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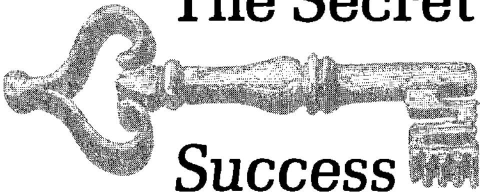
Harold S. Davis

The Secret Revealed: Success Is Not Easy



SOME years ago, a researcher decided that he would try to find the secret of success. After months of study and countless interviews, he gave up. He said there was no clear answer, but many people seemed to believe success required hard work. He had found out more than he realized! Without question, work accomplishes more than wishful thinking. One must climb the ladder of success, it is not an escalator! Thomas Edison astonished those who thought his success was due to luck by stating "I never did anything worth doing by accident, nor did any of my inventions come by accident." Success often begins at the point where most people would quit. We must believe, then achieve!

T.F. Buxton said "I hold a doctrine . . . that with ordinary talent and extraordinary perseverance, all things are attainable." This idea of setting a goal and then relentlessly pursuing it is a formula that has worked for centuries. Even the great dramatist and poet Shakespeare delineated essentially the same rules for success. He said "see first that the design is wise and just: that ascertained, pursue it resolutely; do not for one repulse forego the purpose that you resolved to effect." The wit, Ambrose Bierce, called perseverance "A lowly virtue whereby mediocrity achieves an inglorious success." Two thousand years ago, Virgil

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solemnly intoned "Labor conquers everything."

Bill, a friend of mine, whom I had seen work his way up from stock-boy to general manager in a mid-western firm, abandoned everything to accept a vice-presidency of a large company in New York City. The job was a real challenge because the firm's deficits had been growing annually. In less than three years, he helped to turn the financial picture from red to black only to face another crisis. The Board of Directors appointed a new President who brought in his own "management team." Bill resigned and began to reassess his career.

The past few years had provided a large measure of success and increased income. On the other hand, he had neglected family, friends, and personal investments. He had been so busy making business decisions for others that he had let his own financial affairs fall into disarray. He was even uncertain about how to obtain proper financial advice and came to the realization that many other executives were in the same boat. Bill found his search for information about investments so fascinating that he turned down a lucrative offer in the field of management in order to launch a new career. He had decided to enter the fields of financial planning and insurance.

After a family conference, Bill's wife and children agreed on a number of belt-tightening moves. A change of living style and the sale of their large home provided capital while Bill studied the fundamentals of his new profession and gained on-the-job experience. He followed this up quickly by opening his own agency. After his first year of independent operation, Bill became a member of the "Million Dollar Round Table" for insurance sales. Six consecutive years of outstanding sales gave him permanent membership in that prestigious organization and it wasn't a matter of luck. First he believed, then he achieved!

> Success often begins at the point where most people would quit. We must believe, then achieve!

When misfortune first struck, Bill could have sat around wringing his hands. Instead of needlessly worrying about the future, he chose to shape it. As the poet Robert Frost once said "The reason why worry kills more people than work is that more people worry than work." Rudyard Kipling phrased the same thoughts in allegorical terms: "Gardens are not made by singing 'Oh, how beautiful,' and sitting in the shade."

The Power of Planning

Most successful people have found that luck seems to be a by-product of hard work. Genius is never discovered unless it is applied. Even the great Michelangelo pointed out "If people knew how hard I work to get my mastery, it wouldn't seem too wonderful after all." The internationally famous pianist Paderewski said "Before I was a genius I was a drudge." We all know that hard work does not insure success, but we can't expect success unless we work at it!

We all know that hard work does not insure success, but we can't expect success unless we work at it!

Every administrator recognizes "planning" as a fundamental of good management. Yet, it is amazing how few have put this principle to use in developing their own careers. Many drift from job to job with little thought about their own strengths, weaknesses, and desires. Executive placement firms do a thriving business in helping such persons pull themselves together. George Bernard Shaw claimed "Few people think more than two or three times a year. I have made an international reputation for myself by thinking once or twice a week." Facetious? Yes, but with a large grain of truth. When is the last time you sat down and asked: Where am I going? Why? What are my goals? Such questions must be answered if we are to be successful in personal relations.

Through self-understanding we learn more about others. As we understand more about others, we learn more about ourselves. Knowledge of our own strengths and weaknesses helps us establish realistic goals. In the words of William James: "In the dim background of our mind, we know what we ought to be doing ... but somehow we cannot start ... every moment we expect the spell to break ... but it continues, pulse after pulse, and we float with it." Procrastination is one of the greatest inhibitors of success. People set up their own roadblocks: "I don't have time," "It's too late to change," "I'm too old," "Maybe some day." Some people have found that the greatest labor-saving device available today is tomorrow! In the words of Socrates: "Let him that would move the world, first move himself."

The Principle of Momentum

We have all heard the statement that "Success breeds success." But, have we ever thought of that statement as a principle of momentum? There is a law of physics that states: It takes more energy to overcome inertia in getting started from a standstill than to continue the momentum of a moving body when it is once in motion. Applying this principle to achieving success, it becomes evident that it is easier to find a new job when you have one than to find one when you are unemployed. Similarly, it is easier to move up the ladder of success when you have a reputation for being a "go-getter" than when you have to overcome years of standing still! In other words, we can't afford to rest on our laurels. As Elbert Hubbard stated "Folks who never do any more than they get paid for, never get paid for any more than they do." While the successful few focus on objectives, the unsuccessful majority see nothing but obstacles. The passage of time records the accomplishments of the former, while oblivion is the penalty for the latter.

It isn't sufficient just to be busy. Insects are busy! The real question is: What are you busy about? Effort should be concentrated on reaching the goals you have set. Charles Kettering said "My interest is in the future because I am going to spend the rest of my life there."

A Case in Point

Henry, a long time acquaintance, was a manufacturer's agent selling steel tubing. Large firms were the primary clients. Henry discovered that orders from smaller firms were being turned down because they were short-term, small-quantity, or specialized nonstock items. He reasoned that a small plant with a flexible operation could handle such requests. He visualized the type of operation needed and figured that he could make a fair commission on referrals. Spending his spare time in looking for such a plant, he discovered that this highly specialized operation did not exist. Rethinking his original plan, he set a new goal. He would find a small vacant factory building, acquire the necessary machine tools, and equip it on a minimal scale.

> "Let him that would move the world, first move himself."
>
> *Socrates*

After an intensive search, Henry found a suitable facility and then the work began. He spent his weekends cleaning and rebuilding second-hand machine tools with the help of a small crew in his rented factory. Once tooled up, word spread that his company could reliably fill small orders that larger manufacturers declined. Work flowed in and Henry expanded operations to meet the growing need. With an investment of time, money and energy, he made his dream come true. As Justice Brandeis once quipped "The way the inevitable comes to pass is through effort."

Years ago, Calvin Coolidge stated: "Nothing in the world can take the place of persistence. Talent will not: nothing is more common than unsuccessful men with talent. Genius will not: unrewarded genius is almost a proverb. Education will not: the world is full of educated derelicts. Persistence and determination alone are omnipotent. The slogan 'Press on' has solved and always will solve the problems of the human race."

The Secret Revealed

Certainly we can't do everything at once, but we can do something. And as the Chinese proverb states "Even a trip of 1000 miles begins with a single step." One of the greatest minds of all time, Sir Francis Bacon, said: "There is no comparison between what we may lose by not trying and by not succeeding; since by not trying we throw away the chance of an immense good; by not succeeding we only incur the loss of a little human labor."

Is there really a secret of success, or has the secret been revealed? I believe studies of those who succeed vs. those who don't have unlocked the secret for all to behold. First, we must believe in ourselves. A positive self-image is a prerequisite to success. Next, we must set goals and plan how we will reach them. Finally, we must implement our plans! This takes persistent effort—what some call work! In my studies of leadership, I have found that there are three kinds of people in this world. Those who make things happen, those who watch things happen, and those who wonder—what happened. To be a success, you must be the first type. In the words of Goethe:

> "My interest is in the future because I am going to spend the rest of my life there."
>
> *Charles Kettering*

Are you in earnest? Seize
this very minute;
What you can, or dream you
can, begin it;
Boldness has genius, power
and magic in it;
Only engage and then the
mind grows heated;
Begin and then the work will
be completed.

World in the Grip of an Idea

Clarence B. Carson

5. Russia: The Revolution Commences

WHAT was the Bolshevik Revolution?

This became a momentous question as soon as the Bolsheviks seized power in Russia in the fall of 1917. It was at the outset a pressing question for those people within the Russian Empire who fell under the sway of the Bolsheviks (who proceeded shortly to change their name to Communist). The question has not diminished over the years but has rather gained in importance as communism has spread over the world. There are now at least 19 countries containing over a billion souls now under the power of communist parties. The revolutions going on in these lands are mostly patterned after the Bolshevik Revolution in Russia. To know the Bolshevik Revolution and its extended aftermath, then, would be to know much about communist revolution.

The Bolshevik Revolution—and all communist revolutions—must be examined at every stage from two different and often irreconcilable angles. One is the angle of ideology. This angle entails the

In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

Marxian mythology with its overlay of Leninism and whatever other interpretations may be involved. It contains its own peculiar language, its vision of history, its heroes and villains. The other angle is the reality of what is actually happening. The ideology can be understood, so long as it is kept in a separate compartment. So, too, we may suppose that we understand the reality apart from the ideology.

This latter point must be denied, however. This approach leads to continual misunderstanding of communism. Those who persist in viewing communism this way will interpret the acts of the leaders in such terms as the quest for power, expansionism, and other such historically familiar motives. It is not that communist leaders may not be moved by such aims; it is rather that their aims are clothed in and inseparable from the ideology. There is a continual interplay between ideology and actuality. The interplay is probably most often one of cause and effect; ideology is the cause usually, and the reality is the effect. To look at a communist revolution without taking into account the ideology is like surveying the damage done on Eniwetok Atoll without knowing that a hydrogen bomb was exploded there.

It is important, then, to grasp the pattern of the Bolshevik Revolution. It is equally important to make a running account of the interplay between ideology and actuality. Ideology was not only at work in the events in Russia from 1917 onward, but it was also being shaped and hardened by the particular turns of events. To put it another way, communist ideology today is largely Marxism plus the Russian experience as the latter has been ideologized. A topical approach is more appropriate to an account, then, than a strictly chronological one.

1. *The Violent Seizure of Power*

On October 25 (Julian calendar), 1917, the Bolsheviks gained control over the points of power in Petrograd, the capital city of the Russian Empire. The climactic event was the storming and taking of the Winter Palace by armed force on the evening of the 25th and the early morning of the 26th. The Winter Palace was the headquarters of the Provisional Government, and the cabinet was in session there even as Bolsheviks fought their way through the labyrinth of corridors and rooms to where they were. A guard entered the chamber where the cabinet was meeting.

> Kishkin, the Governor-General, did not seem to know whether the Palace

had actually been occupied. "It is taken," the cadet replied. "They have taken all the entrances. Everyone has surrendered. Only this room is being guarded. What does the Provisional Government order?"

"Tell them," said Kishkin, "that we don't want bloodshed, that we yield to force, that we surrender."[1]

So it was, with hardly a whimper, that the government fell.

In the next several weeks, the Bolsheviks consolidated their control. Prime Minister Aleksandr Kerensky escaped from Petrograd just as the revolt was coming to a head. He sought to gather an army to retake the capital, but he could muster only seven hundred soldiers from the once vast armies of Russia, and this force was turned back by Bolshevik forces only a few days after the storming of the Winter Palace. Moscow fell to the Bolsheviks with no greater struggle than had occurred in Petrograd. Local soviets (councils) had for months held dominant positions throughout much of the empire. It was only necessary for Bolsheviks to dominate these in order to come to power, which they were usually able to do rather quickly.

The culminating act of the Bolshevik seizure of power came with the dissolution of the Constituent Assembly which met in January, 1918. Ever since the abdication of the Czar there had been talk of holding general elections, assembling a parliament, drawing up a constitution, and regularizing the government. The elections were held late in 1917. Even with freedom of campaigning curtailed and the Bolsheviks in power in many places, they still did not do well. The Bolshevik candidates received less than one-fourth of the total vote cast. The Socialist Revolutionary Party got a plurality of the votes and of deputies elected to the assembly.[2] The question then became whether or not the Bolsheviks would convene the assembly. The Bolshevik, Uritsky, put it this way: "Shall we convene the Constituent Assembly? Yes. Shall we disperse it? Perhaps; it depends on circumstances."[3] It was permitted to hold one meeting, but the Bolsheviks used force to prevent it when the Assembly tried to meet again. The Bolshevik Party held such reins of governmental power as existed in the Russian Empire.

How had the Bolsheviks been able to seize power? They were, after all, a minority party. The soviets, which brooked so large during 1917, were not even creations of the Bolsheviks for the most part. The party itself consisted of only a tiny portion of the vast population of Russia. The answer can be reduced to a single word—Violence! It was the willingness of the Bolsheviks to employ violence that offers the immediate explanation of how they came to power. It distinguished them from the Mensheviks. It distinguished them from the majority of the Socialist Revolutionaries. (A minority, called left S-R's, joined with the Bolsheviks.)

