in exchange, and so does every other trader. Each strives to satisfy his wants with the least effort or expenditure; but the trader differs from socialists for he does not expect anyone else to give up something for nothing.

A second significant difference between a trader and a socialist concerns their respective views about money. To a trader, money is that particular item of commerce so much more universally acceptable in trade than other scarce and valuable items that it serves as a useful medium of exchange. It opens up a far wider range of market opportunities than could possibly be reached through direct barter. It is useful as money because the overwhelming majority of traders are willing and anxious to accept it in payment for their wares.

An entirely different concept of money is implied in the language and philosophy of socialism. Those who speak of "a living wage" and of "prices high enough to cover costs" are not thinking about willing customers, or of a money that arises naturally out of willing exchanges in the open market. What they seem to have in mind, instead, is a purchasing power to be created out of thin air – that ancient dream of alchemists and counterfeiters.

Counterfeiters Need "Legal Tender"

Now, it's easy enough to take a base metal and color it "gold," or to print a slip of paper and call it "money." The trick is to make others believe it. Counterfeiters and confidence men are indeed a nuisance to producers, traders, savers, especially to those who are willing to venture into shady deals. But with a bit of experience and wariness, an honest trader can readily spot such risks and direct his business toward men and money he trusts.

So, what is the poor counterfeiter to do? He will do his best to have his "money" declared *legal tender*, which means that the government would force creditors to accept it when offered in payment of any debt.

Any debt? Including taxes? The government that levies and collects taxes is expected to grant to someone a note-printing monopoly? It takes no political genius to rise to the conclusion that if anyone is to print notes to be enforced as legal tender, surely that monopoly had best be exercised by the government itself! And that is socialist monetary policy in a nutshell: the government in full control of the "money machine."

If government expenditures rise, just print additional bogus money. Soon enough, this bogus-money-declared-legal-tender will have driven into hoarding or hiding any more substantial or trustworthy medium of exchange. As Sir Thomas Gresham observed: "Bad money drives out good." This is the monetary manifestation of the more general law that people always will use the cheapest and easiest means available to obtain their various ends. In other words, if the government decrees that a piece of paper or an alloyed coin is equal in purchasing power to the precious metal that the market had chosen as money, then customers will do their best to make sellers take the bad money. And even the most honest and scrupulous of men will gladly use the bad money to meet his tax payments.

However, a small problem looms for a national government: its taxing power and legal tender monopoly end at the border. It may be able to fool or to browbeat foreign suppliers for a time into accepting printed paper to cover trade deficits; but eventually, international trade balances are payable in goods of value, such as gold. Even an international monetary cartel such as the Bretton Woods agreement breaks down as soon as the gold runs out – a breakdown which President Nixon declared official on August 15, 1971.

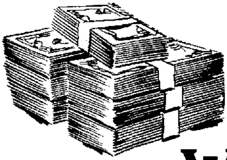
It Stops at the Border

At this point, let us pick up the thread of the labor theory of value with which we began this discussion of inflation: the socialistic presumption that everyone is entitled to "a living wage," whether or not he earns it. The late Lord Keynes translated this fallacy into the language of politics, saying in effect: the way to stay in office is to woo organized labor; if the unions demand higher wages, meet their demands through use of the money machine.

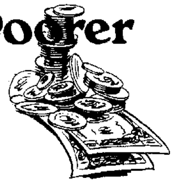
Some witnesses, seeing that the "money" button is now being pushed by organized labor, have come to the remarkable conclusion that this is a new kind of "cost-push" inflation, unlike the old "demand-pull" type; the union wage demands are pushing prices up, so the money-machine isn't the culprit after all. Therefore, let's freeze wages and let the machine run until the economy has regained its health! That, too, was implicit in the official declaration of August 15, 1971.

Despite all the International Brotherhoods of this and that, the new "cost-push" inflation has no greater power over foreigners than has any other name for the game. In the markets of the world, it's still the same: put up, or shut up; if you want our goods and services, give us your goods or your gold; worthless paper not accepted here; the exorbitant wage demands of American labor unions are not legal tender in Japan, so sorry!

So, in the final analysis, what a nation can do is to inflate itself out of the world market and practice its splendid isolationism to the very brink of its own disaster – if not further. And a citizenry that will thus demand and tolerate socialism fully deserves it. Nor is it an effective cure for inflation to demand that the government more stringently regulate the monopoly powers granted to organized labor; of course those powers are used and abused to everyone's detriment and ought to be withdrawn. So should numerous other special privileges and government-sanctioned interventions that disrupt peaceful production and trade. However, as long as the government has power to declare that paper is legal tender, there is little prospect that the economy may be free of inflation and socialism.



Why Some Are Poorer



HENRY HAZLITT

THROUGHOUT HISTORY, until about the middle of the eighteenth century, mass poverty was nearly everywhere the normal condition of man. Then capital accumulation and a series of major inventions ushered in the Industrial Revolution. In spite of occasional setbacks, economic progress became accelerative. Today, in the United States, in Canada, in nearly all of Europe, in Australia, New Zealand, and Japan, mass poverty has been practically eliminated. It has either been conquered or is in process of being conquered by a progressive capitalism. Mass poverty is still found in most of Latin America, most of Asia, and most of Africa.

Yet even the United States, the most affluent of all countries, continues to be plagued by "pockets" of poverty and by individual poverty.

Temporary pockets of poverty, or of distress, are an almost necessary result of a free competitive enterprise system. In such a system some firms and industries are growing or being born, others are shrinking or dying; and many entrepreneurs and workers in the dying industries are unwilling or unable to change their residence or their occupation. Pockets of poverty may be the result of a failure to meet domestic or foreign competition, of a shrinkage or disappearance of demand for some product, of mines or wells that have been exhausted, of land that has become a dust bowl, and of droughts, floods, earthquakes, and other natural disasters. There is no way of preventing most of

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Henry Hazlitt is well known to FREEMAN readers as author, columnist, editor, lecturer, and practitioner of freedom. This article will appear as a chapter in a forthcoming book, *The Conquest of Poverty*, to be published by Arlington House.

these contingencies, and no all-encompassing cure for them. Each is likely to call for its own special measures of alleviation or adjustment. Whatever general measures may be advisable can best be considered as part of the broader problem of individual poverty.

This problem is nearly always referred to by socialists as "the paradox of poverty in the midst of plenty." The implication of the phrase is not only that such poverty is inexcusable, but that its existence must be the fault of those who have the "plenty." We are most likely to see the problem clearly, however, if we stop blaming "society" in advance and seek an unemotional analysis.

Diverse and International

When we start seriously to itemize the causes of individual poverty, absolute or relative, they seem too diverse and numerous even to classify. Yet in most discussion we do find the causes of individual poverty tacitly divided into two distinct groups – those that are the fault of the individual pauper and those that are not. Historically, many so-called "conservatives" have tended to blame poverty entirely on the poor: they are shiftless, or drunks or bums: "Let them go to work." Most so-called "liberals," on the other hand, have tended to blame poverty on everybody but the poor: they are at best the "unfortunate," the "underprivileged," if not actually the "exploited," the "victims" of the "maldistribution of wealth," or of "heartless *laissez faire*."

The truth, of course, is not that simple, either way. We may, occasionally, come upon an individual who seems to be poor through no fault whatever of his own (or rich through no merit of his own). And we may occasionally find one who seems to be poor entirely through his own fault (or rich entirely through his own merit). But most often we find an inextricable mixture of causes for any given person's relative poverty or wealth. And any quantitative estimate of fault versus misfortune seems purely arbitrary. Are we entitled to say, for example, that any given individual's poverty is only 1 per cent his own fault, or 99 per cent his own fault – or fix any definite percentage whatever? Can we make any reasonably accurate quantitative estimate of the percentage even of those who are poor *mainly* through their own fault, as compared with those whose poverty is mainly the result of circumstances beyond their control? Do we, in fact, have any *objective* standards for making the separation?

A good idea of some of the older

ways of approaching the problem can be obtained from the article on "Poverty" in *The Encyclopedia of Social Reform,* published in 1897.[1] This refers to a table compiled by a Professor A. G. Warner in his book, *American Charities.* This table brought together the results of investigations in 1890 to 1892 by the charity organization societies of Baltimore, Buffalo, and New York City, the associated charities of Boston and Cincinnati; the studies of Charles Booth in Stepney and St. Pancras parishes in London, and the statements of Böhmert for 76 German cities published in 1886. Each of these studies tried to determine the "chief cause" of poverty for each of the paupers or poor families it listed. Twenty such "chief causes" were listed altogether.

Professor Warner converted the number of cases listed under each cause in each study into percentages, wherever this had not already been done; then took an unweighted average of the results obtained in the fifteen studies for each of these "Causes of Poverty as Determined by Case Counting," and came up with the following percentages. First came six "Causes Indicating Misconduct": Drink 11.0 per cent, Immorality 4.7, Laziness 6.2, Inefficiency and Shiftlessness 7.4, Crime and Dishonesty 1.2, and Roving Disposition 2.2 – making a total of causes due to misconduct of 32.7 per cent.

Professor Warner next itemized fourteen "Causes Indicating Misfortune": Imprisonment of Bread Winner 1.5 per cent, Orphans and Abandoned 1.4, Neglect by Relatives 1.0, No Male Support 8.0, Lack of Employment 17.4, Insufficient Employment 6.7, Poorly Paid Employment 4.4, Unhealthy or Dangerous Employment 0.4, Ignorance of English 0.6, Accident 3.5, Sickness or Death in Family 23.6, Physical Defect 4.1, Insanity 1.2, and Old Age 9.6 – making a total of causes indicating misfortune of 84.4 per cent.

No Objective Standards

Let me say at once that as a statistical exercise this table is close to worthless, full of more confusions and discrepancies than it seems worth analyzing here. Weighted and unweighted averages are hopelessly mixed. And certainly it seems strange, for example, to list all cases of unemployment or poorly paid employment under "misfortune" and none under personal shortcomings.

Even Professor Warner points out how arbitrary most of the figures are: "A man has been shiftless all his life, and is now old; is the cause of poverty shift-

[1] Ed. by Wm. D. P. Bliss (New York: Funk & Wagnalls).

lessness or old age? . . . Perhaps there is hardly a single case in the whole 7,000 where destitution has resulted from a single cause."

But though the table has little value as an effort in quantification, any attempt to name and classify the causes of poverty does call attention to how many and varied such causes there can be, and to the difficulty of separating those that are an individual's own fault from those that are not.

An effort to apply objective standards is now made by the Social Security Administration and other Federal agencies by classifying poor families under "conditions associated with poverty." Thus we get comparative tabulations of incomes of farm and nonfarm families, of white and Negro families, families classified by age of "head," male head or female head, size of family, number of members under 18, educational attainment of head (years in elementary schools, high school, or college), employment status of head, work experience of head (how many weeks worked or idle), "main reason for not working: ill or disabled, keeping house, going to school, unable to find work, other, 65 years and over"; occupation of longest job of head, number of earners in family; and so on.

These classifications, and their relative numbers and comparative incomes, do throw objective light on the problem, but much still depends on how the results are interpreted.

Oriented Toward the Future

A provocative thesis has been put forward by Professor Edward C. Banfield of Harvard in his book, *The Unheavenly City*.[2] He divides American society into four "class cultures": upper, middle, working, and lower classes. These "subcultures," he warns, are not necessarily determined by present economic status, but by the distinctive psychological orientation of each toward providing for a more or less distant future.