The Bolshevik use of violence may be sufficiently illustrated here by what happened when the Constituent Assembly met for its first and only session. On the day that it was to meet, the Bolsheviks called out large numbers of soldiers and sailors loyal to them to surround, guard, and control the Tauride Palace where the meeting was to be held. Even before the Assembly met, a crowd that had gathered outside was fired upon, and several were killed. The crowd dispersed, obviously intimidated by the killings. What then occurred has been described this way:

> The Tauride Palace was an armed camp. All doors were closed except the main entrance. The entrance hall was crowded with armed soldiers and sailors, who examined the credentials of the deputies and amused themselves by commenting aloud on whether it was preferable to shoot, hang or bayonet the deputies.[4]

There was an attempt when the deputies had gathered in the hall to conduct the session according to Russian tradition. The custom was for the oldest member to preside during the organization. This task fell to a man by the name of Sergey Shvetsov, who was a Socialist Revolutionary. But the Bolsheviks would not have it so:

> Suddenly there was an uproar. Everyone was shouting at once, the guards were hammering their rifle butts on the floor, the Bolshevik deputies were pounding their fists on the desks and stamping their feet, while Bolshevik soldiers in the public galleries coolly aimed their rifles at the unfortunate Shvetsov. . . . He had just time to say "I declare the Constituent Assembly open," and to ring his bell, when the bell was snatched from him. In place of the towering white-haired Shvetsov there was the small, dark, black-bearded Yakov Sverdlov, who announced amid cries of "Hangman!" and "Wash the blood off your hands!" that the Bolshevik Executive Committee . . . had authorized him to declare the Constituent Assembly open.[5]

Some organization and activity was permitted, but the Bolsheviks finally grew weary and turned out the lights. Thus began and ended representative government in the Soviet Union.

Violence triumphed, and in its train came the Terror, but let that wait for now. Marx and Engels had envisioned the need for violent overturn of governments in order to bring about the revolution but for different reasons than prevailed in Russia. Indeed, Marx had not believed it possible that the first communist revolution would occur in Russia. The man who conceived the possibility, prodded it into being, contrived a theory for it, and led it was Vladimir Ilyich Ulyanov, known to the world as Nikolai Lenin, though he was also known as V.I. Lenin, and until his death was called "Ilyich" by those who knew him.

2. *Leninism*

According to Marxian theory, Russia was not even close to being ripe for a communist revolution in 1917. It was, in the lingo of both progressivism and Marxism, a "backward" country. The population was preponderantly rural, and most people made their living by farming. The strides in industrialization before World War I had, it is true, increased the number of industrial workers in such centers as Petrograd and Moscow, but they were still only a small portion of the population. This situation did not fit into the Marxian theory of revolution. If a communist revolution was to be a proletarian revolution, and Marxism envisioned nothing else, Russia did not have the one ingredient essential to it—a proletarian majority.

To get around this difficulty, Lenin developed several stratagems, mostly theoretical but tied in to some extent with the actual situation. By so doing, he wrenched Marxism off its supposed historical course and gave it a new direction. It was a fateful shift for the world, for it laid the groundwork for communist revolutions in industrially backward countries, which is where they have mostly occurred, and took Marx off the hook, so to speak, for the errors in his predictions about advanced countries. The doctrinal result is known as Leninism, though it is generally accepted by the communist faithful as orthodox Marxism.

Lenin attempted to patch over the gaping theoretical hole by proclaiming that the revolution in Russia was part and parcel of an imminent world-wide revolution. The time was right for that, he declared. Imperialism was the final stage of capitalism. World War I was the death agony of the last imperial thrust of moribund capitalism. In the midst of or in the wake of the war would come the inevitable communist revolution everywhere. The situation was ripening for revolution in Germany, and if Germany went, could the rest of the world resist? (It is easy to forget now how closely Marxian theory was tied to the German situation.) With the tide of history rolling shoreward to bring world revolution, what did it matter in the scheme of things if it rolled over Russia first? Except, it mattered a great deal to V.I. Lenin; it must come first in Russia. Why? There is an obvious answer. Lenin was Russian, and he was the chosen vessel to usher in the world revolution. No other will quite do.

A Man Possessed

Lenin was like a man possessed from the moment he arrived at the Finland Station in Petrograd in April of 1917. Indeed, he may have been obsessed for years, but the obsession appeared now to have him in its control. If an artist had been charged with the task of painting a portrait of a man possessed, he would have done well to choose Lenin as a model. Lenin looked the part with his wide forehead, large head, and penetrating eyes. He was cold, hard, determined, and often appeared to be devoid of ordinary human weaknesses. (After strenuous sessions when debates had gone on late into the night and sleep for most could hardly await a bed, Lenin could be found engrossed in reading or writing.) Time and again during the months from April to October, 1917, Lenin threatened defiance of all the party organs if he would not have his way. This childishness was a product, plausibly, of his obsession.

Now a case can be made, and has been, indeed, was made at the time, that Lenin was an agent of the German Imperial Government. It is fact that he and his entourage were shipped through Germany in a sealed train by the government. It is also known that the Bolshevik Party received money from the German government.[6] Moreover, Lenin's activities might have been little different from what they were had he been a paid German agent. From the moment he arrived in Russia he worked toward getting Russia out of the war. He labored also to undermine what remained of the morale in the army. Once the Bolsheviks seized power they acted as quickly as they could to end the war with Germany, which they accomplished with the Treaty of Brest-Litovsk in early 1918. Even those of less than average inclination to suspicion might suspect collusion from these circumstances.

But there is a better explanation than the German-agent theory, and it accounts for more of the facts. It is this. Lenin believed he had discerned the course of history, not the course of history in some general and theoretical way as Marx had, but its very unfolding before his eyes. The long-awaited revolution was ready to take place. Lenin believed himself to be riding the wave of history to its cresting, and when the moment came he must be at the helm to direct the course of the craft. The best evidence for this is his attitude and behavior in the weeks, days and hours just before October 25, 1917.

Lenin knew as well as anyone that the authority of the Provisional Government which had always been tenuous was deteriorating. It might have been toppled in July had the Bolsheviks directed the forces at their command during the demonstrations. General Kornilov attempted a "counter-revolution" in August, but it failed. Lenin had to go into hiding in August to keep from being arrested by the government. From that time on he became more and more insistent that the Bolsheviks must overturn the government. In early October, he wrote:

> Comrades! Our revolution is passing through a highly critical time. This crisis coincides with the great crisis of a growing worldwide socialist revolution and of a struggle against world imperialism. The responsible leaders of our party are confronted with a gigantic task; if they do not carry it out, it will mean a total collapse of the internationalist proletarian movement. The situation is such that delay truly means death.[7]

He had become almost hysterical by October 24:

> Comrades: As I write these lines on the evening of the 24th, the situation is impossibly critical. It is clearer than clear that now, in truth, a delay in the uprising is equivalent to death. . . .
>
> The bourgeois onslaught of the Kornilovists, the removal of Verkhovsky, show that we cannot wait. We must, no matter what, this evening, tonight, arrest the government, after we disarm the cadets. . . .
>
> We cannot wait! We may lose everything!![8]

Lenin was beside himself. Though he was repeatedly refused permission to come out of hiding and take up his work at Bolshevik headquarters, he finally ignored it and went there anyhow. From that moment, he took direct leadership of the revolution which he forged.

Minority Rule

Whether there was a world revolution or not—there was not—, the fact remained that the Bolsheviks were a minority in Russia. They had promised land to the peasants and peace—withdrawal from the war—to everyone, particularly soldiers, but these promises did not secure a majority. The Bolsheviks still lacked a substantial "proletariat" as well as numerical majority.

Leninism entails making a revolution by imposing the will of a minority on the majority. Lenin, in fact, was contemptuous of majorities. Majorities, he declared, were simply means by which the "bourgeois" deceived the masses. The "important thing is not the number, but the correct expression of the ideas and policies of the really revolutionary proletariat."[9] In answer to the complaint of socialist opponents, he wrote:

> They have not understood that a vote within the framework, the institutions, within the habits of bourgeois parliamentarism, is *part* of the bourgeois state apparatus, which must be smashed and broken up from top to bottom *in order* to realize the dictatorship of the proletariat, for the transition from bourgeois democracy to proletarian democracy.
>
> They have not understood that *all* serious questions of politics are decided, not at all by votes, but by civil war, when history places the dictatorship of the proletariat as the order of the day.[10]

"Civil war" is the key to understanding communism, but how Lenin conducted it successfully with a minority needs to be grasped.

3. *The Leverage Principle and Party Rule*

Lenin did not develop the theory of party rule simply as an expedient when it turned out that the Bolsheviks were a minority in Russia. His task might have been easier had he had a majority in the Constituent Assembly, but it might not have. He should be believed when he says that majorities do not matter to communism (except for propaganda purposes), for communism must be imposed on the populace however elections turn out. The instrument for doing this would be the tightly knit, disciplined, and relatively small party. Lenin had for several years prior to 1917 been attempting to develop the core of such a party in Russia. He had also developed a justification of it within the outer bounds, at least, of Marxism. Alfred G. Meyer has summarized the theory this way:

> The Leninist conception of the party is derived from this acknowledged superiority of socialist theory (consciousness) over the spontaneous movement of the working class. The party is conceived as the organization, incarnation, or institutionalization of class consciousness. In it, historical will and purposiveness are to acquire domination over unguided and irrational instinct and drift. . . . The task of the party is "to make the proletariat capable of fulfilling its great historical mission. . . . The party exists for the very purpose of going ahead of the masses and showing the masses the way."[11]

Even despite themselves, no doubt.

The manner in which the power of the party is exercised is a variation of the leverage principle. Whether the phrase has ever been used in connection with communism or not, it is a useful one for visualizing what is done. In financial circles, the leverage principle involves the use of a relatively small amount of money to control and profit from something much more expensive. For example, one might buy a $100 stock by putting up $20 in cash and borrowing the rest. Suppose that the next day the stock goes to $120; it might be sold, and the investor would have doubled his money. In communism, the leverage principle is the means by which a party composing a tiny minority controls and manipulates the whole populace.

Bolshevik Leverage

The Bolsheviks showed themselves astute at using leverage from the outset. Even the adoption of the term, "bolshevik," was a leverage maneuver. The term means majority. Yet at the Social Democratic gathering where the followers of Lenin adopted the title many votes were taken and those who came to call themselves Bolsheviks won only one. Nonetheless, thereafter they claimed the prestige of being the majority. Bolsheviks maneuvered successfully to gain leverage in the soviets even before the revolution. They used the practice of having a political commissar in military units from the outset. They were not long in extending the practice of having such a person in factories, on collective farms, and so on. The secret police, which were reorganized as the Cheka by the Bolsheviks, were a prime example of leverage.

But what made the leverage principle work to enable a small party to control the whole? How, for example, could a single political commissar control a military unit? The answer is simple enough. The leverage was exerted by intimidation, violence, and terror. Intimidation, violence, and terror are not incidental to communism; they are central and essential. They are its *modus operandi.* There are those who believe that Lenin's insistence on attacking on October 25 arose not so much from its necessity in taking over the government, which might have capitulated anyhow, but from the desire to resort to violence. It is plausible enough. Only by letting loose violence would the party have the necessary means at its disposal.

And, in a land under the sway of violence, the man who is the most ruthless, determined, and arbitrary in employing it is king. Unrestrained use of intimidation and violence is, of course, the method of gangsters, but even gangsters must have a head or leader. The leader is the one who initiates the violence and thus dominates those around him. As indicated in an earlier article, communist rule is gangsterism plus ideology. Lenin was the ideologue personified; when he began to initiate violence he became also the leader of the gangsters.

4. Personal Dictatorship

Almost immediately following his death in 1924 Nikolai Lenin was transformed into a virtual god by his followers (and even, it is said, by many who were not communists within Russia). The veneration of him went beyond all bounds. In death he became what he never was during his lifetime—all things to all men, the gentle persuader, the tolerant leader, the incarnation of a benign and beneficent communism. In fact, Lenin was the first dictator of the twentieth century, and he was a model of what made the term hated and despised. He was a dictator in practice, and developed a theoretical justification for it.

No sooner had the Bolsheviks seized power than Lenin began to rule by decree. It was the most personal and direct manner of rule. Much of it was done by telephone, for his desk was covered by the instruments. Examples of rule by decree abound, but one will have to suffice here. The following, issued in December, 1917, was supposed to remove all inequalities in the army:

> 1. To do away with all ranks and titles from the rank of corporal to that of general inclusive. The army of the Russian Republic is henceforth to be composed of free and equal citizens bearing the honorable title of "soldier of the revolutionary army";
>
> 2. To do away with all privileges and the external marks formerly connected with the different ranks and titles. . . .[12]

Evidence that Lenin instituted terror survives in messages which he sent out. The following was sent in August, 1918:

> Your telegram received. It is necessary to organize an intensive guard of picked reliable men to conduct a merciless mass terror against kulaks, priests and White Guards. . . .

More explicitly, he wrote to the Soviet of Nizhni Novgorod in the same month:

> An open uprising of White Guards is clearly in preparation in Nizhni Novgorod. You must mobilize all forces, establish a triumvirate of dictators, introduce immediately mass terror, shoot and deport hundreds of prostitutes who ply soldiers and officers with vodka. Do not hesitate for a moment. You must act promptly: mass searches for hidden arms; mass deportations of Mensheviks and security risks.[13]

Telegrams are given to being terse, but even after that is taken into account it is clear that Lenin did not ameliorate the severity of his death sentences by wishing that God might have mercy on the souls of the victims.

When two or three people are

gathered together, even in the name of the Lord, one of them is likely to disagree with the others all too soon. Such disagreement is equally likely in secular affairs, and is certain where such an overweening concept is involved as concerting all activity to achieving felicity on earth. In short, the idea which holds the world in its grip is a subtle prescription for dictatorship, for only thus could all effort be concerted, if it could be done at all. Personal dictatorship is even more clearly required by communism. The violence and terror are supposed to be justified by the ends to be attained by the revolution. These, in turn, are certified by an orthodoxy of ideology. Such orthodoxy can only prevail when one man prescribes and all others accept or are beaten into submission.

Lenin put it somewhat differently, but the conclusion was about the same. He called his theory of dictatorship "Democratic Centralism." His meaning is fairly clear from this description of it:

> The party is in a position in which the strictest centralism and the most stringent discipline are absolute necessities. All decisions of higher headquarters are absolutely binding for the lower.[14]

A scholar has characterized Lenin's views in this way: "We come closer to the real issue when we realize that all discussion was suspect to him, because it was a waste of time and because it might threaten the unity of the party in action."[15] When Lenin had wrought revolution, idea had become actuality, and those who differed were proposing to argue with reality. When the reality is a gun, the debate is closed. Lenin sent a telegram to Communists in Novgorod about something that they had done with which *he* disagreed. The message contained these words: "I warn you that I shall have the chairmen of the *guberniya* executive committees, the Cheka and members of the executive committee arrested for this and see that they are shot."[16] Fortunately for them, he didn't go through with it.

5. *Civil War*

There was a civil war in Russia from 1918 into 1921 between the Reds and the Whites, but that is not the civil war under discussion here, nor did Lenin refer to the conflict between the Reds and Whites in speaking about civil war in an earlier quotation. What is here being called civil war is what communists refer to as revolution. Revolution is too vague and general an appellation; whereas, civil war calls attention to the true character of what was going on. It was a conflict between the Bolsheviks, or Communists, on the one hand, and the customs, institutions, and possessions of the people on the other.

J.P. Nettl emphasized the strangeness of these new rulers by the following description of them:

> A Bolshevik was . . . anti-social in the normal sense of the word. He did not communicate readily, he did not seek friends, he did not attempt to make himself agreeable, he had no time for sociability or relaxation as such. Since he believed in a philosophy which was totally incomprehensible to non-Marxists, it was often difficult even to talk to him. . . .
>
> The dichotomy between Party and society in the early days was thus reinforced by a clash of cultures and of language. . . .[17]

Party against society, that was one dimension of the conflict, but there was also Party against the state, Party against the army, Party against religion, Party against the money supply, Party against the family, Party against property, Party against venerable custom and tradition, and Party against everything that had been Russian, Christian, or Western Civilization.

It may not have appeared this way to many people at first. True, there was a great wave of destruction that swept over Russia in the wake of the Bolshevik seizure of power, but many people accepted much of the destruction gladly. The remains of the old regime—the Duma, the Senate (supreme court), and local governments—were destroyed, but if their passing was mourned there is little record of it. The army was destroyed, but most soldiers hardly regretted that. As one historian notes: "The crumbling army was pushed to complete disintegration by decrees ordering election of officers . . . and abolishing all ranks and decorations. What units were left in being were speedily demobilized.[18]

The system of alliances with the rest of the world was discarded when the Bolsheviks made a separate peace with Germany. The Russian Empire was supposed to be dissolved, and the various nationalities were promised virtual independence. The workers were encouraged to take over the factories and run them. The peasants were bidden to take the land for their own. It looked at first as if the revolutionary promises might be fulfilled, as if a large portion of the populace was to be awarded the spoils of victory.

New Tyranny for Old

But the Bolsheviks gave, and the Bolsheviks took away, almost before the spoils could be grasped. The old state structure was destroyed, but in its stead a new state was built, more autocratic than the old, under the complete control of the Communist Party with no vestige of popular control, with a new secret police to impose its will. The old army was hardly demobilized before a new one was being built. Leon Trotsky forged this new army into fighting trim. Compulsory military training for workers and peasants was established, the death penalty for desertion restored (it having been abolished under the Provisional Government), election of officers ended, and many of the old officers brought back into service.

The only nationality ever to be granted independence was Finland; after that, under the leadership of Joseph Stalin the process of consolidation of the empire was renewed. There were no more foreign alliances, but in their stead the Communist International (Comintern) was set up to foment revolution around the world. The workers did not run the factories for long; the government nationalized the industries, brought back many of the old managers to run them, and commissars representing the Party kept a watchful eye over them. The peasants might own the land, but the government took the produce, or most of it, by simply confiscating it. Even peace was short-lived, for a real civil war between the Reds and the Whites broke out in 1918.

It is not possible to convey the full sweep of the revolutionary thrust of those first months and years. Perhaps the most symbolic event was the movement of the capital from Petrograd to Moscow. Peter the Great had moved it to what was then called St. Petersburg as a part of his program of the westernization of Russia. It was to be Russia's "window to Europe." Whatever the practical reasons for returning the capital to its ancient seat, the act was laden with symbolic meaning. The Kremlin, the walled city, was an ancient religious center. Its churches were some of the most magnificent of Eastern Christendom.

Religious Symbolism

One might suppose that Moscow and the Kremlin were emblematic of all that the Bolsheviks hated and wished to destroy. So they undoubtedly were, but it never does to forget that the Communists were founding a new religion. What better way to do so than at the seat of the old, and what greater profanation of the old than to locate it in the Kremlin? Comintern and Party agents headquartered there could go forth to convert all nations even as Christian missionaries had done of old.

The Bolsheviks did not wait long to begin their assault on the family and religion. In a pamphlet on the family, Alexandra Kollontai, a leading Bolshevik, had this to say:

The family ceases to be necessary. It is not necessary to the state because domestic economy is no longer advantageous to the state, it needlessly distracts women workers from more useful productive labour. It is not necessary to members of the family themselves because the other task of the family—the bringing up of children—is gradually taken over by society.[19]

Lenin did not go so far. Instead, he acted to remove many supports to the stability of the family. A new marriage code required civil registration of marriages and made religious ceremonies of no account at law. Divorce was made possible on demand by either or both parties. Illegitimate children were accorded the same rights as legitimate children. Both sexes were declared to be equal. Abortion was legalized in 1920 "for so long as the moral survivals of the past and economic conditions of the present compel some women to resort to this operation."[20]

As to religion, the Party announced in 1919 that it was

guided by the conviction that the realization of planned order and consciousness . . . can alone bring with it a complete dying out of religious prejudices. The party aims at a complete destruction of the link between the exploiting classes and the organization of religious propaganda by assisting the effective liberation of the toiling masses from religious prejudices and by organizing the broadest propaganda in favour of scientific enlightenment and against religion.[21]

But the attack on religion was hardly restricted to propaganda. Church and state were proclaimed to be separate. Church property was confiscated. Church activity in the schools was banned. And there was widespread persecution: some priests were killed, and churches taken over for secular uses.

A Record of Destruction

By 1921, the Russia that had been was virtually in ruins. The old order had been almost completely destroyed, but the bright utopia foretold by communist prophets had not emerged. Much damage had undoubtedly been done by participation in World War I and during the war between the Reds and Whites, but even more of the devastation should probably be charged to the revolutionary thrust. In 1921 industrial production was only about thirteen per cent of what it had been before World War I. Seventy-four million tons of grain had been harvested in 1916 compared with only 30 million tons in 1919, and production continued to decline. The Bolsheviks had almost destroyed the value of the money by drastic increases of the supply (inflation). Famine conditions existed in many areas.

The civil war was over, but new rebellions were already occurring. People were leaving the cities to seek sustenance in the countryside. The population of Moscow had been about 2 million in 1917, but it fell to 800,000 by 1920. The population of Leningrad had been 2,416,000 in 1916; it dropped to 722,000 by 1920. The situation was desperate.

That, then, was the Bolshevik Revolution and its outcome. The Russian people would suffer much more, and, in some ways, worse, as they were beset later by Permanent Revolution, to use Trotsky's phrase, but for the time being the revolutionary thrust was virtually ended. The Bolshevik Party had already become the Communist Party, and later revolutionary action would not be called or attributed directly to Bolshevism. Lenin restored some freedom of trade with his New Economic Policy (NEP) in 1921, and conditions began to improve somewhat.

Having intertwined ideology with developments in the account thus far, it is in order now to sort out the myth from the reality of communism.

Next: 6. *The Communist Facade*

—FOOTNOTES—

[1]Robert V. Daniels, *Red October* (New York: Charles Scribner's Sons, 1967), p. 196.

[2]See Donald W. Treadgold, *Twentieth Century Russia* (Chicago: Rand McNally, 1964, 2nd ed.), p. 157.

[3]*Ibid.*, p. 158.

[4]Robert Payne, *The Life and Death of Lenin* (New York: Simon and Schuster, 1964), p. 431.

[5]*Ibid.*, p. 433.

[6]See Daniels, *op. cit.*, p. 40.

[7]Quoted in *ibid.*, p. 71.

[8]*Ibid.*, p. 157.

[9]Alfred G. Meyer, *Leninism* (New York: Praeger, 1957), p. 35.

[10]*Ibid.*, pp. 69-70.

[11]*Ibid.*, pp. 32-33.

[12]Payne, *op. cit.*, p. 414.

[13]*Ibid.*, p. 482.

[14]Meyer, *op. cit.*, p. 99.

[15]*Ibid.*, p. 96.

[16]Payne, *op. cit.*, pp. 480-81.

[17]J.P. Nettl, *The Soviet Achievement* (New York: Harcourt, Brace & World, 1967), p. 64.

[18]Treadgold, *op. cit.*, p. 156.

[19]Quoted in Edward H. Carr, *Socialism in One Country*, I (New York: Macmillan, 1958), p. 31.

[20]*Ibid.*, p. 29.

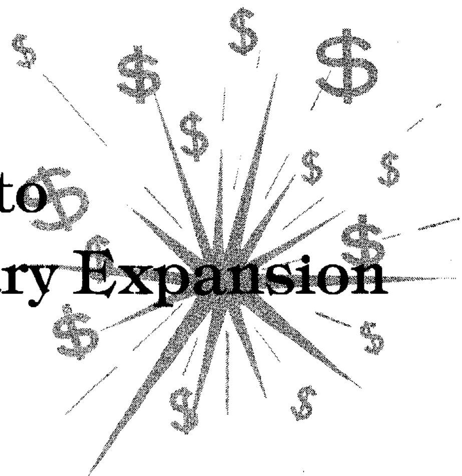
[21]*Ibid.*, p. 38.

IDEAS ON LIBERTY

George Santayana

WHEN experience is not retained . . . infancy is perpetual. Those who cannot remember the past are condemned to repeat it.

Limits to Monetary Expansion



Elgin Groseclose

Monetary expansion is a pleasant sounding phrase, like "an expanding economy," "an expanding world view," and the like. It is associated with expanding employment, expanding investment, an expanding standard of living. Some are so taken by its euphoric connotations that the only difference among them is the desirable rate of ballooning. One economist of our acquaintance argues that the money supply ought to grow in direct proportion to population growth; another would have it plod ahead at a fixed rate regardless of population, economic activity, or whatsoever. Still others, influential in Congress, apparently would like it to explode until every man, woman and child looking for a job had employment—or a guaranteed income.

Monetary growth, in short, is regarded by these exponents of expansion as the key to unlock the door to limitless wealth. They would repeat John Law's facile proposal for enlarging the wealth of France. "Wealth," Law said, "depends on commerce; and commerce depends on circulation. A state must have a certain quantity of money proportioned to the number of its people. What I propose is to make a currency equal to the value of the land."

The Money Pump

In the U.S. the fountain from which issues what passes for money is the Federal Reserve System.

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Here is the cock that adjusts the flow of fiat purchasing power into the economy. If business is slack, if interest rates are rising, open the cock a little wider. "Freeing up the money supply"—to use the phrase of former senator and presidential candidate Fred Harris—is the answer to our economic problems.

The money supply—the so-called M_1—is enlarged two ways: by the issuance of paper notes (Federal Reserve notes) and by increasing the reserves to the commercial banks by which they may increase their loans and deposits. The determination of the amount and rate at which notes and reserves are to be created is set by the Federal Reserve Board.

Prior to 1965 the Federal Reserve's power to increase the money supply was limited by a statutory requirement of a gold reserve against Federal Reserve banks' deposit liabilities and Federal Reserve notes in circulation. In that year Congress removed the gold reserve against deposits, and in 1968 the reserve against notes.