At the most future-oriented end of this scale, the upper-class individual expects long life, looks forward to the future of his children, grandchildren, even great-grandchildren, and is concerned also for the future of such abstract entities as the community, nation, or mankind. He is confident that within rather wide limits he can, if he exerts himself to do so, shape the future to accord with his purposes. He therefore has strong incentives to "invest" in the improvement of the future situation – i. e., to sacrifice some present satisfaction in the expectation of enabling someone (him-

[2] Boston: Little Brown, 1970.

self, his children, mankind, etc.) to enjoy greater satisfactions at some future time. As contrasted with this:

"The lower-class individual lives from moment to moment. If he has any awareness of a future, it is of something fixed, fated, beyond his control: things happen *to* him, he does not *make* them happen. Impulse governs his behavior, either because he cannot discipline himself to sacrifice a present for a future satisfaction or because he has no sense of the future. He is therefore radically improvident: whatever he cannot consume immediately he considers valueless. His bodily needs (especially for sex) and his taste for 'action' take precedence over everything else — and certainly over any work routine. He works only as he must to stay alive, and drifts from one unskilled job to another, taking no interest in the work."[3]

Professor Banfield does not attempt to offer precise estimates of the number of such lower-class individuals, though he does tell us at one point that "such ['multiproblem'] families constitute a small proportion both of all families in the city (perhaps 5 per cent at most) and of those with incomes below the poverty line (perhaps 10 to 20 per cent). The problems that they present are out of proportion to their numbers, however; in St. Paul, Minnesota, for example, a survey showed that 6 per cent of the city's families absorbed 77 per cent of its public assistance, 51 per cent of its health services, and 56 per cent of its mental health and correction casework services."[4]

Obviously if the "lower class culture" in our cities is as persistent and intractable as Professor Banfield contends (and no one can doubt the fidelity of his portrait of a sizable group), it sets a limit on what government policy makers can accomplish.

By Merit, or by Luck

In judging any program of relief, our forefathers usually thought it necessary to distinguish sharply between the "deserving" and the "undeserving" poor. But this, as we have seen, is extremely difficult to do in practice. And it raises troublesome philosophic problems. We commonly think of two main factors as determining any particular individual's state of poverty or wealth — personal merit, and "luck." "Luck" we tacitly define as anything that causes a person's economic (or other) status to be better or worse than his personal merits or efforts would have earned for him.

Few of us are objective in

[3] *Ibid.*, p. 53.

[4] *Ibid.*, p. 127.

measuring this in our own case. If we are relatively successful, most of us tend to attribute our success wholly to our own intellectual gifts or hard work; if we have fallen short in our worldly expectations, we attribute the outcome to some stroke of hard luck, perhaps even chronic hard luck. If our enemies (or even some of our friends) have done better than we have, our temptation is to attribute their superior success mainly to good luck.

But even if we could be strictly objective in both cases, is it always possible to distinguish between the results of "merit" and "luck"? Isn't it luck to have been born of rich parents rather than poor ones? Or to have received good nurture in childhood and a good education rather than to have been brought up in deprivation and ignorance? How wide shall we make the concept of luck? Isn't it merely a man's bad luck if he is born with bodily defects – crippled, blind, deaf, or susceptible to some special disease? Isn't it also merely bad luck if he is born with a poor intellectual inheritance – stupid, feeble-minded, an imbecile? But then, by the same logic, isn't it merely a matter of good luck if a man is born talented, brilliant, or a genius? And if so, is he to be denied any credit or merit for being brilliant?

We commonly praise people for being energetic or hard-working, and blame them for being lazy or shiftless. But may not these qualities themselves, these differences in degrees of energy, be just as much inborn as differences in physical or mental strength or weakness? In that case, are we justified in praising industriousness or censuring laziness?

However difficult such questions may be to answer philosophically, we do give definite answers to them in practice. We do not criticize people for bodily defects (though some of us are not above deriding them), nor do we (except when we are irritated) blame them for being hopelessly stupid. But we do blame them for laziness or shiftlessness, or penalize them for it, because we have found in practice that people do usually respond to blame and punishment, or praise and reward, by putting forth more effort than otherwise. This is really what we have in mind when we try to distinguish between the "deserving" and the "undeserving" poor.

What Happens to Incentive

The important question always is the effect of outside aid on incentives. We must remember, on the one hand, that extreme weakness or despair is not conducive to incentive. If we feed a man who has actually been starving, we for the time being probably increase rather than decrease his incentives. But as soon as we give an idle able-bodied man more than enough to maintain reasonable health and strength, and especially if we continue to do this over a prolonged period, we risk undermining his incentive to work and support himself. There are unfortunately many people who prefer near-destitution to taking a steady job. The higher we make any guaranteed floor under incomes the larger the number of people who will see no reason either to work or to save. The cost to even a wealthy community could ultimately become ruinous.

An "ideal" assistance program, whether private or governmental, would (1) supply everyone in dire need, through no fault of his own, enough to maintain him in reasonable health; (2) would give nothing to anybody not in such need; and (3) would not diminish or undermine anybody's incentive to work or save or improve his skills and earning power, but would hopefully even increase such incentives.

But these three aims are extremely difficult to reconcile. The nearer we come to achieving any one of them fully, the less likely we are to achieve one of the others. Society has found no perfect solution of this problem in the past, and seems unlikely to find one in the future. The best we can look forward to, I suspect, is some never-quite-satisfactory compromise.

Fortunately, in the United States the problem of relief is now merely a residual problem, likely to be of constantly diminishing importance as, under free enterprise, we constantly increase total production. The real problem of poverty is not a problem of "distribution" but of production. The poor are poor not because something is being withheld from them, but because, for whatever reason, they are not producing enough. The only permanent way to cure their poverty is to increase their earning power.

IDEAS ON LIBERTY

Self-Help

THE SPIRIT of self-help is the root of all genuine growth in the individual; and, exhibited in the lives of many, it constitutes the true source of national vigor and strength.

SAMUEL SMILES

ECONOMICS:

A Branch of Moral Philosophy

LEONARD E. READ

THE AUTHOR of *The Wealth of Nations* (1776) is frequently classed as an eighteenth century economist. But Adam Smith was primarily a professor of moral philosophy, the discipline which I believe is the appropriate one for the study of human action and such subdivisions of it as may be involved in political economy.

Moral philosophy is the study of right and wrong, good and evil, better and worse. These polarities cannot be translated into quantitative and measurable terms and, for that reason, moral philosophy is sometimes discredited as lacking scientific objectivity. And it is not, in fact, a science in the sense that mathematics, chemistry, and physics are sciences. The effort of many economists to make the study of political economy a natural science draws the subject out of its broader discipline of moral philosophy, which leads in turn to social mischief.

Carl Snyder, long-time statistician of the Federal Reserve Board, exemplifies an economic "scientist." He wrote an impressive book, *Capitalism the Creator*.[1]

I agree with this author that capitalism is, indeed, a creator, providing untold wealth and material benefits to countless millions of people. But, in spite of all the learned views to the contrary, I believe that capitalism, in its significant sense, is more than Snyder and many other statisticians and economists make it out to be – far more. If so, then to teach that capitalism is fully explained in mathematical terms is to settle for something less than it really is. This leaves unexplained and vul-

[1] Carl Snyder, *Capitalism the Creator* (New York: The Macmillan Company, 1940; Arno Press, 1972), 492 pp.

nerable the real case for capitalism.

Snyder equates capitalism with "capital savings." He explains what he means in his Preface:

"The thesis here presented is simple, and unequivocal; in its general outline, not new. What is new, I would fain believe, is the proof; clear, statistical, and factual evidence. That thesis is that there is one way, and only one way, that any people, in all history, have ever risen from barbarism and poverty to affluence and culture; and that is by that concentrated and highly organized system of production and exchange which we call Capitalistic: one way, and one alone. Further, that it is solely by the accumulation (and concentration) of this Capital, and directly proportional to the amount of this accumulation, that the modern industrial nations have arisen: perhaps the sole way throughout the whole of eight or ten thousand years of economic history."

No argument – none whatsoever – as to the accomplishments of capitalism, or that it has to do with "capital savings." But what is capital?

The Ideas Behind Capital

The first answer that comes to mind is that capital means the tools of production: brick and mortar in the form of plants, electric and water and other kinds of power, machines of all kinds including computers and other automated things, ships at sea and trains and trucks and planes – you name it! These things are indeed capital, but is capital in the sense of material wealth sufficient to tell the whole story of capitalism and its creative accomplishments or potentialities?

Merely bear in mind that all of this fantastic gadgetry on which rests a high standard of living has its origin in ideas, inventions, discoveries, insights, intuition, think-of-thats, and such other unmeasurable qualities as the will to improve, the entrepreneural spirit, intelligent self-interest, honesty, respect for the rights of others, and the like. These are spiritual as distinguished from material or physical assets, and always the former precedes and is responsible for the latter. This is capital in its fundamental, originating sense; this accumulated wisdom of the ages – an over-all luminosity – is the basic aspect of "capital savings."

It is possible to become aware of this spiritual capital, but not to measure, let alone to fully understand it – so enormous is its accumulation over the ages. Awareness? Sit in a jet plane and ask what part you had in its making.

Very little, if any, even though you might be on the production line at Boeing. At most, you presssed a button that turned on forces about which you know next to nothing. Why, no man even knows how to make the pencil you used to sign a requisition. These "capital savings" put at your disposal an energy perhaps several hundred times your own. This accumulated energy – the workings of human minds over the ages – is capital!

"Truly Scientific"

With this concept of capital in mind, reflect on how unrealistic are the ambitions of the "scientific" economists. Carl Snyder phrases their intentions well in the concluding paragraph of his Preface:

"It was inevitable, perhaps, that anything like a "social science" should be the last to develop. Its bases are so largely *statistical* that it was only with the development of an enormous body of new knowledge that anything resembling a firmly grounded and *truly scientific system* could be established. It is coming; already the most fundamental elements of this knowledge are now available, as the pages to follow will endeavor to set forth." (Italics added)

Snyder is, indeed, statistical. He displays 44 charts. Nearly all of these show the ups and downs – mostly ups – of physical assets in dollar terms. This, in his view, is a "truly scientific system." But how scientific can a measurement be if the units cannot be quantified and the measuring rod is as imprecise in value as is the dollar or any other monetary unit?

And what is truly scientific about showing the growth in coal production, for instance, if there be a shift in demand favoring some other fuel? This would be only a pseudo-measurement with no more scientific relevance than a century-old chart showing the dollar growth in buggy whip production.

Professor F. A. Hayek enlightens us:

"All the physical laws of production" which we meet, e.g., in economics, are not physical laws in the sense of the physical sciences but people's beliefs about what they can do. . . . That the objects of economic activity cannot be defined in objective terms but only with reference to a human purpose goes without saying. Neither a 'commodity' or an 'economic good,' nor 'foods' or 'money,' can be defined in physical terms but only in terms of views people hold about things."[2]

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[2] See *The Counter-Revolution of Science* by F. A. Hayek (New York: The Free Press of Glencoe, The Crowell-Collier Publishing Co., 1964), p. 31.

National Accounting

Economic growth for a nation cannot be mathematically or statistically measured. Efforts to do so are highly misleading. They lead people to believe that a mere increase in the measured output of goods and services is, in and of itself, economic growth. This fallacy has led to the forced savings programs of centrally administered economic systems – programs which decrease the range of voluntary choice among individuals. This is the heart of the failure of the socialistic policies of the underdeveloped nations of Asia, Africa, and Latin America. As Prof. P. T. Bauer has written so eloquently: "I regard the extension of the range of choice, that is, an increase in the range of effective alternatives open to people, as the principal objective and criterion of economic development; and I judge a measure principally by its probable effects on the range of alternatives open to individuals."[3]

Indeed, even an individual's economic growth can no more be measured, exclusively, in terms of historical statistics than can his intellectual, moral, and spiritual growth. These ups and downs cannot be defined in physical terms but only in terms of views people hold about things. These views – highly personal – are in constant flux; you may care nothing tomorrow for that which you highly prize today.