The Spurting Fountain

The Federal Reserve may now issue notes in unlimited amount simply by purchasing Treasury obligations and paying for them with a piece of paper. Formerly these pieces of paper were the same as commercial demand notes; i.e., promises to redeem on demand in lawful money. But a few years ago the phrase "redeemable in lawful money" was quietly removed, and today their only validity as money is that they must be accepted as legal payment of any debt public or private.

About one-fourth of the so-called money supply (M_1) consists of paper notes and debased coinage. The balance consists of commercial bank deposits. Member banks of the Federal Reserve System are required by law to maintain a minimum reserve in cash or on deposit with the Federal Reserve banks—10 per cent of demand deposits for reserve city banks.

Again, the Fed can make more reserves available to the commercial banks by the purchase of Treasury obligations and paying for them by check on itself; the effect is to create deposit credits in favor of the commercial banks which enable them in turn to increase their lending and their deposit credits to customers. At the same time the use of Treasury obligations as reserve for Federal Reserve notes and deposits is to monetize the public debt—just a step removed from the government itself issuing greenbacks.

Are there limits to the amount of money that can be created by this mechanism? Theoretically none.

The Fed is hampered by no gold or other reserve requirement in its power to flood the economy with currency and credit. Elements in Congress regard this tremendous economic power with suspicion or envy, and would like to transfer it to the hands of Congress, where no doubt it would be exercised with less restraint than presently.

Brakes on the Well Pulley

Actually there are restraints which the planners, the theorists, and the politicians have overlooked. With their gaze fixed on the Utopia of an ever-expanding money to energize an ever-expanding economy to provide an ever-expanding affluence to the citizenry, they assume that all the Fed need do is to wave its wand.

The theory of Federal Reserve action assumes that as the Fed increases member bank reserves the effect will be a corresponding expansion of total bank credit (loans) by the so-called multiplier of 5 to 6 times. It is also assumed that this added credit will flow into the channels of business stimulating new construction, capital investment and employment.

But for a bank to expand its loans it must have borrowers willing and wanting to borrow. With interest rates soaring in recent years (a reciprocal of a declining value of the dollar), and business uncertainty rising, borrowers are fewer and more reluctant to put their heads on the block. Since the events of 1974 businesses have been paying off debts and getting more liquid. Thus, commercial borrowing at large commercial banks (the bulk of the commercial loans) dropped from around $131 billion at 1974 year end to as low as $111 billion during 1976 (although rising somewhat since).

Once Bit, Twice Shy

With a paucity of loan applications, the banks, to make use of their reserves, have invested heavily in Treasury obligations, with the funds going to finance government expenditures much of which is for welfare and other non-productive uses rather than business enterprise that creates employment. Between the end of 1974 and 1976 year end, bank holdings of Treasury bonds nearly doubled with some $45 billion going into such obligations. The demand for Treasury obligations has also facilitated the financing of the deficit and lulled both Congress and the Administration into complacency about the steady build-up of the Federal debt.

Few are willing to recognize the truth that the policy of monetary expansion under the guise of "bank credit" is simply one of increasing the burden of debt already enormous with its continually rising interest cost. The persistence of a policy of monetary expansion is resulting in increasing suspicion of the soundness of the economy and the certainty of the outlook, leading the business community to caution about commitments.

The consequences of so much added purchasing power flowing into Treasury obligations instead of business are found in the rise in prices. Contrary to popular expectations, the injection of so much excess purchasing power into the economy, by fiat rather than the production of goods and services, does not stimulate enterprise but deadens it. It has the same result as too much water in the body: an economic dropsy occurs, reflected in a bloated price structure, that has nearly doubled the consumer price index since the removal of the gold reserve against notes.

The Specter of Default

The failure of so many real estate investment trusts, which the banks have financed, amounting to a REIT debacle, has made banks reluctant lenders to the real estate market, and all the propaganda against "red lining" (limiting mortgage loans to certain preferred metropolitan districts) will not put Humpty-Dumpty together again. With cities everywhere in distress, municipal loans are less attractive. Nor are the banks aggressive lenders to business, having in mind the number of major collapses in recent years.

A further and more critical limit overlooked by the planners in their fiat to "free up the money supply" is that imposed by capital reserves.

Capital reserves—equity or stockholders' investment—provide the protection to depositors against banks' losses on bad debts and uncollectible loans. Such reserves are not regulated by law, as are deposits, and supervision over banks' operations is fragmented among three Federal agencies. The Federal Deposit Insurance Corporation examines state chartered non-member banks; the Comptroller of the Currency national banks; and the Federal Reserve, state chartered member banks. Since adequacy of bank capital is a matter of judgment rather than formula, with the judgment of the examiner put against that of the management, regulatory authority becomes more admonitory than injunctive.

Banks generally have a naive, optimistic view of capital adequacy. Thus, while bankers would be aghast at a loan application showing $90 liabilities supported by only $10 equity, they consider this generous for banking, for which the average capital is around 7.5 per cent of total liabilities.

With the recent heavy write-offs of loans to REITs, municipals and some large businesses, the adequacy of the capital structure of the banking system is being quietly questioned here and there—quietly so as not to disturb confidence.

The End of the Road?

A bigger concern as to the banking structure arises from their foreign loans, particularly those to the less developed countries. Total LDC borrowings abroad are estimated to exceed $200 billion, of which some $50 billion are debts to private banks, mainly U.S. banks. Opinions differ as to the danger of default of these loans, the World Bank naturally taking an optimistic view. In any case, the mere fact of the question invites doubt. In addition to the LDC debt is the amount of debt owed by the Soviet Union to Western lenders. Having in mind that in Communist philosophy the end justifies the means and expediency is the rule, one would hesitate to stamp Soviet obligations as gilt-edged.

Needless to say, the banks themselves are becoming as much concerned about their attenuated reserves as anyone, a fact that stands chockablock against the policy of continual monetary expansion advocated in more ethereal precincts.

The real question today is whether the Administration and the expansionist element in Congress are sufficiently aware of the danger in trying to stimulate business by forcing more Federal Reserve credit into the banking system in an effort to "free up the money supply." This could well be the straw to break the camel's back.

IDEAS ON LIBERTY

See What People Will Pay

THE VALUE OF currencies, like the value of many other commodities, depends upon a thousand factors which cannot be measured. These depend upon the opinions of the thousands of businessmen who want to buy currencies and upon those who wish to buy and sell the goods those currencies can purchase.

No government has a yardstick that can measure the value of the goods currencies can buy, and this means that no government has a standard for measuring the value of currencies and the rate at which they should exchange for one another. The only possible way to ascertain the value of a currency is to place it on the free market and see what people will pay for it.

GEORGE WINDER,
The True Convertibility of Sterling

"INDEXING" The Wrong Way Out

Henry Hazlitt

INFLATION is caused by the issuance of too much paper money. Inflation *is* the issuance of too much paper money. Its most conspicuous consequence is to raise prices. But it never raises all prices, wages, and incomes simultaneously or to the same extent. The persons whose wages or incomes it raises least or latest suffer the most from inflation and raise the greatest opposition to it.

Therefore some politicians and economists propose that this be remedied by what they call "indexing" or "indexation." This consists in prescribing that everybody's price, wage, or income be raised as much as the average "level" of prices. This usually means: by the same percentage as the official "Consumer Price Index" of the country has gone up.

The mere statement of this proposed remedy suggests some of its difficulties. We must distinguish first of all (though it is surprising how seldom this is done) between *mandatory* and *voluntary* indexing. This country has already adopted a large measure of the latter. According to a calculation made in 1975, the incomes of more than 65 million Americans were indexed: 31.3 million Social Security recipients, 19 million food stamp users, 7 million union members, 4 million aged, blind, and disabled persons on Federal aid, and so on—including also members of Congress

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and thousands of other employees of federal, state, and local governments.[1]

This "voluntary" or quasi-voluntary indexation does some harm, as I shall later point out, but not nearly as much harm as mandatory indexation. Mandatory indexing is a form of government wage-and-price control. Like any form of price control it is bound to be disruptive. "Standard" price control prescribes *maximum* wages and prices; mandatory indexing would prescribe *minimum* wages and prices. Imposing price ceilings brings underproduction and overconsumption of many commodities, causes shortages and leads to rationing. Imposing wage and price floors would lead to massive unemployment and to surpluses of goods that could not be sold at the higher prices.

What Is Not Seen

It is amazing that among the champions of compulsory indexing there are some self-styled free-market economists. Inflation from its very nature does not raise all prices, wage-rates, and incomes simultaneously and uniformly but at different times and by different amounts. And during an inflation individual prices, wage-rates, and incomes also change in relation to each other, for the same variety of reasons that they do when there is

• What the advocates of indexing overlook is that in a market system, with division of labor, practically every man's money income is some other man's cost.

no inflation. But the advocates of indexing see all these changing divergencies not as market fluctuations that accelerate and smooth out a necessary re-allocation of production to changes in demand, but as "inequities" that need to be eradicated.

What the advocates of indexing overlook is that in a market system, with division of labor, practically every man's money income is some other man's cost. Therefore, indexing not only creates more inequities than it cures, but it tends to disrupt and misdirect production. When wage-rates in industry X, that have not yet gone up as much as the average, are suddenly and mandatorily boosted to that level, profit margins in that industry are narrowed or wiped out. One result is bankruptcies of marginal producers and less output. Another result is not a higher income for all the previous workers in that industry, but more unemployment. Similar consequences follow when raw material prices or rents are boosted by mandatory indexing. And every upward adjustment to produce "equity" creates the need for other upward adjustments, a never-ending process.

Misallocation of Resources

One of the great evils of inflation, of course, is that it tends to redistribute wealth and incomes erratically and wantonly. Another consequence is that it leads to the misdirection of labor and investment. But indexing, by arbitrarily altering and falsifying the market signals still further, only tends to increase the misdirection and misallocation of labor and output.

The advocates of indexing appeal to a class interest. What they say in effect is: *You* haven't got your "fair share"; *you* are being cheated, and only indexing will save you. Powerful pressure groups push for a kind of indexing calculated to benefit them at the expense of everybody else. But if they could succeed in their aim, the result in the long run would be damaging to them as well as everybody else. The strong unions, for example, want to keep abreast of increases in the Consumer Price Index as a *minimum.* On top of that they ask for so-called "productivity" increases, increased pensions, and other guarantees. The result can only be reduced returns to employers, leading at best to less capital formation and slower growth, if not to increased bankruptcies and unemployment.

• Powerful pressure groups push for a kind of indexing calculated to benefit them at the expense of everybody else.

The typical newspaper reader is led to assume that the official Consumer Price Index, on which most indexation schemes are based, represents all prices of all consumer goods. It is in fact not even designed to do that. Its full official name is the "Consumer Price Index for Urban Wage Earners and Clerical Workers." It covers only 400 items out of the thousands bought and sold by consumers. It is weighted to apply to a particular minority. Its calculation is arbitrary in a score of ways. As a measure of changes in "everybody's" cost of living, it lacks precision. And it necessarily must, because each person's particular "mix" of needs and purchases is individual. The average is never the actual. The average family has 3.1 members, but there is not a single family in the United States with 3.1 members.[2]

Unevenly Applied

But these statistical defects are a comparatively minor objection to indexing. Contrary to the naive assumption of its advocates, indexing simply cannot be applied evenly all around the circle. It can only fix prices; it cannot guarantee incomes. It can order that wage-rates be raised; but it cannot insure that employment will not thereby be reduced. It can order that the price of an item be increased, but it cannot guarantee that the sales of that item will not be diminished.

For another example, let us look at how indexing would affect savings and loan institutions. The government, as has been suggested, could offer notes and bonds on which the annual interest rate varied with consumer prices, and on which even repayment of principal was increased to correspond with consumer price rises. Perhaps some private borrowers would offer similar bonds. In that case there would probably be massive withdrawals from the savings banks to buy such securities. How could the savings banks then maintain their liquidity or solvency? Would they, in order to compete, have to offer their depositors a similarly indexed interest rate and indexed repayment of principal? Where would they get the money from? Would they, in lending mortgages, also demand an indexed interest rate and a similarly scaled-up repayment of principal? How many homeowners would dare to undertake such a risk or be able to meet the terms in the event of a major inflation?

Mandatory indexing is practically certain to favor the interests of the most powerful political groups. In a democracy it would favor primarily the big labor unions. It is naive to suppose, as some of the advocates of indexing do, that in the event of an actual fall in prices, the unions would tolerate a corresponding cut in money wages. Indexing would force wage-rates up, and keep them up, on a ratchet principle.

Among those whose incomes are already indexed—if not overindexed—are Social Security recipients. This is having a disturbing political effect. It must tend to remove many of our elder citizens as opponents of inflation, and make them complacent about it. If elderly persons and the members of labor unions ever come to assume that they are adequately protected against the ravages of inflation, and may even profit by it, the outlook for restoring balanced budgets and a sound currency will become all but hopeless.

- One of the most serious inequities wrought by inflation falls on all those subjected to progressive income taxes and to capital-gain taxes.