Once we grasp the point that the value of any good or service is whatever others will give in willing exchange, and that the judgments of all parties to all exchanges are constantly and forever changing, it should be plain that even physical assets – money, food, or whatever – do not lend themselves to measurements in the scientific sense.

And when we further reflect on the fundamental nature of "capital savings," – that they emerge out of ideas, inventions, insights, and the like – the idea of scientific measurement becomes patently absurd.

In any event, it is this penchant to make a science of political economy, to reduce capitalistic behavior to charts, statistics, theorems, arbitrary sysmbols, that leads to such nonsense as the Gross National Product (GNP), "national goals" and "social gains."[4] The more pronounced this

[3] P. T. Bauer, *Economic Analysis and Policy in Underdeveloped Countries* (Duke University Press and Cambridge University Press, 1957), p. 113.

[4] For more on the GNP fallacy and how economic growth cannot be "factually" reported, see "A Measure of Growth" in my *Deeper Than You Think* (Irvington-on-Hudson, N. Y.: The Foundation for Economic Education, Inc., 1967), pp. 70-84.

trend, the less will the economics of capitalism and the free society be understood – "a dismal science," for certain. Indeed, could the ambitions of the "scientific economists" be realized, dictatorship would be a viable political system. At the dictator's disposal would be all the formulae, all the answers; disregarding personal views and choices, he would simply run his information through computers and thus meet production schedules.

When we grasp the point that no man who ever lived has been able to foresee his own future choices, let alone those of others, economic scientism, as it might be called, makes no sense.

Man's Arrogance

How did we ever get off on this untenable course? Perhaps we can only speculate. A flagrant display: At one point in a recent Seminar discussion I repeated, "Only God can make a tree." And then this exclamation by a graduate student, "Up until now!" This, it appears to me, is the reflection of a notion, so prevalent in the eighteenth and nineteenth centuries, that every facet of Creation, even life itself, lies within the powers of man. Merely a matter of time!

To tear human action asunder and then to assign symbols or labels to the pieces, as the scientists properly do with the chemical elements, is no service to economic understanding. This method makes understanding impossible for the simple reason that it presupposes numerous phases of human action that can be mathematically or scientifically distinguished one from the other when such is not the case. Why am I motivated to write this or you to read it? Doubtless, each of us can render a judgment of sorts but it will not be, cannot be, in the language of science.

Political economy is as easy or, perhaps, as difficult to understand and practice as the Golden Rule or the Ten Commandments. Economics is no more than a study of how scarcity is best overcome, and the first thing we need to realize is that this is accomplished by the continued application of human action to natural resources.

Natural resources are what they are, no more, no less – the ultimate given! The variable is human action.

Political economy, then, resolves itself into the study of what is and what is not intelligent human action. It should attempt to answer such questions as:

Is creative energy more efficiently released among free or coerced men?

Is freedom to choose as much a right of one as another?

Who has the right to the fruits of labor – the producer or nonproducer?

How is value determined – by political authority, cost of production, or by what others will give in willing exchange?

What actions of men should be restrained – creative actions or only destructive actions?

How dependent is overcoming scarcity on honesty, respect of each for the rights of others, the entrepreneurial spirit, intelligent intepretation of self-interest?

Viewed in this manner, political economy is not a natural science like chemistry or physics but, rather, a division of moral philosophy – a study of what is right and what is wrong in overcoming scarcity and maximizing prosperity – the problem to which it addresses itself.

Once we drop the "scientific" jargon and begin to study political economy for what it really is, then its mastery becomes no more difficult than understanding that one should never do to others that which he would not have them do unto him.

Freedom, an Illusion

IDEAS ON LIBERTY

FREEDOM is an illusion, though an important one; in any society, restraints and restrictions, obligations and compulsions are the realities.

"Free as the wind" is such an illusion. Consider the restraints and restrictions and obligations and compulsions. For wind is nothing but air being pushed from areas of high pressure to low, cold and heavy air displacing warmer and lighter air, its course modified by solid objects of nature and man in its path, subject to all the laws of gases, gravity, mass, matter, and so on.

The illusion of freedom has been broad indeed in America with its unique government of limited and specific powers – limiting the restraints and restrictions, the obligations and compulsions to which Americans might be subjected. No such illusions of freedom persist in totalitarian societies, be they Communist, Fascist, Socialist or whatever. For it is made abundantly clear that the people subject to these regimes are free only to support and serve the state, with ample restraints and restrictions to shatter any other illusions of freedom.

Why is this illusion of freedom so vitally important? Because the more free men feel to serve themselves, their fellows, and their Creator, the better they do in fact serve all.

J. KESNER KAHN, Chicago, Illinois

MORALITY and CONTROLS

MILTON FRIEDMAN

MOST DISCUSSION of the wage-price freeze and the coming Phase II controls has been strictly economic and operational: were they needed, will they work, how will they operate. I have recorded my own opposition to them in three columns in *Newsweek.*

There has been essentially no discussion of a much more fundamental issue. The controls are deeply and inherently immoral. By substituting the rule of men for the rule of law and for voluntary cooperation in the marketplace, the controls threaten the very foundations of a free society. By encouraging men to spy and report on one another, by making it in the private interest of large numbers of citizens to evade the controls, and by making actions illegal that are in the public interest, the controls undermine individual morality.

One of the proudest achievements of Western civilization was the substitution of the rule of law for the rule of men. The ideal is that government restrictions on our behavior shall take the form of impersonal rules, applicable to all alike, and interpreted and adjudicated by an independent judiciary rather than of specific orders by a government official to named individuals. In principle, under the rule of law, each of us can know what he may or may not do by consulting the law and determining how it applies to his own circumstances.

The rule of law does not guaran-

Dr. Friedman, Professor of Economics, University of Chicago, needs no introduction to FREEMAN readers.

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tee freedom, since general laws as well as personal edicts can be tyrannical. But increasing reliance on the rule of law clearly played a major role in transforming Western society from a world in which the ordinary citizen was literally subject to the arbitrary will of his master to a world in which the ordinary citizen could regard himself as his own master.

Contract or Status?

The ideal was, of course, never fully attained. More important, we have been eroding the rule of law slowly and steadily for decades, as government has become more and more a participant in economic affairs rather than primarily a rule-maker, referee, and enforcer of private contracts. It was, after all, the development of the private market that made possible the original movement from a world of status to a world of voluntary contract. As government has tried to replace the market in one area after another, it has inevitably been driven to restore a world of status.

The freeze and even more the pay board and price board of the Phase II controls are clearly another massive step away from the rule of law and back toward the rule of men. True, the rule of men will be under law but that is a far cry from the rule of law – Stalin, Hitler, Mussolini, and now Kosygin, Mao, and Franco all rule under law.

The price that you and I may charge for our goods or our labor or that we may pay others for their goods or their labor will now be determined, not by any set of legislated standards applying to all alike, but by specific orders by a small number of men appointed by the President. And if governmental edict is to replace market contract, there is no alternative. There are millions of prices, millions of wage rates arrived at by voluntary agreements among millions of people. The collectivistic countries have been unable in decades to find simple rules enabling prices and wages to be established by any alternative impersonal mechanism.

Politics and Patriotism

We are not likely to succeed. And we are not trying. Instead, the appeal is to the patriotism, civic responsibility, and judgment of political appointees, must of whom represent vested interests. How do patriotism and judgment determine that the price of a widget may rise 2.8 per cent but the price of a wadget, only 0.3 per cent; the wage of a widgeteer by 2 per cent but of a wadgeteer, by 10 per cent? Clearly they do not.

Arbitrary judgment, political power, visibility – these are what will matter.

The tendency for such an approach to violate human freedom is even more clearly exemplified by the present situation with respect to dividends. The President has *requested* firms not to raise dividends – he has no legal power to do more. The request has been accompanied by surveillance, a calling down to Washington and public lambasting of the handful of corporations that did not conform, and a clear, implied threat to use extralegal powers. These measures have no legal basis at all. Yet I know of only one small company that has had the courage to refuse to cooperate on grounds of principle.

The full logic of the system will not work itself out this time. Our strong tradition of freedom, the ineffectiveness of the controls, the ingenuity of the people in finding ways around them – these will lead to the collapse of the controls rather than to their hardening into a full-fledged straitjacket. But nonetheless, it is disheartening to see us take this further long step on the road to tyranny so lightheartedly, so utterly unaware that we are doing something fundamentally in conflict with the basic principles on which this country is founded. The first time, we may venture only a small way. But the next time, and the next time?

A Nation of Informers

Enforcement of the price and wage controls, as of the freeze, must depend heavily on encouraging ordinary citizens to be informers – to report "violations" to government officials.

When you and I make a private deal, both of us benefit – otherwise we do not have to make it. We are partners, cooperating voluntarily with one another. The terms, so long as they are mutually agreeable, should be our business. But not any longer. Big Brother is looking over our shoulders. And if the terms do not correspond with what he says is O.K., one of us is encouraged to turn in the other. And to turn him in for doing something few people have ever regarded and do not now regard as in any sense morally wrong; on the contrary, for doing something that each of us regards, when it affects us, as our basic right. Am I not entitled to sell my goods or my labor for what I consider them worth as long as I do not coerce anyone to buy? Is it morally wrong for Chile to expropriate the property of Anaconda Copper – i.e., to force it to sell its copper mines for a price less than its value; but morally right for the U.S. government to

"The excuse for the destruction of liberty is always the plea of necessity."

force the worker to sell his labor for less than its value to him and to his employer?

By any standards, the edicts of the pay board and the price board, like the initial freeze, will be full of inequities and will be judged to be by ever increasing numbers of people. You believe that you are entitled to a pay raise, your employer agrees and wishes to give you one, yet the pay board says no. Will there not be a great temptation to find a way around the ruling? By a promotion unaccompanied by any change in duties but to a job title carrying a higher permitted pay. Or by your employer providing you with amenities you formerly paid for. Or by one or another of the innumerable stratagems – legal, quasi-legal, or illegal – that ingenious men devise to protect themselves from snooping bureaucrats.

Two Wrongs = Two Wrongs

In general, I have little sympathy with trade unions. They have done immense harm by restricting access to jobs, denying excluded workers the opportunity to make the most of their abilities, and forcing them to take less satisfactory jobs. Yet surely in the present instance they are right that it is inequitable for the government retroactively to void contracts freely arrived at. The way to reduce the monopoly power of unions is to remove the special legal immunities they are now granted, not to replace one concentrated power by another.

When men do not regard governmental measures as just and right they will find a way around them. The effects extend beyond the original source, generate widespread disrespect for the law, and promote corruption and violence. We found this out to our cost in the 1920's with Prohibition; in World War II with price control and rationing; today with drug laws. We shall experience it yet again with price and wage controls if they are ever more than a paper façade.

One feature of price and wage controls makes their effect on individual morality especially vicious. Because these controls distort the use of resources, the evader benefits not only himself but society. The more rigorously the controls are enforced, the more harm they do. They render behavior which is immoral from one point of view socially beneficial. They thus introduce the kind of fundamental moral conflict that is utterly destructive of social cohesion.

Our markets are far from completely free. Monopoly power of labor and business means that prices and wages are not wholly a product of voluntary contract. Yet these blemishes, real and important though they are, are minor compared to replacing market agreements by government edict, compared to giving arbitrary power to a small number of appointed officials, compared to inculcating in the public contempt for the law.

The excuse for the destruction of liberty is always the plea of necessity – that there is no alternative. If indeed, the economy were in a state of crisis, of a life-and-death emergency, and if controls promised a sure way out, all their evil social and moral effects might be a price that would have to be paid for survival. But not even the gloomiest observer of the economic scene would describe it in any such terms. Prices rising at 4 per cent a year, unemployment at a level of 6 per cent – these are higher than we would like to have or than we need to have, but they are very far indeed from crisis levels. On the contrary, they are rather moderate by historical standard. And there is far from uniform agreement that wage and price controls will improve matters. I happen to believe that they will make matters worse after an initial deceptive period of apparent success. Others disagree. But even their warmest defenders recognize that they impose costs, produce distortions in the use of resources, and may fail to reduce inflation. Under such circumstances, the moral case surely deserves at least some attention.

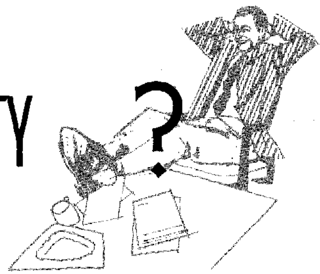
IDEAS ON LIBERTY

The Abolition of Private Property

A GOVERNMENT that sets out to abolish market prices is inevitably driven towards the abolition of private property; it has to recognize that there is no middle way between the system of private property in the means of production combined with free contract, and the system of common ownership of the means of production, or Socialism. It is gradually forced towards compulsory production, universal obligation to labor, rationing of consumption, and, finally, official regulation of the whole of production and consumption.

LUDWIG VON MISES, *The Theory of Money and Credit*

Can we sustain PROSPERITY?



W. A. PATON

THOUGHTFUL contemplation of the current scene, supplemented with some scanning of the historical record, is likely to set the observer to wondering if any nation is capable of achieving and maintaining a broadly affluent society. Toiling up the slope, overcoming obstacles and adversity, human beings often display courage, resourcefulness, endurance, tenacity, ability to cope and continue climbing, but when they reach the top of the hill, have it made, many seem to have a tendency to shed their heroic trappings and become confused, disorderly, unenterprising, and – in some cases – downright shiftless and dependent.

The cycle of great progress followed by decline seems to be in the process of striking illustration here in America. As to the fact of an astonishing advance there can be no question. In two centuries, roughly, the United States has moved from a scattering of settlements, loosely affiliated, along our eastern seaboard to a country stretching across a continent, and recognized as a major world power. In this period, too, a primitive technology has been transformed into a productive mechanism placing us in a forefront industrial position, with a per-capita standard of living that is unmatched, anywhere. In this process hardships and difficulties were encountered by our forefathers that looked insurmountable at times, and that were mastered only by an amazing display of determination and fortitude on the part of many individuals and families. The commitment

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Dr. Paton is Professor Emeritus of Accounting and of Economics, University of Michigan, and is known throughout the world for his outstanding work in these fields. His current comments on American attitudes and behavior are worthy of everyone's attention.

of the founders of the nation to a republican form of government, as expressed in our constitution, and the accompanying atmosphere of faith in individual initiative and a free, competitive market economy, undoubtedly played a great, and perhaps decisive, role in making possible the tremendous gains that have been chalked up in such a short span of years.

But now that we've arrived, so to speak, there are ominous signs of decay and collapse. When one looks squarely at the prevailing tendencies and conditions it is hard to be optimistic about the future. With the widespread slackening of the willingness to work, and work diligently and well, exemplified right and left in absenteeism, careless performance on the job, demands for ridiculously short weekly working hours, to mention a few of the evidences, a decline in productivity per person can hardly be avoided, even if the momentum of the technical march is maintained for a time and there is persistent abatement in the rate of population growth. Still more serious is the apparent waxing, among many, of the spirit of dependency; there seem to be few signs of reluctance to accept a place on the relief rolls and no widespread urge to get off the list of those who are living at the expense of the taxpaying group. The fearful increase in the level of serious crime, including destruction of both private and public property, the growing cancer of drug abuse, the outrageous irresponsibility and disorder on the educational front, the carnage on the highways, are examples of other factors that are rampant and that surely are having a negative impact on the quality of living as well as the quantity of commodities and services available for consumers.

Before going on I should point out that it would be difficult to demonstrate that marked material progress is inherently bound to generate a general downhill slide; but it does seem clear that we Americans have suffered a severe attack of softening-up, particularly evident among the coddled and unruly young folks but found in varying degrees among all ages and classes. And it also seems clear that some of the serious problems with which we are confronted could hardly germinate, to say nothing of growing like bad weeds, in the absence of a high level of economic output and prosperity. There is a chain of evidence, too, of cyclical patterns of behavior among both individuals and groups, historically as well as currently, although there is room for argument as to underlying causes of rise and fall in particular situations.

Striding into Socialism

The problems and difficulties referred to above are by no means the whole story of what ails us. During the past forty to fifty years the freedom of initiative and choice that we have enjoyed, and that is so substantially responsible for the progress made, has been rapidly eroded. Government interference and control have been growing like the psalmist's green bay tree. Fostered by war and postwar problems, the depression of the early thirties, and the policies promoted during the Roosevelt era, we have seen the hand of the state, at all levels, bearing down more and more heavily on the mechanism of the market, throughout the economic pipeline. Business men and politicians are still giving persistent lip service to "our system of free enterprise," but the continuing reiteration of this phrase is becoming a bit absurd in the light of the actual state of affairs. The most discouraging aspect of the situation, for those with genuine allegiance to the view that the free competitive market is the effective means of stimulating and directing the economic apparatus, is the extent of general acquiescence in the march toward a completely socialistic society.

Indeed, there seems to be an increasing tide of clamor for more and more government intervention and dictation in the process of production and distribution, ranging from such fields as specifications for motor vehicle manufacture to the details of cereal packaging. This clamor gives evidence of both gross ignorance and a form of mysticism. Many act as if they were unaware of what the free market has accomplished for this country, and are equally lacking in the ability to distinguish between the essence of a free economy and the nature of statism. And a host of people appear to believe that the ordinary humans who operate a government agency somehow become supermen, wizards, when they put on the official cloak. Actually there is abundant evidence that government employment is still not regarded with great favor by many of the exceptionally talented and ambitious and that those entering the service of the state tend to become insulated by civil service and other factors from the kind of pressures that still prevail in private business, with resulting impairment of any urge in the direction of top-flight performance. Belief in the superiority of government operation over that of typical private organizations is surely one of the most unjustified of all the familiar delusions from which we are suffering. Experience with the mail service alone should be sufficient to cure anybody – even the most gullible – of such a conviction.

The Poverty Bugaboo

The activists in the drive against private business undertakings and an economy depending on the market for guidance generally start their attack by questioning the position that by these means we have achieved a genuinely prosperous status. They can hardly deny the fact of an astonishing advance in technical devices and methods and an accompanying surge in the level of economic output, but they contend that the major benefit of the improvement goes to the few rather than the many, and that the injustices inherent in the way the pie is cut and distributed are so serious as to warrant the indictment of the system rather than its support.

That the mechanism of the market will not work out perfectly in practice, even if not harassed or hamstrung by interventions, must be acknowledged. The American experience, although extraordinary, has certainly not been free from difficulties and inequities; the results, even from a neutral point of view, fall short of achieving an ideal state of affairs. The frailties of men have not been overcome; unfairness and predatory conduct have not been eliminated. But any careful examination of the available data will show that the radical detractors, the people determined to substitute complete collectivism for a still partially-free market economy, are way off base. In the first place they make the old Marxian mistake of assuming that you can have mass production without mass consumption. If millions of bathtubs are made there must be millions of users; they can't all be crowded into the homes of the very wealthy. The truth is that capitalism has been the great leveler. In the industrial countries generally, and especially in the United States, the most striking feature of the trek up the hill has been the great improvement in the lot of the ordinary, mine-run individual. With the development of machine methods, broad markets, and representative government, it became no longer possible for a small ruling class to skim off all the cream, leaving the masses at or near the subsistence level – the condition prevailing through most of human history.

The willingness of those working to destroy private enterprise and enthrone government to close their eyes to the actual situation is somewhat puzzling, and at times makes one question the sincerity of their accusations and protestations. It is true, of course, that some people have larger incomes, better housing, and more property than others, and such a condition may arouse envy and even hate, as well as provide powerful motivation for greater effort and productivity. But it is simply not a fact that America is a land of large-scale poverty and economic distress. The air is full of baloney at this point. The attitudes of many remind one of the tale of the goose and the golden eggs. Present-day Americans *are* affluent, amazingly, when their condition is compared with the lot of their grandparents and great-grandparents, to go back no further. Let the complainers try to find examples of families at the bare subsistence level; they'll have trouble in locating a single case. When the writer was a youngster, in contrast, there were households in many neighborhoods where at times perhaps the only available foodstuff was corn-meal – and not much of that. And the people suffering real privation in those days were often still too proud and ambitious to expect to be taken care of by either the neighbors or any branch of government. Abject poverty – where keeping body and soul together is a problem – has almost disappeared in this country, and today we are arguing about the frills, not the necessities.

I recall flying across Appalachia one beautiful evening during the period when the hue and cry about the pathetic state of the miners and their families was at its height. It was just at dusk, but following the valleys at less than a mile up I had a good view of hundreds of cabins and small houses, both scattered and in the villages along our route. And I was struck by the fact that there was a television tower on almost every home, including the shanties, and one or two cars standing in nearly every driveway (and they didn't all look like jalopies). I realize that the presence of a television set and a car doesn't demonstrate affluence, but neither does it suggest a state of acute misfortune and misery.

With the campaign to abolish "poverty" now in full swing, mainly through the means of coerced transfers from those with to those without (by political definition) there is grave danger that there will shortly be an accelerating reluctance on the part of those providing the wherewithal to continue to carry on for the benefit of the idle and nonproductive, and that the resulting decline in output will produce a crisis that will finally lead to a tyrannical dictatorship. Indeed, there is already some evidence of slackening effort, on the part of those still working and paying taxes, in the face of the mounting burden of the "welfare" program.

The Importance of Pressures

The question propounded in the heading for these comments, however, should not be answered by a blunt negative. It leads into the broad problem of motivation, a subject worthy of serious study. In attempting to examine this problem very briefly, and to take note of some of the limitations of the pessimistic position outlined here, some further attention should be given, first, to the impact of hardships and rough sledding on the development of character and striving for improvement.

That pressure of some kind is required to induce man to bestir himself, vigorously and resourcefully, to spur him to effort and accomplishment, seems quite clear. As somebody has put it, "when the going gets tough the tough get going." The basic, universal pressure is the urge to survive. Among our remote, primitive ancestors this pressure was undoubtedly most urgently felt in the need to find food adequate to maintain life, and in many parts of the planet today this need is still paramount. In the Western World, and particularly here in America, this primary pressure has receded, at least for the time being, into the background. As a result of great technical progress and other factors we are now concerned with a high rather than a bare living level, as already pointed out. In the matter of food we have meat, dairy products, fruit, vegetables, and a great array of processed and packaged foodstuffs, and it would be difficult for most Americans even to imagine themselves restricted to a diet – for example – of unpolished rice with an occasional dab of fish. In clothing it is style that counts, not the need to keep from freezing. In housing almost everyone has electric lights, and central heating and air-conditioning are so widespread as to be commonplace. Improved streets and highways are crowded with more than 100,000,000 motor vehicles. Travel, entertainment, educational facilities, a flood of printed matter, are generally available. And so on. As I said before we *are* affluent, and sustenance is not our immediate problem.