Among those who are already overprotected by indexing are retired Federal employees. Lately Congressmen have been voting themselves all sorts of catch-up raises. This is the most ironic indexing, and the most ominous of all. If those who are responsible for permitting or producing the inflation are allowed to become also the profiteers from inflation, to whom can we look to end it?

Higher Tax Brackets

One of the most serious inequities wrought by inflation falls on all those subjected to progressive income taxes and to capital-gain taxes. Inflation keeps pushing them into higher tax brackets. They are called on to pay higher percentage rates even though their real income may not have gone up at all. Many are forced to pay taxes on so-called capital gains when in real terms they may actually have suffered capital losses. If the taxpayer were allowed to recalculate his money income or capital gain in "real" terms, it would remove this flagrant inequity, at the same time as it would take part of the profit out of inflation for the government that was producing it.

In this instance the argument for indexation makes a strong appeal to conservatives. In fact, it might perhaps with as much accuracy be called de-indexing taxes as indexing them. But politically speaking, it would be at best very difficult to get such tax indexing or de-indexing except as part of a sweeping indexation program. And such a program would only tend to prolong and increase inflation itself.

- When government expenditures are forced up automatically whenever the Consumer Price Index rises, we have come close to a formula for perpetual inflation.

Prolonged and Accelerated

Indexation tends to prolong and accelerate inflation for two reasons. It does so first because it postpones, diminishes, or removes the worst effects of inflation on influential groups, and so greatly reduces the political opposition to inflation. And it does so also because of its purely mathematical effect. In Phase 1, say, indexing would bring all (or most) wages and incomes that were below the average up to the average. But as soon as Phase 1 had been completed, the average itself would be raised by that increase. This would necessitate a further upward adjustment in Phase 2; and so on. To make the new wage and income levels sustainable at each stage, there would be great political and economic pressure to increase the money supply still further.

The effect is even greater when indexation directly increases government expenditures themselves. It does this most notably, for example, when Social Security payments are indexed. When government expenditures are forced up automatically whenever the Consumer Price Index rises, we have come close to a formula for perpetual inflation.

It should be pointed out that the same sort of result would follow, though on a smaller scale, if tax rates were also indexed or deindexed so as not to go up with increasing nominal money incomes. This indexation would make tax revenues lower than they would otherwise be, and so tend to increase the deficit—unless the government compensated, as it no doubt would, by openly increasing income-tax rates.

Even if indexing did not increase inflation or the political pressures for inflation, it should at least be obvious that it does nothing by itself to reduce or slow down inflation. Even Milton Friedman, one of the strongest advocates of indexing, concedes that "indexing per se will not, in my opinion, do anything to reduce inflation,"[3] and even that ". . . widespread indexation would reduce the public pressure to end inflation."[4]

- When an inflation once develops and continues beyond a certain point, indexing arises almost spontaneously and spreads by mutual acceptance as the only way of mitigating an otherwise intolerable situation.

How does it come about that, with all the objections to it, indexing is nonetheless being seriously proposed and discussed? The active discussion began in this country early in 1974, when Milton Friedman returned from a short visit to Brazil full of enthusiasm for the indexation program that he found there.

The Brazilian Model

To have Brazil upheld as an economic or monetary model for the United States to emulate seems a strange irony. Brazil, one must admit, does not have the very worst inflation record in the world in recent years. Chile and the Argentine have been competing too vigorously for that honor. But Brazil does have *one* of the worst records—especially one of the worst long-term records. It was inflating at a double-digit rate as early as 1941. The accompanying table shows its annual record for the last 26 years:

Annual Percentage Change, Year-end

1952 . . . 20.8%	1964 . . . 91.9%
1953 . . . 16.8	1965 . . . 34.5
1954 . . . 26.2	1966 . . . 38.3
1955 . . . 19.1	1967 . . . 25.0
1956 . . . 21.7	1968 . . . 25.5
1957 . . . 13.4	1969 . . . 20.1
1958 . . . 17.3	1970 . . . 19.3
1959 . . . 52.0	1971 . . . 19.5
1960 . . . 23.8	1972 . . . 15.7
1961 . . . 43.2	1973 . . . 15.5
1962 . . . 55.2	1974 . . . 34.5
1963 . . . 80.6	1975 . . . 29.4
	1976 . . . 46.3

Source: Getulio Vargas Foundation.

It will be noticed that in the single year 1964 consumer prices in Brazil soared 91.9 per cent. In fact, in the first quarter of 1964 the annual rate of inflation was running at 150 per cent, but at that point the Brazilian authorities took hold and applied the old-fashioned "classical medicine." They imposed a heroic contraction in the growth of "aggregate demand" by severe fiscal and monetary restraint. It was this, and not "indexing," that slowed down the cost-of-living rise to 25 per cent in 1967.

The indexing that was applied in Brazil in this three-year period was not the kind that its present American advocates are recommending. Brazil's authoritarian government was careful *not* to allow full indexing of labor incomes to rising consumer prices. In this way it was not only able to prevent heavy unemployment, but by diverting a larger proportion of industry's income to profits, it encouraged capital accumulation, plant expansion, and "economic growth." Once fuller indexing came into play after 1967, labor's opposition to inflation diminished, and inflationary policies were resumed.[5]

Automatic But Voluntary

When an inflation once develops and continues beyond a certain point, indexing arises almost spontaneously and spreads by mutual acceptance as the only way of mitigating an otherwise intolerable situation. This was exemplified in the hyper-inflation in Germany in 1922 and 1923. But such indexing should always be voluntary, and flexible enough to adapt itself to special situations. When it is mandatory and Procrustean, it can only increase economic disruption and create at least as many inequities as it cures.

We come back to the point that one man's price, wage, or income is another man's cost. Inflation is a disguised, haphazard, and iniquitous form of taxation. It is a government-imposed swindle or robbery, and most of us must be swindled or robbed by it. As Dr. Hans F. Sennholz has put it:

"If a government resorts to inflation, that is, creates money in order to cover its budget deficits or expands credit in order to stimulate business, then no power on earth, no gimmick, device, trick or even indexation can prevent its economic consequences. If by way of inflation government spends $10 billion in real goods, capital or labor, someone somewhere must forego $10 billion in real resources. It is a fundamental principle of inflation that there must be victims. Indexation may shift the victimization; it cannot prevent it."[6]

The Only Real Cure

One last argument against indexing remains. It is the most important of all, and in itself sufficient. The advocates of indexing tacitly take it for granted that inflation is some mysterious and incurable disease, like cancer; and as it cannot be cured, the best we can do is to live with it and try to mitigate the pain as much as possible. This is a preposterous assumption. Every economist worth the name knows precisely what causes inflation and how to stop it. It is caused by a government that insists on spending more than it can or is willing to raise by taxes; a government that recklessly runs chronic deficits and issues more paper money to pay for them. If the politicians responsible for government policy had the will, they could stop inflation overnight.

The proponents of indexing blandly suggest that the same government that is creating and prolonging the disease continue to do so but graciously provide us with indexation as a partial pain-killer—or rather, that it shift the pain from some of us to someone else. They propose a complicated and spurious cure and overlook the simple, real, and only one: Stop the inflation.

—FOOTNOTES—

[1] *U.S. News and World Report,* Aug. 18, 1975, p. 44.

[2] The reader interested in a fuller analysis of the defects of the CPI may consult the pamphlet "The Case Against Indexation," by John W. Robbins (Committee for Monetary Research and Education, P.O. Box 1630, Greenwich, Conn. 06830).

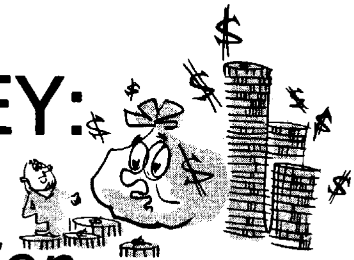
[3] *Indexing and Inflation,* American Enterprise Institute, 1974, p. 2.

[4] *Ibid.,* p. 18.

[5] For a more detailed description, see Ronald A. Krieger, "Inflation and the 'Brazilian Solution,'" in *Challenge,* Sept.-Oct. 1974, pp. 43-52. And for a fascinating history of the incredible monetary mismanagement and chronic inflation in Brazil from the seventeenth century to the present, see Norman A. Bailey's pamphlet: "Brazil as a Monetary Model" (Committee for Monetary Research and Education, Greenwich, Conn., June 1975.)

[6] *Inflation Survival Letter* (Washington: Human Events, July 1, 1974.)

EASY MONEY:



Prelude to Recession

Brian Summers

WHY is the American economy plagued by recessions?

The simplest way to answer this question is to focus our attention on individuals. Once we know why individual businessmen experience economic setbacks, we will have the key to understanding why the entire economy intermittently goes through periods of recession.

A businessman suffers heavy losses when he has seriously erred in estimating his future costs and/or his future revenues. And it is always true that some business ventures will fail. But during a recession large numbers of businessmen—sometimes a vast majority—find they have seriously erred in estimating future conditions. Why are so many hitherto successful businessmen suddenly simultaneously in error?

Critics of capitalism assert that recessions are caused by free enterprise. But when pressed on the matter, these critics can never find anything in the free market that would cause vast numbers of businessmen to simultaneously err. The cause of such widespread business error—and thus the cause of recessions—must be found outside the market economy.

Many business setbacks undoubtedly are caused by unexpected natural disasters and wars. But such calamities, fortunately, are too few and usually too localized to explain the recurrent, nationwide recessions plaguing America. The cause of widespread business error must lie elsewhere.

An important clue can be found

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by studying past recessions. Recessions have usually hit hardest in the capital goods industries—those industries selling tools and raw materials to other industries. Consumer goods industries—those selling finished products to the general public—have usually been least hit by recessions.

This, then, is the problem: Why do large numbers of hitherto successful businessmen, particularly in the capital goods industries, suddenly and simultaneously err in estimating future market conditions?

Misled by Government

The answer—first explained in 1912 by Austrian economist Ludwig von Mises—is that they are misled by government tampering with money and credit. In particular, government "easy money" policies lead businessmen into courses of production that later prove disastrous.

Let us see how this happens. Suppose the Federal Reserve System—the federal government's central banking system—tries to stimulate business activity by increasing the quantity of money the nation's banks have available for lending. The Federal Reserve System does this by increasing member banks' reserves and/or by lowering legal reserve requirements. In order to lend the increased quantity of money—and thus earn interest—banks must reduce interest rates to encourage more borrowing. These artificially-reduced interest rates are commonly referred to as "easy money" or "cheap credit."

It is the easy money that misleads businessmen. Projects that formerly appeared too expensive—not likely to yield profits—suddenly seem less expensive.

Suppose the Smith Toaster Company has been thinking about converting to a new production process. However, every time Mr. Smith tallies up his expected costs of conversion—construction costs, equipment costs, wages, interest to pay back the needed loan—he decides that the revenues he hopes to earn by selling his toasters probably won't cover the total costs.

Suddenly, however, the Federal Reserve authorities act to inject more money into the loan market, causing interest rates to fall. Smith now looks at his expected conversion costs—taking into account the reduced cost of obtaining a loan—and decides to take advantage of the easy money. He obtains a loan and proceeds with his project.

Smith engages a construction company and orders tools and machinery. For a while, the economy seems to prosper. Smith Toaster Company and thousands of other companies are lured by cheap credit into projects they previously had thought too expensive. This sets off a boom in the capital goods industries. With orders flooding in, the capital goods industries expand—using easy money to finance the expansion.

But, the boom is not without dire consequences. As more and more companies use easy money to purchase capital goods, their competitive bidding causes the prices of capital goods to rise—much as prices rise in an auction. Smith finds that he was misled. The cost of his capital equipment is higher than he anticipated. Maybe he will abandon his conversion plans, leaving the project unfinished. Or maybe he will complete the project, knowing that the higher-than-anticipated conversion costs have greatly diminished his chances of earning a profit when the toasters are sold.

A Crucial Issue

The Federal Reserve authorities now face a crucial decision. They can stop the easy money policy—and probably create a recession in the over-extended capital goods industries. Or they can continue the policy of cheap credit, further mislead businessmen into attempting dubious projects (dubious from the standpoint of future profitability), and try to maintain the boom in the capital goods industries.

But to maintain the boom, the Federal Reserve authorities must pump credit into the loan market at faster and faster rates because businessmen have come to expect rising prices of capital goods. A vicious spiral is created. Credit expansion causes capital goods prices to rise, and the only way to keep ahead of the rising prices is to pump more and more credit into the loan market.

Of course, this cannot go on forever. As prices skyrocket, the monetary unit eventually becomes worthless, and the economy plunges into a depression—as happened in Germany in 1923.

Faced with the choice of stopping the easy money (and probably creating a recession) or continuously increasing the flow of cheap credit (and creating a runaway inflation), the Federal Reserve authorities have adopted a policy of compromise. They have tried to "fine tune" the flow of easy money, so that businessmen will embark on enough dubious projects to prop up the capital goods industries, without causing inflation to get out of hand. But fine tuning has failed. Rising prices have become a fact of life. Businessmen include them in their calculations. The only way to stimulate another artificial boom would be to increase the quantity of money at record rates, causing prices to rise even faster.