It is difficult to judge what is the over-all effect of the present-day release, on a substantial scale, from the threat of starvation, and the general slackening of the struggle for the other "necessities". That the absence of these fundamental pressures has a bearing on current conditions may reasonably be concluded. One evidence of the effect of the "good times", often pointed out, is found in the many cases where the sons and daughters of those who have made the grade show little of the urge to work hard, to hustle, to strive, as did their parents and grandparents. And in view of the extent to which some of the youngsters are indulged this should not be surprising. Another evidence is supplied by artificial, built-in barriers to pressure. Civil service and professorial tenure are examples of shelters that often contribute to sluggishness and poor performance. If the boss has no power to fire anybody why should an employee go all out to improve his productivity? Why should he not slow down in the traces? I once joshingly suggested to a university president that the board of regents should fire at least one full professor annually, even if he were picked by lot, as a means of keeping the teaching staff on their toes. (Of course there are cases where conscience, a developed work habit, and native ambition to excel, will offset the tendency to take it easy under the protection afforded by tenure.)

Relieve Unnecessary Pressures

Supporters of tenure, union power, and other policies, aimed at preventing dismissals, may contend that the resulting freedom from fear, increased sense of security, will serve to promote rather than check the inclination to pitch in hard at the work in hand, and this point is not utterly without merit. Acute and continuing fear, at any rate, may not be conducive to top performance. Thus the constant dread of finding the pink slip of dismissal in the pay envelope, and anxiety as to arbitrary and unjust treatment, are not favorable conditions for the stimulation of first-class effort. But such conditions are a far cry from those in which dismissal for serious cause – persistent absenteeism, drunkenness, sloppy workmanship, sabotage, and so on – is impossible because of tenure or other restraints on management.

On the market place there is broad evidence of the pressure requirement. Without the push provided by competition the market can not be expected to furnish price structures and movements that will act as sound thermostatic guides in production and distribution. It is beyond the scope of this piece to consider the meaning and impact of competition, but it is not inappropriate here to insist that the very essence of a condition of active competition is *continuing pressure in the direction of better products and services to the consumer, at the lowest possible cost.*

The Need for Lures

Before concluding these comments notice should also be taken of the importance of the carrot in front as well as the stick behind as a stimulant. Opportunity, encouragement, inducement, as well as hardship and difficulty, can prod men to action and increased effort. Thus it can be argued that the opportunity presented to early American settlers by a relatively open continent, blessed with abundant natural resources, rather than the obstacles and difficulties as such, is the factor that explains the great forward surge in technology and productivity. Opportunity beckons, without doubt, and a hopeless outlook, with no sign of a silver lining in view, is not conducive to great endeavor. This is very evident in the areas of capital formation and investment; without the lure of earnings the incentive to save and invest is surely impared if not largely destroyed.

In climbing the hill, to consider the possible effect of opportunity a bit further, every step successfully taken may provide encouragement for attempting another stride, and as the momentum of progress increases the glimpses of the possibilities lying ahead may become even more potent than the sight of the obstacles yet in the way. It is hardly practicable, and not necessary, to pass judgment on the relative weights of the impacts of lure and pressure, but we can all agree that the presence of openings, prospects, of doors at least ajar, may well be of crucial significance in any society, at any stage of its development.

Will the Upward Climb Be Resumed?

Are there chinks in the clouds that have been gathering over our heads in America, and have been becoming blacker and blacker for some time? Do our current troubles constitute the early stages of a long decline into some kind of "dark ages"? As I've already indicated, grounds for optimism are rather hard to find. But a turnabout – perhaps in a generation or two – shouldn't be ruled out. It is conceivable that present destructive trends will be checked, by some juncture of circumstances, and even reversed in due course. Many Americans still have a lot of latent spunk left, that comes to light occasionally in the heroic efforts – for example – to rescue trapped miners, children in peril, or even the cat or dog lost in a sewer. In the field of sport, too, we see the survival of a strong competitive spirit and devotion to the ideal of top performance. And there are other and still more impressive evidences of courage, sacrifice, and dedication.

Especially needed is recognition of the plain fact that our society has done no more than climb the foothills; the mountain top is a long way off. On the technological front, certainly, there are still challenges galore. Perhaps attention should be shifted from outer space to the Earth's crust. Thus far the deepest we have dug is not much more than a mile. Underground housing has been experimented with here and there, but there is room for a tremendous development in this field – as any visitor to the underground home at the last world's fair in New York will attest.[1] It would not be out of the question to put a whole city underground. As our reserves of basic metals and other resources, that we don't know how to replace in kind, become exhausted there will be increasing need for the production of substitutes from the sand and other substances that are available in inexhaustible amounts. It's unlikely, but scarcely inconceivable, that the problem of transmutation may be solved – the dream of the ancient alchemist. Our great railroad system is almost prostrate, but it could be restored and greatly advanced. Why not have tubes crossing the continent through which both passenger and freight trains could move at speeds of two or three hundred miles per hour? These few suggestions are only a small sample of major possibilities.

And minor improvements – of the zipper class – are possible by the thousand. We still don't have a pitcher from which we can pour our cream or syrup without dripping! Or even a cereal dish with a slanting bottom, so that we can cream our corn flakes, by stages, without soaking the whole dishful. And when is somebody going to come along with a good transparent plastic storm window, to be hung inside on a roller, so the householder can put it on or off in a twinkling?

In conclusion I feel obliged to return to the point that we can't put our feet back on the path that may lead, eventually, to the highest peak, unless we abandon the downhill track on which we are now chugging along toward the mistaken goal of complete government control and operation – the socialist state. Here is the crucial difficulty that must be overcome if an upward course is to be resumed. And daydreaming, disorder, and destruction won't help us to make the shift.

[1] For the first outline of the possibilities of underground construction see the author's "On Going Underground," *Michigan Quarterly Review*, January, 1962, and a discussion of this article in the Sunday edition of the *Detroit Free Press*, March 31, 1963.

CLARENCE B. CARSON

THE FOUNDING OF THE AMERICAN REPUBLIC

6

The Mercantile Impasse

WHAT PROVOKED the American colonists to resist British acts, to rebel against restrictions placed upon them, and eventually to declare and effect their independence? To put the matter in more conventional terms: What caused the American revolution?

Men who have spent years studying the questions propound different answers. Some hold that the British mercantile system provided the provocation to revolt. Others have held that the American colonists benefited from mercantilism and that, this being so, mercantilism was hardly at the root of the difficulty. Another thesis that has been argued, most persuasively by Lawrence Henry Gipson, is that the American colonies had attained a level of maturity that made them no longer dependent upon Britain and no longer desirous of the connection. Some historians have gone so far as to charge that American debtors with the desire to rid themselves of pressing British creditors stirred up resistance and brought off a revolution. Those looking for a class struggle explanation of the conflict have tried to make the revolt against Britain a part of an internal struggle be-

Dr. Carson lives in Florida. He is a noted lecturer and author, his latest book entitled *Throttling the Railroads.*

tween the haves and have-nots. In short, almost every interpretation that could be imagined has been offered, and many of these have been buttressed by impressive arguments and such evidence as fitted them.

One thing is about as clear as such things can ever be: mercantilist acts did not provoke the initial resistance in the mid-1760's. The Stamp Act of 1765 was not a mercantilist act, nor was the Sugar Act of 1764 primarily mercantilistic. Indeed, the Sugar Act altered some of the original mercantilist features of the Molasses Act of an earlier date. Moreover, there had been mercantilist restrictions on the American colonists for more than a century, and none of these had provoked violent resistance. There can be no doubt that colonists were long since used to mercantilist restrictions, and peoples are unlikely to revolt against that to which they have become accustomed. The fact is that when representatives of the colonists gathered at the Stamp Act Congress to air their grievances, they announced that what they fundamentally opposed was "taxation without representation" a thing contrary to the British constitution. They readily granted – at first – that Britain had the right to regulate their commerce. It follows, then, that the immediate provocation to resistance was not mercantilist measures.

But this is only to look at things from the surface and to wrench them out of a much broader historical context where they belong. Suppose that instead of asking why and what the colonists resisted we ask why the British persisted in passing measures which provoked the colonists. More directly, why did Parliament attempt to raise revenues from the colonies in ways that departed from custom and long established policy? Why did they lay direct and indirect taxes on the colonies?

For Revenue Only

The answers to these questions are not far to seek. The British government was in dire need of new sources of revenue. The wars of the eighteenth century had been highly expensive, and the indebtedness of the government was mounting. The debt in 1755 – just prior to the Seven Year's War (or French and Indian War as it was known in America) – stood at about £75,000,000. By 1766 it had mounted to £133,000,000.[1] The British people were heavily taxed, and new taxes were being added. The reaction in the mother country to an added tax on do-

[1] Lawrence H. Gipson, *The Coming of the Revolution* (New York: Harper Torchbooks, 1962), pp. 55-56.

mestic cider is instructive. "The news of the passing of the cider act was the signal for 'tumults and riots' in the apple-growing countries of England, and many producers of cider threatened to cut down their orchards if the excise were collected."[2] In short, the heavily-taxed British were in no mood to accept additional burdens.

By contrast, American colonists were generally lightly taxed, and several colonies had no government debt to speak of. For example, one historian describes the situation in Pennsylvania in this way: "Not only were the inhabitants relieved of all *ordinary* charges of government during the years 1760-63 but, aside from a revived excise tax on liquors, they also enjoyed such relief during the remainder of the period down to the Revolution. Moreover, the personal and estate taxes . . . represented a per capita levy of less than one shilling. . ." by 1775.[3] A report from Maryland in 1767 indicated that "all levies for the support of the provincial government – in contrast to those for the support of the clergy, the schools, and other county and parish charges – amounted to less than £5,500, an annual per capita tax of about a shilling."[4] Though not all the colonies had such a pleasant tax situation, neither was it generally unpleasant. On top of this, colonial governments had been reimbursed for their military outlays during the French and Indian War.

If these conditions be accepted at face value, if there be no looking behind them, it would appear that the case for Britain's taxing the colonists would certainly be understandable and probably justifiable. But the situation does warrant an examination of the background. British taxation of the colonists broke a long-term contract with them – so the colonists said – and heralded a major policy turn. Back of this policy shift were the mercantilistic policies and practices which had produced a domestic crisis for the British which their government tried to relieve by bringing pressure on the colonies.

Bitter Fruits of a Long History of Mercantilism

The contradictions of mercantilism had produced a long harvest of bitter fruit, some of which the British government and people were no longer willing to accept. No more, in justice, could the American colonists be expected to accept them. It is true that the debates of the 1760's and 1770's were not usually conducted in

[2] *Ibid.*, p. 58.
[3] *Ibid.*, p. 136.
[4] *Ibid.*, p. 138.

terms of mercantile policy. The contradictions were there, and policy changes should be viewed in the light of them. During this time, Adam Smith was putting together his monumental work, *The Wealth of Nations,* which laid bare the fallacies and contradictions of mercantilism. It may be accounted appropriate, too, that this work appeared in print in 1776, the same year as the Declaration of Independence. A little examination into British mercantilism will show its role in producing an impasse between Britain and America.

Mercantilism was a composite of ideas and practices which had grown helter-skelter over a couple of centuries before the revolt in the American colonies. Most of the ideas were formulated in the seventeenth and eighteenth centuries, but some of the practices associated with it are much older. The theory of mercantilism was the first faltering effort at devising a general theory of economics in the modern era. As some thinkers cut loose from a Christian framework and attempted to look at things naturally, they devised a crude economics to fit new preconceptions. The theory was weighted down with two assumptions, however, which were cultural in origin rather than natural.

Measured in Gold

The first of these assumptions was made up largely of what is commonly called the bullion theory. Bullionism is the notion that wealth consists of precious metals, particularly gold, and that the value of everything else derives from the fact that precious metals will be exchanged for it. It is understandable that men should have come to think in this way. Gold was the most universally acceptable medium of exchange in both East and West. It hardly deteriorates; it weighs little in proportion to its exchange value for other things; it has many practical uses; and it is malleable. Men ever and again mistake money, because it can be exchanged for goods, for the source of the value which their demand gives to the goods. Small wonder, then, they should make this confusion about gold when gold is valued as a commodity as well as a medium of exchange.

The second major assumption of mercantilism was nationalistic. That is, mercantilists thought exclusively about how a single nation might enhance its wealth by increasing its supply of gold. One nation's wealth, as they saw it, was usually gained at the expense of another nation. Ordinarily, one nation gains gold from another nation which is losing its supply.

(It is interesting to speculate that mercantilistic theory and practice may well have been born out of the intense desire of many countries to separate the Spanish from the great hordes of gold they had found in the Americas.) According to the bullion theory, then, one nation's wealth is increased by diminishing that of another.

Intergovernmental Affairs

The thrust of mercantilism was to make trade into a contest among the governments of nations. This was so because trade was now conceived of as a potential means for increasing the bullion holdings of a nation. This would be accomplished, according to mercantilists, by way of a favorable balance of trade. A favorable balance of trade is said to exist when the goods and services which one nation sold to another exceeded those bought from the other. In brief, a nation had a favorable balance of trade when exports exceeded imports. This was thought to be "favorable" because the difference would be made up in gold and the "wealth" of the nation thus favored would be augmented. A nation which imported more than it exported would, of course, have an unfavorable balance of trade.

Numerous practices which might help a nation to get a favorable balance of trade were contrived or justified by this theory. The practices were usually aimed at increasing exports and decreasing imports. Imports could be decreased if more of the goods consumed in a country were produced there. To that end governments encouraged manufacturing by special charters and encouraged the growing of certain crops by subsidies and bounties. Of course, imports were more directly discouraged by tariffs, quotas, and discriminatory charges levied against foreign suppliers. Similar practices also might help a country to increase its exports.

Colonies were conceived of as being particularly valuable in enhancing the wealth of a nation. Frequently wanted were raw materials for manufacturing as well as produce which could not be grown economically at home. If such exotic products could be acquired from colonies they need not be imported from some other country. In addition to this, a colony might have an unfavorable balance of trade with the mother country and thus be a source of the precious metals it would send to make up the trade deficit.

The American continental colonies were part of a British empire which had been shaped in the seventeenth and eighteenth centuries as a result of the mercantile policies of England. Initially, the kings of England had attempted to plant and benefit from colonies by granting them as monopolies to private companies and proprietors. These companies and individuals were empowered to regulate the activities of those who came over so that the undertakings would benefit the owners and, perchance, enhance the wealth and power of England. Things did not work out that way very consistently. Colonists frequently cared little enough about whether they benefited the original charter holders or not; instead, they concentrated their efforts on doing what was to their own benefit. Moreover, as colonists gained some measure of control over their governments, they often enacted their own mercantile policies with the intent of making a colony self-sufficient.[5] Such action ran counter to British aims, of course.

Acts of Intervention

By the mid-seventeenth century, then, Britain was ready to begin to impose a general system of mercantile restrictions on the colonists.

The most general of the mercantile acts are those known as the Navigation Acts. A series of these acts was passed over the years from 1651 through 1663. The number of acts passed was increased because legislation passed in the 1650's was considered invalid after the restoration of monarchy in 1660. This being the case, the later acts are the only ones that need concern us here. The Navigation Act of 1660 – re-enacted in 1661 – required that all trade with the colonies be carried in English-built ships which were manned predominantly by Englishmen. "English" was defined for this purpose to include the inhabitants of the colonies. All foreign merchants were excluded from the commerce of the English colonies, and certain enumerated articles, e. g., tobacco, could only be exported from the colonies to Britain or British possessions. The Staple Act of 1663 provided that goods to be exported from European countries to English colonies must first be shipped to England.

"These acts intended to give England a monopoly of the trade of her colonies," one historian notes:

> — not a monopoly to particular persons, but a national monopoly in which all English merchants should share. The Staple Act meant not only that English merchants would get the business of selling to the colonies but also that English manufacturers

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[5] See E. A. J. Johnson, *American Economic Thought in the Seventeenth Century* (New York: Russell and Russell, 1961), pp. 8-29.

might dispose of their wares at an advantage in that the foreign goods which had to pass through England en route to the colonies might be taxed, thereby raising their prices and enabling English goods to undersell them. Similarly, the enumerated article principle assured that most of the colonial staples important to England would be exported by English merchants, who were also guaranteed employment for their vessels through the exclusion of foreign vessels from the English colonies.[6]

Parliament passed another Navigation Act in 1696, but it was only an effort to tighten the administration of existing law rather than to add new features.[7]

British legislation also attempted to prevent certain kinds of manufacturing and trade from developing in the colonies. The Woolens Act of 1699 prohibited the export of wool or woolen goods from a colony either to other colonies or to other countries. The Hat Act of 1732 prohibited the exportation of hats from the colony in which they were made and limited the number of apprentices a hatmaker might have. The Molasses Act of 1733 placed high duties on molasses, sugar, and rum imported into the colonies from any source other than British colonies. This was an attempt to give the British West Indies a virtual monopoly of the trade. It may also have been intended to increase income from the tariff or to reduce the shipping activities of New Englanders. The Iron Act of 1750 permitted pig iron to be exported from the colonies to England duty free but prohibited the erection of new iron mills for the finishing of products in the colonies.

There were other types of mercantile regulations than those above. Over the years, it was usually illegal for specie (gold coins) to be exported from England to the colonies. The British tried to encourage production of wanted goods in the colonies by paying bounties. For example, the British government paid these premiums to importers of colonial naval stores: "£4 a ton for pitch and tar; £3 a ton for resin and turpentine; £6 a ton for hemp; and £1 a ton for masts, yards, and bowsprits."[8]

The purpose of all these regulations and restrictions was to make the colonies profitable to Britain, of course. To that end, the colonists were encouraged to produce goods which could not be competitively produced in England, discouraged to compete with the mother country, encouraged to

[6] Curtis P. Nettels, *The Roots of American Civilization* (New York: Appleton-Century-Crofts, 1963, 2nd ed.), p. 283.

[7] *Ibid.*, p. 375.

[8] *Ibid.*, p. 434.

send specie to England, discouraged from receiving specie from that country, and discouraged from developing markets in America which could serve either England or other countries. There were, however, many unwanted side effects of these policies. They are commonly referred to as the inner contradictions of mercantilism.

The Road to War

The most dire result of mercantilism was war. Indeed, some believe that mercantilism did not so much lead to war as war led to mercantilism. One writer says that the "needs of constant warfare, especially its costs, had encouraged every power to develop and marshall its resources, attempting to become self-sufficient, especially in the sinews of war. . . . This economic nationalism, generally described as *mercantilism,* is less a theory than a weapon – the use of economic means to serve political ends."[9] There is no doubt that mercantilist methods were used sometimes in warfare, but the usual causal relation is the other way around. Mercantilism ranges government power behind the commercial activities of a nation, uses government power to support the merchants of a nation against those of other nations, prohibits trade activities of foreigners in order to give advantages to native tradesmen. In order to support or protect their tradesmen, other nations retaliated with similar restrictions and sought colonies which would be protected trade areas for their people. If trade is free, competition is peaceful, but mercantilism shifts the contest into the realm of governmental power. When governments contest for advantage in this way they are moving in the direction of the ultimate recourse – war.

Such were the results of mercantilism in the seventeenth and eighteenth centuries. War followed upon war with monotonous regularity as naval and colonial powers contested with one another for dominance and advantages. The wars between the British and Dutch in the mid-seventeenth century were clearly mercantile in origin and character. Nettels notes that the Navigation Act of 1651 "precipitated the First Anglo-Dutch War of 1652-54."[10] Further, he says that the "acts of 1660-63 threatened to exclude the Dutch completely from the English colonies and consequently new fuel was added to the old rivalry. In 1664 occurred the Second Anglo-

[9] Eugen Weber, *A Modern History of Europe* (New York: Norton, 1971), pp. 145-46.

[10] Nettels, *op. cit.*, p. 281.

Dutch War. . . ."[11] It was not simply incidental, either, that during this conflict the English gained control of the Middle Colonies in America. A third war broke out in 1672. "Although a Dutch fleet recaptured New Amsterdam in August 1673 the treaty of peace in 1674 once more restored it to England – an act which marked the passing of the Dutch menace to England's North American trade."[12]

Impact on the Colonies

Unfortunately, it did not end the rivalry in North America nor the train of mercantilistic wars. France was now emerging in the latter part of the seventeenth century as a major power under the aggressive leadership of Louis XIV. Louis courted English monarchs so that they would allow him room to operate to fulfill his ambitions on the continent of Europe. The courtship may have been the undoing of Charles II and James II; at any rate, it came to an end with the Glorious Revolution in 1688. A Dutchman, William of Orange, became William III of England and joint ruler with his wife Mary during the rest of her lifetime. In very short order, Britain went to war with France (King William's War) and by so doing began a series of conflicts with that nation which did not finally end until the Congress of Vienna in 1815. Since other nations and their possessions were usually involved in these conflicts between England and France, these wars may well be called world wars.

While King William's War of the 1690's was ostensibly fought to maintain a balance of power in Europe, the colonies were at stake, also, at least potentially. One history indicates that in issuing his declaration of war "William took cognizance of the offenses of Louis' subjects in America against the English colonies there – in Newfoundland, in Hudson Bay, in the West Indies, in New York, and in Nova Scotia."[13] Though there was considerable fighting in America, there were no significant territorial changes as a result of that war.

Maps of North America showing territorial possessions of European powers and changes in them from 1700-1763 indicate something of the bearing of the colonial situation on the great wars of this period. In 1700, the English held only a relatively narrow strip of the eastern coast of North America from New Eng-

[11] *Ibid.*, p. 283.

[12] *Ibid.*, p. 284.

[13] Max Savelle and Robert Middlekauff, *A History of Colonial America* (New York: Holt, Rinehart and Winston, 1964, rev. ed.), p. 261.

land to Georgia, with claims running back to the Appalachian mountain chain generally. Most of the territory which is now Canada was then claimed by France, along with the vast hinterland region drained by the Mississippi River. South and west of these were the extensive Spanish possessions. The English hold on the continent was still precarious, and the colonies were surrounded except on the side of the Atlantic Ocean by territory claimed by other European powers. This situation would be dramatically altered by 1763 as a result of the wars.

A Struggle for Control

The War of the Spanish Succession (1702-13, known in England as Queen Anne's War) was fought over issues which were tied to the question of who would dominate the Americas. Louis XIV was determined that his grandson should become king of Spain immediately and should eventually succeed him to the throne of France. This would not only bring under one person two great powers in Europe but would also link two massive empires in America. This was an intolerable prospect for England. As one history puts the matter: "For Holland and England, it was a war over colonies and trade. These two countries were determined to prevent a union of the French and Spanish crowns; but they were above all determined to prevent France from getting into a position to block their own commercial and territorial ambitions in America."[14] At the conclusion of the war, provisions were made for perpetual separation of the French and Spanish crowns, and Britain gained new territory in America: Newfoundland, Acadia, and the Hudson Bay territory.

England got involved in war with Spain in 1739, known as the War of Jenkin's Ear, and a part of the struggle was over possession of Georgia. There was some fighting in America, but it was very limited, for the conflict shifted to Europe and the more general convulsion known as the War of the Austrian Succession (1740-48). This war did not result in any territorial changes, though there were changes in alliances on the continent of Europe which affected future events.

The peace that followed this second of world wars in the eighteenth century was unusually brief. The French and Indian War broke out in America, 1754; it involved most basically a contest over territory in what is now western Pennsylvania between the French and Indians on the one hand and the British and English Americans on the other. As an extension of this

[14] *Ibid.*, p. 265.

conflict, a general war broke out in Europe in 1756, known as the Seven Year's War. A major conflict continued in America, reaching its climax with the Battle of Quebec in 1759. There the British forces decisively defeated the French. By the Treaty of Paris of 1763, the British got all the French Canadian holdings and French and Spanish territory east of the Mississippi.