The Solution

What is the solution? There can be only one: Easy money must be stopped. The federal government must stop pumping new money (hot off the government presses) into the banking system—which only misleads businessmen and causes prices to rise.

In the short run, the results of an end of government credit expansion would depend on how the end were brought about, particularly on whether the country were given advance notice and whether the end of credit expansion were accompanied by a balanced Federal budget. In any case, businessmen probably would adopt a temporary "wait and see" attitude, and thus be hesitant about starting new projects. Hence, there probably would be a temporary recession in the capital goods industries.

In the long run, a permanent end to both government credit expansion and Federal deficits would stabilize the nation's money stock (thus ending inflation) and stabilize the loan markets. This would greatly boost business confidence, and businessmen could start projects assured that costs wouldn't suddenly escalate due to inflation and/or Federal tampering in the loan markets. This would particularly benefit the capital goods industries, which could plan their affairs knowing that their futures depended, not on the vagaries of Federal monetary policy, but, rather, only on how well they served their customers.

To summarize, economic recessions are primarily the result of government credit expansion which misleads businessmen into attempting dubious projects, creates a boom in the capital goods industry, and causes prices to rise. When rising prices scare the government into reducing the rate of credit expansion, the economy—particularly the over-extended capital goods industry—suffers a recession.

The Price of Inflation

IDEAS ON LIBERTY

EVEN if the inflation is halted at some point and no deflation sets in—that is, even if the increased supply of money is merely locked where it is and not reduced—the stabilization crisis sets in because these anticipatory prices collapse. This stabilization crisis, like the drunkard's hangover, is part of the price that must be paid for every inflationary orgy.

HENRY HAZLITT, from the Introduction to the 1959 edition of *Fiat Money Inflation in France* by Andrew Dickson White

John Witherspoon: Disciple of Freedom

Robert G. Bearce

"THERE is not a single instance in history," declared Rev. John Witherspoon in 1776, "in which civil liberty was lost, and religious liberty preserved entire. If therefore we yield up our temporal property, we at the same time deliver the conscience into bondage."[1] Speaking as a minister, Rev. Witherspoon understood the inseparable tie between political freedom and spiritual freedom. Like John Adams and Patrick Henry, he was an outspoken Patriot, advocating independence from Great Britain.

Dr. Witherspoon is remembered mainly for his tenure as President of the College of New Jersey (Princeton) and for having been the only clergyman to sign the *Declaration of Independence*. His truly important contribution to American liberty and independence, though, was revealed by his stalwart labors as a member of the Continental Congress. Elected in 1776, he served his last term in 1782. During this period, he attempted to bring sound economic wisdom to Congressional deliberations. Unfortunately for the struggling Thirteen States, his astute views and timely admonitions were often rejected. Consequently, America had to fight both the British Army and the evils of inflation and price-fixing.

Eighteen years after the War for Independence was finally won, Witherspoon published his *Essay on Money*, "As a medium of commerce; with remarks on the advantages and disadvantages of paper admitted into general circulation."[2] This excellent work gives hindsight, insight, and foresight into economic problems—the same problems faced by the United States in the 20th century. Writing about the general topic of money, Witherspoon also gives us a clear understanding of "commerce"—free exchange and free enterprise.

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"Let us then begin," he says, "by considering what gave rise to money, and what is its nature and use? If there were but one man upon the earth, he would be obliged to prepare a hut for his habitation, to dig roots for his sustenance, to provide skins or fig leaves for his covering, &c. in short, to do every thing for himself. If but one or two more were joined with him, it would soon be found that one of them would be more skillful in one sort of work, and another in a different; so that common interest would direct them, each to apply his industry to what he could do best and soonest; to communicate the surplus of what he needed himself to that sort of work to the others, and receive of their surplus in return.

"This directly points out to us, that a barter of commodities, or communication of the fruits of industry, is the first principle or rather indeed constitutes the essence of commerce. As society increases, the partition of employments is greatly diversified; but still the fruits of well directed industry, or the things necessary and useful in life are what only can be called wealth."[3]

A Preference for Gold

As a rugged Scotsman by birth, Rev. Witherspoon had an appreciation for gold. His distaste for printed bills was founded upon firm economic judgment, and he was ready to defend precious metals.

"It is likely some will say, What is the intrinsic value of gold and silver? They are not wealth; they are but the sign or representative of commodities. Superficial philosophers, and even some men of good understanding not attending to the nature of currency, have really said so. What is gold, say some, the value is all in the fancy; you can neither eat nor wear it; it will neither feed, clothe nor warm you. Gold, say others, as to intrinsic value, is not so good as iron which can be applied to many more useful purposes.

"These persons have not attended to the nature of commercial value, which is a compound ratio of its use and scarceness. If iron were as rare as gold, it would probably be as valuable, perhaps more so. How many instances are there of things, which, though a certain proportion of them is not only valuable, but indispensably necessary to life itself, yet which from their abundance have no commercial value at all.

"Take for examples air and water. People do not bring these to market, because they are in superabundant plenty. But let any circumstances take place that render them rare, and difficult to be obtained, and their value immediately rises above all computation. What would one of those who were stifled in the black hole at Calcutta, have given to get but near a window for a little air? And what will the crew of a ship at sea, whose water is nearly expended, give for a fresh supply?"[4]

The Weakness of Paper

Witherspoon understood the stability of gold just as he saw the weakness of paper. Why should nations fear printed bills as legal tender?

"The evil is this: All paper introduced into circulation, and obtaining credit as gold and silver, adds to the quantity of the medium, and thereby . . . increases the price of industry and its fruits."[5]

Today we call it inflation. By "the price of industry and its fruits," Witherspoon meant the higher costs for employment, land, tools, and business expansion. Expenses and prices go up. True profits and income go down. The individual's "industry"—his daily labor or his business—might bring in more greenbacks, but their value will be shrinking.

"Experience," he warns, "has every where justified the remark, that wherever paper is introduced in large quantities, the gold and silver vanishes universally. The joint sum of gold, silver, and paper current, will exactly represent your whole commodities, and the prices will be accordingly. It is therefore as if you were to fill a vessel brim full, making half the quantity water and the other oil, the last being specifically lightest, will be at the top, and if you add more water, the oil only will run over, and continue running till there is none left.

"How absurd and contemptible then is the reasoning which we of late have seen frequently in print, viz. the gold and silver is going away from us, therefore we must have paper to supply its place. If the gold and silver is indeed going away from us, that is to say, if the balance of trade is much against us, the paper medium has a direct tendency to increase the evil, and send it away by a quicker pace."[6]

"Hence it may be seen, that the resolution of the question, whether it is proper to have paper money at all or not, depends entirely upon another, viz. whether the evil that is done by augmenting the circulating medium, is or is not over-balanced by the facility given to commerce, and the credit given to particular persons, by which their industry and exertions are added to the common stock."[7]

Belief in Freedom Under God

When Rev. Witherspoon came to the Colonies in 1768 to assume the presidency of the College of New Jersey, he brought with him his evangelical Christian faith and a profound intellect. Sharp-minded but humble, he had the gift of aggressive, orderly thought. As a student of the Scriptures, he recognized that God did not compel men to accept Him. Individuals were free to choose or reject obedience to their Creator.

Likewise, he saw that God meant for individuals to have political and economic freedom in the earthly life. Man's temporal rights—"life, liberty, and the pursuit of happiness"—were God-given. Freedom was a matter for one's soul as well as his daily bread. Thus, the Princeton preacher applies the principle of voluntary action and personal choice to commercial enterprises:

"Well! is it agreed that all commerce is founded on a complete contract? . . . One of the essential conditions of a lawful contract, and indeed the first of them, is, that it be *free* and *mutual.* Without this it may be something else, and have some other binding force, but it is not a contract. To make laws therefore, regulating the prices of commodities, or giving nominal value to that which had no value before the law was made, is altering the nature of the transaction altogether.[8]

"Thus we know, that in cities, in case of a fire, sometimes a house, without the consent of its owner, will be destroyed to prevent the whole from being consumed. But if you make a law that I shall be obliged to *sell* my grain, my cattle, or any commodity, at a certain price, you not only do what is unjust and impolitic, but with all respect be it said, you speak nonsense; for I do not *sell* them at all: you take them from me. You are both buyer and seller, and I am the sufferer only.[9]

"I cannot help observing that laws of this kind have an inherent weakness in them: they are not only unjust and unwise, but for the most part impracticable. They are an attempt to apply authority to that which is not its proper object, and to extend it beyond its natural bounds; in both which we shall be sure to fail. The production of commodites must be the effect of industry, inclination, hope, and interest. The first of these is very imperfectly reached by authority, and the other three cannot be reached by it at all.

"Perhaps I ought rather to have said that they cannot be directed by it, but they may be greatly counteracted; as people have naturally a strong disposition to resist force, and to escape from constraint. Accordingly we found in this country, and every other society who ever tried such measures found, that they produced an effect directly contrary to what was expected from them. Instead of producing moderation and plenty, they uniformly produced dearness and scarcity."[10]

With Good Intention

Witherspoon insisted that "tender laws, arming paper, or any thing not valuable in itself with authority are directly contrary to the very first principles of commerce." Regrettably, "many of the advocates for such laws, and many of those who are instrumental in enacting them, do it from pure ignorance, without any bad intention."[11]

Monetary considerations aside, Dr. Witherspoon's observation points to one of the problems still facing the American economy. We have our own government officials, educators, and socio-political writers who in "ignorance, without any bad intention," propose coercive measures in economic matters. They are guided by a humanitarian spirit, but it is an idealism that ignores personal freedom and individual responsibility. Their "ignorance" fosters both economic stagnation and political regimentation.

With regard to attempts at corrupting a nation's currency, Witherspoon observed that "the only thing resembling it in the English history is, James the second coining base metal, and affixing a price to it by proclamation; a project contemptible in the contrivance, and abortive in the execution."[12]

"It seems to me, that those who cry out for emitting paper money by the legislatures, should take some pains to state clearly the difference between this and the European countries, and point out the reasons why it would be serviceable here, and hurtful there."[13] Again, laying aside the specific topic of paper currency, we have a general admonition that should be heeded. Statist-minded politicians and economists in the United States should explain why their own blueprints for a planned economy in America will work any better here than do their socialistic counterparts in Africa, Europe, Asia, or South America.

An Incisive Approach

Although Rev. Witherspoon was not an eloquent speaker, he knew how to present basic truths clearly and forcefully. Serving as a member of Congress during the war, he spent fewer hours preaching from the pulpit. Work in Congress, though, enabled him to demonstrate his clarity of thought and his ability to get to the heart of a problem.

When proposals for price-fixing came up, he protested vigorously —both in speech and print. In 1777 Congress was considering whether or not it should recommend to all the States the "Connecticut Act for Regulating Prices" —a plan already adopted by a convention of four New England States. It would have regulated prices of labor, manufactures, imports and provisions.

Witherspoon voted an emphatic "Nay!" to the "Connecticut Act": "Sir, it is a wise maxim to avoid those things which our enemies wish us to practice . . . Remember, laws are not almighty . . . It is beyond the power of despotic princes to regulate the prices of goods . . . If we limit *one* article, we must limit *every*thing, and this is impossible."[14]

General Washington also heard from the New Jersey sage on the evils of price-fixing. Describing himself as a "Jersey Farmer," Dr. Witherspoon advised the Commander-in-Chief that several states had already tried to set prices by law. The measures had only made food and supplies even more scarce. "To fix the prices of goods, especially provisions in a market," he wrote, "is as impracticable as it is unreasonable."

Freedom of Exchange

Who, then, should regulate prices? The buyer and seller themselves, without interference from politicians! Freedom of exchange! Freedom for both the consumer and the businessman!

Behind the different attempts at controlling prices was the staggering inflation. An estimated $200 million of paper money had been issued by 1781. State and Continental currency was almost worthless. Paper money was always Witherspoon's thorn in the side. Looking back upon the inflation of the war, he wrote in *Essay on Money*:

"I observe, that to arm such bills with the authority of the state, and make them a legal tender in all payments, is an absurdity so great, that [it] is not easy to speak with propriety upon it. Perhaps it would give offense if I should say, it is an absurdity reserved for American legislatures; no such thing having ever been attempted in the old countries. It has been found, by the experience of ages, that money must have a standard of value, and if any prince or state debase the metal below the standard, it is utterly impossible to make it succeed.[15]

"Why will you make a law to oblige men to take money when it is offered them? Are there any who refuse it when it is good? If it is necessary to force them, does not this system produce a most ludicrous inversion of the nature of things. For two or three years we constantly saw and were informed of creditors running away from their debtors, and the debtors pursuing them in triumph,and paying them without mercy.