Triumphant, and Broke

The British had apparently emerged triumphant in these wars against France. The American colonies now had an extensive domain to be opened up and exploited; it was a long way to the frontiers of any other European colonial power. A vast British empire had been acquired and was ready for the shaping.

So it may have looked to an imperialist, but the British Parliament and people were confronted with grave difficulties in the wake of the apparent triumph. There was, as earlier told, a huge debt in England in 1763 as a result of the wars. It was a debt of a size that would most likely dwarf all the profits gained thus far from mercantilist policies. But even if the balance books had stood otherwise, the contradictions of mercantilism would still, most likely, have produced an impasse.

One of the fallacies of mercantilism is that the wealth within a nation constitutes the wealth of a nation. Wealth in Britain was not distributed among the inhabitants equally but individually possessed. Undoubtedly, some merchants, manufacturers, shippers, and tradesmen extracted great wealth as a result of special favors within the mercantile system. But this need not have increased the wealth of the populace in general. Indeed, when it is understood that mercantile policies restricted the entry of goods from other lands and raised their prices, it becomes clear that the populace in general frequently suffered rather than benefited from mercantilism. When the burden of taxes to pay for mercantile wars was added to this – taxes levied on the populace in general – it is easy to understand why there was widespread dissatisfaction in Britain.

Of course, the British government did not proclaim mercantilism a failure. Even if this had been clearly understood at the time, it is doubtful that those in power would have reversed their policies. At any rate, they did not do so. Instead, they laid the blame for difficulties on American evasion of mercantile restrictions, determined to enforce them more vigorously, and declared that the Americans must be taxed to help pay for the wars, a portion of which had been fought in their defense.

This course of action seemed eminently fair to many Englishmen. After all, the colonists had been prime beneficiaries of British protection. Moreover, many Americans were reported to be living well if not luxuriously. Not only that, but to make matters worse, these colonists paid very little by way of taxes. Such expenses as they had incurred in the recent French and Indian War had been reimbursed from the British treasury. Surely, there could be no reasonable objection to mild taxation of the colonists. As a matter of fact, there could and would be, but we have not yet come to that part of the story.

Victims or Beneficiaries?

What is most relevant here is the impact of mercantilism on the American colonies. The question has been raised by some historians as to whether the colonists were not really the beneficiaries of British mercantilism rather than the victims. The fact that many Americans prospered under the system is submitted as evidence that they benefited from the system. There is also negative evidence that Americans had rough going economically after the break from England. The reasoning underlying this argument confuses *because of* with *in spite of*. The thrust of mercantilism is not such that it would produce prosperity in general for those on whom it is imposed. Its thrust is to siphon resources from the colonies (and other countries) into the mother country. To restrict manufacturing, to deny the development of local markets, to constrict intercolonial trade, and to make the mother country the port of entry for many goods could hardly benefit the colonists generally.

Perhaps the most fundamental flaw of mercantilism is the view that a nation's wealth can be increased by exporting more in goods and services than is imported. This policy was quite harmful to colonies without providing corresponding benefits to Britain. The British succeeded in a "favorable" balance of trade with the American mainland colonies. The most immediate effect was the gold drain from the colonies to Britain. This tendency was augmented by prohibiting the export of gold from Britain. Moreover, many of the ways by which the colonists might have made up the difference were denied to them by mercantile restrictions.

In consequence, the colonists suffered a shortage of specie. The practical effect was that colonists paid higher prices for goods coming from England than they would have had to do if a free market in gold had existed, because gold was more plentiful in Britain than in America. It is even doubtful that British merchants benefited from this situation as much as might be supposed, for they usually made loans to Americans to enable them to buy their goods. Americans also had their credit in England augmented by such payments as reimbursement for participation in wars (an augmentation at the expense of British taxpayers).

Much of the economic activity within the colonies was an uphill effort to overcome the ill effects of mercantile policies. Probably, the fixing of slavery so extensively can be ascribed in the main to mercantilism. (British policy was opposed to the emancipation of slaves because slaves were frequently collateral for loans.) Planters were driven to expand their production – to the acquisition of more and more slaves – in the often vain hope of balancing their trade. The Triangular Trade by New Englanders, which included the slave trade, was an extended effort to get specie. The paper money emissions which became so common toward the close of the period were efforts to deal with the monetary crisis. Of course, many of the efforts of colonists to find ways to deal with the situation were prohibited before they were well established.

In sum, the break from England was preceded by an impasse attributable to mercantilism. More than a century of wars had been fought in the pursuit of mercantile aims by Britain. These had left a heavy burden of debt which the British people found hard to bear. Thus, the government turned to the colonies as a new source of revenue. But the colonies were hardly in a position to take on the burden. They were already drained of specie, and many colonists were deeply and perpetually in debt to British merchants. To say that they were lightly taxed at home answers nothing as to what the effect of British taxation would be. Mercantile restrictions imposed barriers between Britain and the colonies. An imbalance of trade already existed, with the colonies on the "unfavorable" end of that. Tax payments to Britain could only be made by reducing imports or going deeper in debt to British lenders. When the time came for resisting, colonists made their justifications along different lines than those above, but what they were resisting had been brought on by the mercantile impasse.

Next: The First American Crisis: 1763-66

The Genius of the West

WE, in the West, are supposed to hang our heads in shame these days. The bill of complaints brought against us is long. We are "imperialists." We are "materialists." We have used the "Third World" as a quarrying ground for raw materials without giving adequate compensation for what we have taken. We indulge ourselves in race prejudice. We are enemies of freedom, and we oppose the revolution of the masses. Our sons and daughters, listening to the vindictive chorus, begin to go over to the side of our detractors. Susan Sontag, a young literary critic, even goes so far as to say that the white race (meaning the nations of the West) is the cancer of humanity.

The whole bill of alleged particulars is, of course, the sheerest moonshine. So it is good to come upon Louis Rougier's *The Genius of the West* (Nash, $8.50), with its discerning introduction by F. A. Hayek. As one in a series of publications issued by the Principles of Freedom Committee this book turns to the historic record of three millennia to prove that Western civilization, alone among twenty-two distinctive civilizations recognized by Arnold Toynbee, has managed to avoid the quagmires of fatalism. It is the only civilization that has been moved by a belief that man can improve his condition by understanding and mastering the forces of nature. And, far from "oppressing" the "Third World" and the "colored races" by its "imperialistic" urges, it is the West that has brought the hope of progress to many a land that now joins in thoughtless excoriation of the very spirit that has created all the things that are now claimed as a universal birthright.

Lucky Accidents

In one sense the "West" is the result of a happy concatenation. It could have gone down the drain at numerous points if lucky accident had not intervened. The Greeks, who demythologized nature and demonstrated the logical necessity of abstract relationships, thus giving substance to "reason," gave us the beginnings of theoretical science. With the rise of the city-state, they developed the idea of the rule of law as something better than capricious government by men. Greek rationalism created free men, and free men, using geometric hypotheses, physical instruments and mathematical devices, learned how to conquer space and time. Their maps made them better voyagers, better traders. And, with a mastery of the sea extending their reaches all over the Mediterranean, they hit upon the virtues of money and the market economy.

Rome superimposed order on Greek liberty without killing it. But Rome, with its conquests, took more slaves than the Greeks had ever taken. In Louis Rougier's opinion it was the institution of slavery that brought about the collapse of the ancient world. With slaves to do the work, the inventions of Archimedes – the lever, the wedge, the pulley, the worm screw, the winch – were regarded not as labor-saving necessities but as mere intellectual playthings. The prejudice against any practical application of the mechanical arts was so strong that Archimedes, so Plutarch tells us, never bothered to leave any written treatise on his accomplishments. And when Heron invented a device involving the principle of the steam engine in ancient Alexandria, it was used only for childish amusements such as making marionettes dance and toy trumpets blow. It apparently never occurred to Heron that he might have lightened that most exhausting task of women, the grinding of grain.

With more and more slaves at their disposal, the Romans had even less reason to develop the "mechanic arts" than the Greeks. Conquest after conquest brought more captives to till the extensive acreage of the Roman latifundia. The small peasant landholder, unable to meet slave competition, drifted into Rome to join the plebs who clamored for bread and circuses and got what they wanted from corrupt politicians. Thus Rome decayed, and 40,000 slaves eventually joined Alaric in the sack of the city that liked to think of itself as eternal.

The Christian Contribution

The Christian church, which rose on the ruins of the ancient world, had no particular interest in the things of this world. But it condemned the enslavement of prisoners as an infringement of God-given human dignity. And, since Jesus had been a carpenter and St. Paul a tent-maker and St. Peter a fisherman, it saw no reason to object when the monks in the first monasteries made a virtue of work. In time the Middle Ages developed an entirely different attitude toward labor-saving devices than was prevalent in Greek and Roman times. Louis Rougier makes a fascinating story of the linkage between the "social revolution of Christianity" and the development of the water mill, the wind mill, the hydraulic hammer, and the various lifting tools that were needed to cover Europe "with a white robe of cathedrals." Without intending it as such, the church unleashed something of a medieval technological revolution. Slaves became serfs, cities grew, and the stage was set for the "new humanism" of the Renaissance.

The Christian attitude toward work was the first lucky break of the West in the time of Rome's collapse. But work, with its premium on practical inventions such as the lifting jack, would not have flowered in a scientific revival if the church itself had not changed sufficiently to permit a secularization of life during much of the working week. By a second lucky accident the elders of the City of Florence happened to entertain a Byzantine scholar, Manuel Chrysoloras, who was traveling in Italy on a diplomatic mission. The Florentine elite flocked to hear Chrysoloras tell about Homer, Plato, Thucydides, and Xenophon, and soon there was a horde of Florentines descending on Byzantium, buying forgotten Greek texts. If it hadn't been for the rediscovery of the Greek and Latin writers whose works had somehow survived the great burning of pagan documents that marked the advent of Christianity, the modern scientific, economic, and political revolutions would never have come to pass.

Inquiry Halted in Orient

During the so-called Dark Ages, Arab civilization seemed to promise much more than anything that was happening in western Europe. And the Chinese were way ahead of the West is such things as the use of coal, gunpowder, and printing with movable letters. But the Turks, as Louis Rougier puts it, "imposed their heavy yoke on Islam; and Islam, returning to its sources, paralyzed inquiry with a formula which brooked no answer: Allah aalam, God knows best what is." As for the Chinese, instead of trying to dominate nature they sought an adjustment that stressed finding contentment in the midst of poverty and adversity. The Hindus, with their caste system, permitted no invigorating circulation of elites. So it was the West, with its legend of Prometheus, who stole fire from the gods, that was left to push the idea of progress.

Now, even as they revile us, the Islamic, Confucian and Hindu worlds are clamoring for all the benefiits that the West has developed through three millennia of the activist attitude. We need not begrudge them their desires. But the notion that the West need apologize for its history is too ridiculous for words.

▶ POLITICALLY IMPOSSIBLE...?
by W. H. Hutt (London: The Institute of Economic Affairs, 1971), 100 pp. ($1.80).

Reviewed by Henry Hazlitt

W. H. HUTT is one of the outstanding economists of our age. Born in London, professor and later dean of the Faculty of Commerce at the University of Cape Town, and recently visiting professor at a number of American universities, he has published half-a-dozen books of which the two most influential have been his short *Theory of Collective Bargaining* in 1930 and the 446-page *Keynesianism – Retrospect and Prospect* in 1963.

His work has been distinguished not only for remarkable acumen but for no less remarkable independence and courage. The present paperback is devoted to trying to instill some of his own candor and courage into his professional colleagues.

For what Professor Hutt finds is that most of these colleagues, particularly in the last forty years, have become increasingly poor economists in the effort to become "realistic" politicians. Whenever an honest economist has come up with a recommendation, based on principle, for the outright repeal of some entrenched bad law or discontinuance of some other disruptive government policy, not only the political demagogues but his own colleagues have dismissed his recommendation as "politically impossible." As a result, more and more economists have abandoned candor, refrained from even suggesting the "politically impossible" proposal, and instead have put forward compromise proposals that they think have a political chance of being adopted. Or they have sought a reputation for influence by recommending what they thought was going to be done anyway. Or they have resorted to outright demagogy in calling for some new form of inflation, control, socialism, or seizure. The result has been a deplorable degeneration in economic thought.

Hutt illustrates his thesis in four separate fields — monetary policy, income transfers, Keynesianism, and the strike-threat system. His comments on particular economists are candid and sometimes unsparing.

Keynes, for example, he points out, gained his great reputation among his colleagues as well as with the general public by pretending that he had found an easy way out of unemployment and depression. This consisted of cheap money, government deficits, and inflation. The word "inflation" itself was suspect. "But an inspired insight enabled the Keynesians to perceive that, if called something else, 'the maintenance of effective demand,' for instance, it can become respectable."

Under no conditions did Keynes want to risk offending the unions by suggesting that they were even partly responsible for creating the mass unemployment of the 1930's by pushing up and keeping up wage rates to unworkable levels. So he invented the untenable "unemployment equilibrium" theory:

"Keynes, perceiving that it would be politically suicidal to mention the unmentionable, saw a way out through the most successful conjuring trick in history which, deceiving an audience that wished to be deceived, led to its being hailed as a great discovery, as revolutionary and important as Einstein's theory of relativity. I am not accusing Keynes of intellectual dishonesty. He deceived himself with his 'conjuring trick.' That is how I have come to regard his 'unemployment equilibrium' notion, together with the subsidiary theories with which it was bolstered."

What is now commonly dismissed as "politically impossible" usually turns out on closer examination to be merely the politically difficult or politically unlikely. It is only made more difficult and more unlikely when economists lose the courage even to propose it. Hutt's book is essentially a plea to his professional colleagues for more honesty and candor:

"No policy which is for the advantage of the people is incapable of being effectively explained to them. It will of course take time and persistence to convince a majority. In the meantime compromise will be needed whenever urgent steps are required. But compromise, while it is the politician's privilege and necessity, is the scholar's deadly sin — unless it is presented clearly and unmistakably as compromise and is always accompanied (a) by the noncompromising proposal and (b) an explicit explanation of the vote-procurement reasons for the compromising proposal."

This "dual form of exposition," as Hutt calls it, would certainly be a great advance compared with the present typical ambiguity and disingenuousness. Yet, while there is only one ideal course, there are usually an indefinite number of possible compromises. If each economist plumps for one of these, in accordance with his own amateur notions of its political feasibility, the conflict among their recommendations may only end by confusing public opinion. In the long run it seems better for the economist to point to the path of principle, and leave the compromises to the politicians.

▶ FINANCIAL POLICY IN A CHANGING ECONOMY

by Enders M. Voorhees (Lebanon, Penna.: Sowers Printing Company, 1970), 232 pp., $5.00 (Plus tax, where applicable.)

Reviewed by Melvin D. Barger

BY PRESENT standards, the economic changes of the 1943-1955 period appear to have been modest. Inflation was in motion, but not galloping. There was social upheaval, but not open rebellion. Business was under attack, but the attacks were not wildly out of control.

The stage was being set for further trouble, however, and many thoughtful persons knew it. One astute business executive who smelled the future was Enders M. Voorhees, chief financial officer as well as articulate spokesman for U.S. Steel Corporation until his retirement several years ago. Mr. Voorhees' speeches and writings during that 12-year period have been preserved in book form in *Financial Policy in a Changing Economy*, a privately published volume which should serve as a valuable source book for business historians and economists.

Mr. Voorhees' views are important for several reasons. One, he was in a key position as the chief financial officer of the steel company long known as the industry "pacesetter." Secondly, he is a vigorous champion of the free market, and uses a substantial stock of facts to document many of his arguments. Third, he was a tough fighter who took his arguments to Congressional committees and other influential groups in an effort to steer a safe financial course for his company under greatly changing conditions.

You catch the tone of Mr. Voorhees' thinking in the very first chapter, a commencement address entitled "The Uncommon Man." This is a term which harks back to other libertarian thinkers, and Mr. Voorhees leaves little doubt that he favors giving the individual considerable elbowroom for creative accomplishment. He is also suspicious of special interest groups. He remarks, "Fancied wrongs seem real if you talk only to those of a similar fancy and soon you are likely to find yourselves organized into monopolies or pressure groups to get something for nothing from the other fellow who is assumed to be getting too much for too little." Prophetic words, particularly for a 1948 speech.

His other chapters tend to become more specific, but he frequently returns to this question of establishing genuine equity in business and economic relationships. In a brilliant chapter on specialized occupations (actually, a 1943 speech), he warns that the process of specialization may have "built up opposing rather than complementing groups whose strife for exploitative power can break up and disintegrate us, even as happened in France before the invasion." He warned of revolutionary theories that "boil down not only to eliminating the tithe of the miller but insisting that he furnish flour without wheat being brought to him." Now that such theories seem to be popping out of the very woodwork, it is interesting to note that Mr. Voorhees made this comment 28 years ago.

Since most of his speeches focused on corporate financial problems, Mr. Voorhees' book is another reminder of the delicate balancing act that financial officers must perform to keep a large-scale enterprise alive and functioning. Many critics, in the 1940's and 1950's, saw U.S. Steel as the dominant partner in an "oligopoly" that could administer prices at will and manipulate its business environment as it pleased. But it didn't look that way to Mr. Voorhees. He saw U.S. Steel as an extremely vulnerable organization that could virtually be wiped out by a few years of unfair taxation practices or shortsighted financial controls. His frequent warnings against the dangers of insufficient depreciation charges and exorbitant wage settlement seem more timely today, with American steel companies steadily losing ground to more efficient foreign competitors. At the same time, the recent Penn Central and Lockheed crises are grim proof that even giant corporations do not have unlimited resources and must work under the iron disciplines of the market if they are to survive.

Many of Mr. Voorhees' talks before Congressional committees came when historic issues were being fought out in labor-management relations and other areas. In some cases, of course, the battle was lost and the struggle has moved on to new fronts. As a rule, however, the present troubles involve principles that do not grow obsolete and cannot be repealed by compulsions and legislation. Currently, for example, reformers warn that business must solve society's many problems "or else" the government will step in and do it for them. "The 'or else' connotes that the perfect state lies ready and willing to take over," Mr. Voorhees said in 1943. "If that were the case and if only the cupidity of private owners stood between us and perfect material happiness, I am sure we should all stampede to the arms of the perfect state." There are many other such gems in Mr. Voorhees' writings. "If we want ample tools of production and the jobs their presence creates, we had best set up in America a social atmosphere endorsing rather than condemning ample dividends and the profits which make them possible," he said in 1949. And in an earlier talk: "We shall not forget that at the end of every tax plan is a human being. And I need not remind you that human beings are not abstractions." And, "Management has no weapon to point at customers' heads to match the strike weapon that labor leaders flourish."

But if there's any chapter in the book that should be carved on stone tablets for all time, it's probably one entitled, "Needed – Dependable Dollars." Written 21 years ago (when inflation was supposedly mild), it deals with the endless problems that arise simply because the currency is being manipulated and diluted. "Almost every business calculation and estimate is bedeviled by the absence of dollar dependability," Mr. Voorhees said to students at Dartmouth College. Perhaps thinking of the West Germans who had only recently put their currency on a new basis, he added, "It seems to be those people who have had bitter personal experience of living under bad currencies who most appreciate good currencies and are willing to make some sacrifices to secure and maintain them."

His rundown of the problems caused by inflated currency almost appears to be a synopsis of the next 20 years' troubles: overstated profits, concealed confiscation of savings and other assets, increased labor-management conflicts, accounting problems, increased demands for subsidies, and wage and price fixing. It is as if Mr. Voorhees had been able to review the chaos of 1971 while preparing this 1950 speech.

Though written by a businessman of great distinction in his own industry, this book is not likely to be widely circulated or quoted. Some of it is hard reading, challenging the reader to sort through charts, tables, and other lists of figures. There is also the fact that financial matters and terms can often be dry as dust. But the most likely reason it would be ignored is that the world still hotly pursues the disastrous policies that Mr. Voorhees deplored during the seemingly calm period of 1943-1955. That's all the more reason why it's well that his insights have been published in book form. It may turn out to be useful medicine when the popular nostrums have failed.

▸ THE LITTLE HOUSE BOOKS – A PIONEER CHRONICLE by Laura Ingalls Wilder (New York: Harper & Row Trophy Books, 8 Vols. 95¢ each)

Reviewed by Robert M. Thornton

THESE BOOKS were first published nearly forty years ago when Laura Ingalls Wilder was in her sixties. The eighteenth printing in cloth was run in 1970, and now we have the first paperback edition. Laura (I just can't bring myself to call her Mrs. Wilder) wrote the first book in the series without any plans to continue, but the enthusiastic response of young readers prompted her to keep going until the stories reached the time of her marriage to Almanzo Wilder on August 23, 1885 – eight volumes from a woman who as a young girl told her Pa that she could *never* write a book!

Laura was born in 1867, and lived for ninety years, most of that time with her husband on their farm near Mansfield, Missouri. Their daughter, Rose Wilder Lane, who died in 1968, is well-known to libertarians as the author of *The Discovery of Freedom,* a book which inspired Henry Grady Weaver's *The Mainspring of Human Progress*. Rose displayed her sturdy pioneer stock when at the age of 78 she was sent to Vietnam as a correspondent!

What is so fine and enjoyable about these "Little House" books? First, they take the reader out of his own world and into different places and earlier times, into the lives of the pioneers on the prairie in the 1870's and 1880's. What thrill is there reading about the milkman or the neighborhood grocer? Second, they make the reflective reader thankful for all the blessings we enjoy in the United States today. Laura writes of the fun she had as a girl on the prairie and the happy times with her family, but she does not romanticize her exeriences. Life was hard in those days in an untamed land.

There were empty stomachs when crops were destroyed by fire, drought, locusts or storm. Sickness might mean death because doctors and medicine were scarce on the frontier. Everyone except the very old and very young had to work. The pleasures were simple – no radios, automobiles, televisions and the like. There was little money on hand, so Christmas presents for the children might be a penny and a stick of candy! There were happy times and terrible times, each a part of living.

Third, and most important, these books can help us recapture the spirit of the pilgrims, patriots, and pioneers who founded this nation and made it great. Part of that spirit is the taste for independence and a sense of individual responsibility. Laura's family didn't expect anyone else to take care of them. They took care of themselves and recognized that having freedom means the freedom to fail as well as to succeed. Another part of this great spirit is not to bemoan one's fate or complain about not getting one's "fair share" of the world's goods. Another, is a sense of community where so much is accomplished on a voluntary basis, everyone pitching in to contribute whatever he can in time, talent and money.

In answer to inquiries about herself and her books Laura wrote:

"The Little House Books are stories of long ago. Today our way of living and our schools are much different; so many things have made living and learning easier. But the real things haven't changed. It is still best to be honest and truthful; to make the most of what we have; to be happy with simple pleasures and to be cheerful and have courage when things go wrong. Great improvements in living have been made because every American has always been free to pursue his happiness, and so long as Americans are free they will continue to make our country ever more wonderful."

It is no easy matter for today's children to learn these truths, but so long as these books are read the lessons will not be lost.