"Let us examine this matter a little more fully. Money is the medium of commercial transactions. Money is itself a commodity. Therefore every transaction in which money is concerned, by being given or promised, is strictly and properly speaking, a bargain, or as it is well called in common language, an agreement. To give, therefore, authority or nominal value by law to any money, is interposing by law, in commerce, and is precisely the same thing with laws regulating the prices of commodities, of which, in their full extent, we had sufficient experience during the war. Now nothing can be more radically unjust, or more eminently absurd, than laws of that nature."[16]

A Contractual Arrangement

What is the basis for a productive, creative society? How does free enterprise operate? The ingredients are goods and services, money, freedom, and the willingness of the individual to cooperate voluntarily with his fellow man. Witherspoon does not speak of a need for government compulsion in commerce:

"Among all civilians, the transactions of commerce are ranged under the head of contracts. Without entering into the nicer distinctions of writers upon this subject, it is sufficient for me to say, that commerce, or buying and selling, is found upon that species of contracts that is most formal and complete. They are called in the technical language, *Onerous contracts*, where the proper and just value is supposed to be given or promised, on both sides. That is to say, the person who offers any thing to sale, does it because he has it to spare, and he thinks it would be better for him to have the money, or some other commodity, than what he parts with; and he who buys, in like manner, thinks it would be better for him to receive the commodity, than to retain the money."[17]

Freedom guided Witherspoon's economic beliefs. He traced most economic difficulties to the conflict between freedom and coercion. Times have changed since the publication of the *Essay on Money*, but his wisdom goes beyond the subject of the American monetary system in 1786.

"I must here take the occasion and the liberty of saying, that it were greatly to be wished that those who have in their hands the administration of affairs in the several states of America, would take no measures, either on this, or any other subject, but what are founded upon justice, supported by reason, and warranted to be safe by the experience of former ages, and of other countries. The operation of political causes is as uniform and certain as that of natural causes. And any measure which in itself has a bad tendency, though its effects may not be instantly discernible, and their progress may be but slow, yet it will be infallible; and perhaps the danger will then only appear when a remedy is impossible.

"This is the case, in some degree, with all political measures, without exception, yet I am mistaken if it is not eminently so with respect to commercial dealings. Commerce is excited, directed, and carried on by interest. But do not mistake this, it is not carried on by general universal interest, nor even by well informed national interest, but by immediate, apparent, and sensible personal interest. I must also observe, that there is in mankind a sharp-sightedness upon this subject that is quite astonishing.

"All men are not philosophers, but they are generally good judges of their own profit in what is immediately before them, and will uniformly adhere to it. It is not uncommon to see a man who appears to be almost as stupid as a stone, and yet he shall be as adroit and dextrous in making a bargain, or even more so, than a man of the first rate understanding, who probably, for that very reason, is less attentive to trifling circumstances, and less under the government of mean and selfish views."[18]

Today, there is still a "sharp-sightedness" on the part of individuals who are left free to manage their own interests. Our problem lies in the fact that too many politicians believe themselves to be the only possessors of "sharp-sightedness." They reject Witherspoon's faith that men are "good judges of their own profit." They show contempt for the average citizen—his sense of personal accountability, his intelligence, his self-reliance and discipline.

Individual Responsibility

In May 1776, Rev. Witherspoon spoke to the average American on the occasion of the General Fast, a day of fasting and prayer. His sermon, "The Dominion of Providence over the Passions of Men," touched upon both man's spiritual and earthly needs. Besides urging individuals to seek their eternal welfare, he emphasized individual responsibility in the present, temporal life:

"I exhort all who are not called to go into the field to apply themselves with the utmost diligence to works of industry. It is in your power by this means not only to supply the necessities, but to add to the strength of your country. Habits of industry prevailing in a society not only increase its wealth, as their immediate effect, but they prevent the introduction of many vices, and are intimately connected with sobriety and good morals. Idleness is the mother or nurse of almost every vice; and want, which is its inseparable companion, urges men on to the most abandoned and destructive courses. Industry, therefore is a moral duty of the greatest moment, absolutely necessary to national prosperity, and the sure way of obtaining the blessing of God.[19]

"This certainly implies not only abstaining from acts of gross intemperance and excess, but a humility of carriage, a restraint and moderation in all your desires ... The riotous and wasteful liver, whose craving appetites make him constantly needy, is and must be subject to many masters, according to the saying of Solomon, 'The borrower is servant to the lender.' But the frugal and moderate person, who guides his affairs with discretion, is able to assist in public counsels by a free and unbiased judgment, to supply the wants of his poor brethren, and sometimes, by his estate, and substance to give important aid to a sinking country."[20]

Rev. Witherspoon preached his sermon during the critical period of our War for Independence. Liberty was in the balance—would Americans be ruled by oppressive government authority or would they be free to accept their just right to "life, liberty, and the pursuit of happiness"?

We are faced with the same question. The true patriot today is one "who guides his affairs with discretion." Not governmental social-planning, but *personal responsibility!* The true patriot is the citizen who acts according to his own "free and unbiased judgment." Not the dictates of government, but *individual initiative*!

—FOOTNOTES—

[1]*The Works of the Rev. John Witherspoon* (Philadelphia: W.W. Woodward, 1800), Vol. II, p. 427, "The Dominion of Providence over the Passions of Men."

[2]*The Works of the Rev. John Witherspoon* (second edition: Philadelphia: W.W. Woodward, 1802), Vol. IV, p. 203.

[3]*Ibid.*, p. 204.

[4]*Ibid.*, p. 210.

[5]*Ibid.*, p. 232.

[6]*Ibid.*, p. 233.

[7]*Ibid.*, p. 234.

[8]*Ibid.*, p. 224.

[9]*Ibid.*, pp. 244, 245.

[10]*Ibid.*, p. 225.

[11]*Ibid.*, p. 226.

[12]*Ibid.*, p. 235.

[13]*Ibid.*, pp. 235, 236.

[14]Henry Steele Commager and Richard B. Morris (eds.), *The Spirit of Seventy-Six* (New York: Harper and Row Publishers, 1967), pp. 783-784.

[15]*Works* (2nd edition: 1802), *op cit.*, pp. 222-223.

[16]*Ibid.*, p. 223.

[17]*Ibid.*, pp. 223-224.

[18]*Ibid.*, pp. 241-242.

[19]*Works* (1800), *op cit.*, p. 434.

[20]*Ibid.*, pp. 435-436.

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Martha Lou Stohlman, *John Witherspoon—Parson, Politician, Patriot* (Philadelphia: The Westminster Press, 1976).

The year 1871 ... is now generally and with justice regarded as the beginning of the modern period in the development of economics.

—*F.A. Hayek*

CARL MENGER:

Ivory Tower Iconoclast

Thomas W. Hazlett

THE PAGES OF HISTORY are filled with the stirring tragedies of great intellects who were ignored by their contemporaries, destined to be rediscovered long after their earthly demise. But this was not the situation with respect to the life and work of Carl Menger.

Indeed, the tale might well be told in reverse of Menger. As the founder of the renowned Austrian School of Economics, as the learned theorist of "subjective value," and as the supreme advocate of the "individualistic methodology," Menger achieved enormous influence in the last four decades of his lifetime. Now, after more than half a century, it is proper to recall the scope and contribution of one of history's outstanding economists.

Carl Menger was born February 28, 1840, in New-Sandec, Galicia, currently under the dominion of Poland. He was educated in law at the Universities of Prague and Vienna, and received his doctorate from the University of Cracow in 1867. That was a landmark year in the academic history of Austria, for the liberals finally succeeded in getting the Emperor to enact their constitution promoting civil liberties, legal equality, representative government and free trade. It provided the impetus for the intellectual liberation of the barren

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Austrian universities. As the late Ludwig von Mises, in his interesting study, *The Historical Setting of the Austrian School of Economics,* comments:

> From the middle of the sixteenth to the end of the eighteenth century Austria was foreign to the intellectual effort of Europe.... With the exception of Bolzano, no Austrian before the second part of the nineteenth century contributed anything of importance to the philosophical or the historical sciences.

As the backwardness of Austrian academia might indicate, Menger was shown almost nothing in the way of formal economics in his education. It was only by pursuing an intensive course of independent study that he came to familiarize himself with the ideas of Adam Smith, Ricardo, Mill, and the leading French, German and Italian economic thinkers. Menger's interest in economics had been piqued while working as a commodities analyst and reporter for the official newspaper, *Wiener Zeitung.* He saw that the conventional value and price theories did little to explain actual changes in the prices of goods. After considerable reading, he began to see that the whole of classical economics had driven itself to a dead end but was refusing to back up and turn around. Indeed, it appeared as if the classical economists had completed their entire thesis and saw few new fields to conquer. It remained for Carl Menger to attempt to set the record straight.

Principles of Economics

Menger's momentous achievement, *Grundsätze der Volkswirthschaftslehre* (translated as *Principles of Economics*), was published in 1871. In that same year appeared William Stanley Jevons' *Theory of Political Economy* thus marking, as Hayek has concluded above, the beginning of the modern age of economic theory. The *Grundsätze* was powerful exposition, an economic blockbuster if ever there were one. By force of logic and insight, Menger made it literally inconceivable that classical economics should try to evade the shortcomings of its analysis any longer. The Swedish economist, Knut Wicksell, was led to say fifty years later: "No book since Ricardo's *Principles* has had such an influence on the development of economics as Menger's *Grundsätze.*"

Menger's treatise began with a thorough rejection of the classical doctrine of cost-value. The classicists (including Marx) had labored diligently to construct a rationale for determining a product's value by the mechanical task of adding up all the factors that went into its production. The determination of how much should be afforded to each input was awkwardly handled; Adam Smith spoke of distribution between the social classes and set the stage for similar arguments by his successors.

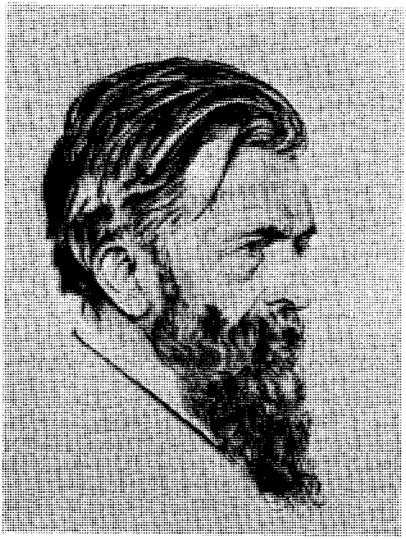
Such a viewpoint was untenable in the mind of Menger. He clearly saw that value was derived only to the extent that a product satisfied a human want. Moreover, the "objective" approach of adding up the various costs produced a discouraging series of vagaries and contradictions. How could costs ever be truly established if every input were merely the result of other, more basic, costs? Why was a diamond found accidentally worth the same as one which was the product of "a thousand days of labor"? Why the eagerness of sellers to offer some goods (clothes out of season or style, for example) at less than "cost"? Why the obvious failure of the cost-value theories to provide for a consistent explanation of the prices of goods, services, land, raw materials, capital and labor of varying efficiencies?

An Undeveloped Area

In spite of such shortcomings, there was little opposition to the conventional thesis in 1871. The Germans, while criticizing the British, had nothing to suggest as an alternative. The British seemed quite content with their formulations; as eminent an economist as John Stuart Mill observed that all that need be said of value had already been covered. Indeed the works of Gossen, Dupuit, and Cournot—earlier experimenters with subjective value ideas—had been buried beneath an avalanche of apathy.

Working in all but a vacuum, then, Menger's theory took shape in the period from 1868 to 1871. It was meticulously constructed around the essential concept outlined above that goods exist only to serve human satisfactions. Starting with this idea of subjective value, Menger had half his theory. The other half was to be found in the objective relationship in the economy between how much of a good could totally be utilized to satisfy all needs, and how much of the good was in existence.

An *economic* good was distinguished by the fact that there was a total demand for the good greater than the existing supply; whereas a *non-economic* good (air, for instance) exists in greater supply than the amount in demand. An economic good would thereby lead men to the function of *economizing*—making the best use of available but scarce resources. Here Menger inserted his postulation of decreasing want-satisfaction being supplied by each additional increment of a commodity. Later



CARL MENGER

identified as "diminishing marginal utility" by his student Wieser, this concept enabled Menger to create a systematic correlation between the subjective side of value—how much a good meant to individuals, and the objective side of value—the physical comparison between how much was demanded (in total) and how much was in supply.

Value Is Subjective

Carl Menger's theory of value, then, rests upon both the subjective and objective factors influencing supply and demand. Subjectively the good is qualitatively demanded by the members of society to a certain degree, with the first units valued most highly, the last units valued least highly. Objectively there is a precise quantity of this good in existence. In the case of economic goods the available supply will fall short of satisfying all needs and a certain portion of such needs will go unprovided for. As these unfulfilled wants increase, so does the per-unit value of the needed goods (because of the concept of diminishing marginal utility—in reverse). As the "shortage" becomes larger—as the gap between total wants and total supply grows—the value of a commodity rises. Such was the qualitative-quantitative determination of value and price in the Menger system.

Menger triumphed over classical theory because his alternative was superior from two perspectives. In the first place, his model more correctly identified prices as the result of both subjective and objective criteria, springing from the demands of individuals and the real physical supplies of corresponding goods. The classicists stumbled here because, to the extent that market competition exists, prices tend to be bid down to a point where costs and profits are roughly equal throughout the economy. The illusion is that costs set prices. Disruptions such as unusually good (or bad) harvests, foreign embargoes, or sudden shifts in demand dramatize the shortcomings of such a cost-value theory, yet the classical economists found it difficult to overthrow the mirage that costs set market prices.

A Constant Formula

As Menger produced a more fundamental thesis, the obvious by-product was also a more universal theorem. Where the classical school needed various manipulations and sociological judgments, Menger needed his single formula. Menger avoided the clumsy tradition of creating several makeshift models for several different factors. He was led to specifically attack separate theories for land ("Land occupies no exceptional place among goods . . ."), and labor ("Labor services . . . do not have value as a matter of necessity.") Menger succeeded in including non-material goods in his price theory, dealing with the value of such things as entrepreneurship, money-lending, and a monopoly position in the market place. In short, Menger's theory made the values of all goods and services explicable in terms of how much human satisfaction would be missed in their absence. The logical superiority of a system with such consistency was the reason for its ultimate predominance.

It is fortunate that Carl Menger lived fifty years past the publication of the *Grundsätze* because its acceptance did not come instantaneously. Outside the German-speaking countries there existed a language barrier; and within the German influence there was a sweeping sterility in regards to economic theory as a science. The pre-occupation of the German Historicists with data and history was extreme: they went so far as to exclude theoretical economics from the academy altogether. Consequently, Menger was ignored in Germany for many years after the *Grundsätze.* As Hayek puts it: "Menger's work was neglected not because the German economists thought he was wrong but because they considered the kind of analysis he attempted was useless."

A Study of Methods

Out of the frustration of neglect came Menger's second great and lasting work, *Investigations Into the Methods of Sociology and Economics.* Menger once more unveiled his gift of logical, meticulous reason and structured a broad treatise on the methodological justifications of the science of theoretical economics. While *Investigations* came to be known as the opening round in the "Methodenstreit" (the vicious German-Austrian debate over methods), the issue was *not* between competing methodologies. In reality, Menger was only fighting for his philosophical life—for simple existence.

Menger had profited greatly from his German influences and he was the very first to admit it: he had dedicated the *Grundsätze* "with respectful esteem" to Wilhelm Roscher, godfather of the German Historical School. But historical sentiment had dangerously overdosed in its quest to escape from the confines of British classicism and in creating an intellectual excuse for the rising nationalism of Bismark's militaristic welfare state.

The primary concern of the *Investigations,* then, was to espouse the legitimacy of economics as a theoretical science. Menger granted the co-existence of the different approaches to economics as appropriate to complementary disciplines: ". . . in the field of economy we encounter individual and general knowledge, and correspondingly sciences of the individual aspect of phenomena and of the general aspect. To the former belong history and the statistics of economy, to the latter theoretical economics."

Differences Abound

Menger felt that the Historical School was not at all in error by claiming that every given situation had a different historical setting and that such diversities should be recognized. Menger readily agreed and declared that for economic policy and practical finance it was absolutely necessary to account for historical divergences. In fact, Menger went a step further than the Germans in calling to their attention *all* differences in the society. It made no sense to spend tremendous effort to determine the precise historical stage of a nation or community and then to exclude the other relative influences. In allowing for the consideration of historical knowledge in a nation's economic policy, Menger warns:

> But if at the same time it failed to take into consideration the diverse economic, geographic, and ethnographic conditions of nations at the *same stage of development,* it could not be acquitted, as scarcely needs to be remarked, of the charge of "absolutism of solutions."

Menger's perception was quite keen— it saw through the contrived suppositions of the Historical School; in the *Investigations* it becomes evident that Menger is capable of being a much better historicist than the Historicists. But Menger understood the deeper implications of radical empiricism: the logical conclusion of the historical approach—the idea that *everything* is relative—was the negation of the social sciences at large. If every situation was unique to the extent that no generalizations could be made, what purpose remained for economics? What could be said in regards to prediction, control, improvement or change? While the stupendous worth of general concepts—of economic "laws"—is nearly evident *prima facie* to contemporary students, it was under severe attack in the nineteenth-century Deutschland. Carl Menger launched a brilliant one-man counterattack.

A Vicious Reaction

Despite Menger's wholly academic treatment of the subject and his inclusion of competing perspectives in the realm of respectable pursuits, the German reaction was vehement. Gustav Schmoller, Roscher's heir to the Historical throne, personally reviewed the *Investigations* and in inflammatory, offensive language attacked both Menger and his work. Schmoller took delight in immediately imposing a blanket discrimination excluding any Menger follower from gaining a teaching post anywhere in the Reich.

The vicious reaction of the Germans revealed a rancorous sentiment not just toward Menger's theories, but toward his entire mode of analysis. The clear, precise logic of the subjective theory of value compelled agreement; and the proof of its correctness may be argued by its unanimous acceptance by modern scholars from Chicago to Moscow a century later. Yet it was the very way in which Menger concocted the premises from which his conclusions inevitably flowed that set the critics into hysterics.

Menger's framework dealt with an intensive study of individual economic units and the observation of how they do, in fact, behave. Subjective valuation could be derived simply from an analysis incorporating *natural* human behavior; the theory looked not at the social phenomena that are an outgrowth of individual action, but zeroed in on the individual action itself. It described what the social scientist actually observed.

The economist, Joseph Schumpeter, explained the essence of Menger's discovery this way:

> The critics of Menger's theory have always maintained that no one could ever have been unaware of the fact of subjective valuation, and that nothing could be more unfair than to put forward such a triviality as an objection to the Classics. But the answer is very simple: it can be demonstrated that almost every one of the classical economists tried to start with this recognition and then threw it away because he could make no progress with it. . . . What matters, therefore, is not the discovery that people buy, sell, or produce goods because and in so far as they value them from the point of view of satisfaction of needs, but a discovery of quite a different kind: the discovery that this simple fact and its sources in the laws of

human needs are wholly sufficient to explain the basic facts about all the complex phenomena of the modern exchange economy, and that in spite of striking appearances to the contrary, human needs are the driving force of the economic mechanism.

The machinations of the German Historicists reflect the helplessness certain social scientists feel upon being disarmed. Forced by the weight of Menger's arguments to see the essential individualism that pervades economic analysis, they astutely (if cowardly) shuddered and turned. They realized that their complicity with the socialist state required an entirely different view of society, and they thereby waged a high-pitched war against Menger and his followers.

The Debate Continues

It is instructive to peek at this century-old intellectual battle and to compare the parallel conflict that still simmers. While statistical and mathematical analysis have nearly displaced general theory in some universities, it must be clearly stated that there are pronounced limits upon such analysis. While numbers can tell us the end results of economic activity, they can never state the explicit reasons why such behavior took place, under what circumstances it will take place again, or how such results may be altered. It remains for general theory, and specifically for Menger's individualistic methodology, to examine the tiny interrelationships and motivations that, multiplied by millions, give us our economic statistics.

Murray Rothbard has said that books written by the Austrian School look different, feel different and even smell different from books written by other economists. There is no doubt that this is true. And it is precisely because the mode of analysis is so fundamental and individualistic and explicit that such is the case. This is, without question, the underlying reason for the brilliant success of the Austrian School in developing a clean, thorough, consistent and realistic theoretical basis for understanding economic activity.

An Outstanding Contribution

By the 1890's, Menger, along with his famous pupils Wieser and Böhm-Bawerk, had demolished the German Historicists in academic circles throughout the Western world. The Austrian School arose as a respected and influential center of economic thought, and Menger's theories of subjective value and individualistic methodology were widely heralded. Above all else, however, there is much to admire about someone who, operating in a barren wasteland of intellectual enterprise, is able to construct his own oasis. As Dr. W.E. Kuhn remarks:

> The Austrian [Menger] occupies a place of honor in the history of economic thought not only for his superior performance and moral victory in the Methodenstreit, but also because he evinced a degree of consistency and strict adherence to the requirements of a comprehensive system which was probably unrivaled in the economic writings of the nineteenth century.

The way in which Menger looked upon his mission in life is most refreshing. He thought of himself, not as an actor, but as an ivory tower observer, a critic of the academic performance. Even though the political arena enthusiastically encouraged his involvement, Menger had little desire to participate in the affairs of state. He went so far as to resign his honorary lifetime membership in the Austrian Parliament at a relatively young age. He shunned the bright lights, so to speak, for the burning oil. He was, above all else, an intellectual; a man who lived for ideas.

As Hayek tells us: "The man who is able to say, as it is reported he [Menger] once said, that if he had seven sons, they should all study economics, must have been extraordinarily happy in his work. That he had the gift to inspire a similar enthusiasm is witnessed by the host of distinguished economists who were proud to call him their master."

Menger's founding of the Austrian School may well be claimed as the genesis of what we know today as micro-economics. In times dominated by "macro-aggregates" it is easy to side-step the individual transactions that are, per se, the life-blood of economics. As the contemporary predicaments of excess demand and unemployment grow side by side there is apt to be a second look at the "other" economics. How resources are valued and allocated within a society is definitely a question for micro-theory and for the individualistic methodology of Carl Menger. There is much to be learned from the Austrian professor.

IDEAS ON LIBERTY

Property as the Solution

PROPERTY . . . is not an arbitrary invention but rather the only practically possible solution of the problem that is, in the nature of things, imposed upon us by the disparity between requirements for, and available quantities of, all economic goods.

CARL MENGER, *Principles of Economics*

The Puritan Revolution

EVERY SCHOOLBOY, as Macaulay would have said, knows that the American Revolution was fought over the question of taxation without representation. But this particular application of the idea that men have a right to control themselves had to have some deeper sanction. Money is only money, and who would bother about a little old stamp tax if a sense of violated personality had not been involved? In her *The Discovery of Freedom* Rose Wilder Lane made much of the fact that the early Americans were children of men and women who had risked their lives to read the Bible. The Bible had always been the Word of God, but the Protestant Reformation, which came after Gutenberg had made cheap print available to everybody, enabled the self-controlling individual to interpret that Word for himself. The right of private judgment was the key concept of the Puritan Revolution, and it followed, as Rose Lane pointed out, that responsible men would at least demand a voice in their government before agreeing to give the King the tallest trees in the pine forest or recognizing the claim to a royal monopoly of tea.

Rose Lane says the American Revolution really began in 1660, when the Cromwellian Protectorate was giving way in England to the Stuart restoration.

The Biblically sanctioned right of private judgment did not consort easily with the revived doctrine of the Divine Right of Kings, or even with the idea that one could be born a subject of any merely human individual. After 1660 Englishmen in England continued to cherish certain liberties, but their attitude was pragmatic. Men of common sense like Dr. Samuel Johnson were not fanatical about any sort of abstraction. Mercantilism, which acknowledged Reasons of State in economics, was accepted throughout the eighteenth century even though the Stuarts had been banished for a second time. Private judgment continued to be suspended in many areas that had known feudalism, but in America, where there was really no State and certainly no ruling class, people still read their Bibles and made up their own minds. They had Abraham, Moses and Christ to justify themselves as self-starters and that was enough.

The Christian History of the American Revolution: Consider and Ponder, compiled by Verna M. Hall. Published by The Foundation for American Christian Education, Box 27035, San Francisco, Calif. 94127. 736 pages, $17.50.

So Verna M. Hall is correct when she thinks of the American Revolution as being peculiarly Christian in its origins. Her sumptuous compilation, *The Christian History of the American Revolution: Consider and Ponder,* contains many things that are religious in only the broadest possible sense. Verna Hall is eclectic in her approach to religion. With sublime impartiality she includes long histories of the Congregational, the Presbyterian and the Episcopal churches in America. Her point is that we have always been a religious people without falling into the trap of becoming a religious state. The right of private judgment is the grand leitmotif that binds all of Verna Hall's documentary choices together, linking them to the Puritan interpretation of the Bible as the Charter for the self-starting view of man.

Rose Lane said the American Revolution had no leaders. By that she meant it resulted from a simultaneous upwelling of similar sentiments in many minds. Maybe so, but one is nonetheless profoundly impressed, in reading Verna Hall's collection, by the statement of David Ramsay, a Southern historian contemporary with the American Revolution, that upwards of two thousand Puritan ministers were, in a single day, ejected from their livings in England by the 1662 Act of Uniformity. These ministers had nowhere to go but America, where, as Ramsay says, their learning, piety and personal characters gave them a continuing ascendancy over the minds of the laity. The way they put the churches behind the movement that resulted in the Declaration of Independence comes clear in an anthology of quotations fom New England ministers, *They Preached Liberty*, just reprinted by the Liberty Press.

They Preached Liberty, edited by Franklin P. Cole. Reprinted by Liberty Press, 7440 North Shadeland, Indianapolis, Ind. 46250. 173 pages, $5.95 cloth; $1.25, paperback.

The parallels between the thoughts expressed in the famous liberty sermon preached by the Reverend Thomas Mayhew of Martha's Vineyard, Mass., and the Thomas Jefferson of the Declaration of Independence are too striking to be passed off as a mere coincidence. Jefferson was echoing the party line of a church that was, as Franklin Cole says in his introduction to *They Preached Liberty*, led by "watchmen upon the walls" who took their duty to exert their leadership in "election sermons" very seriously. The ministers, in addition to being thoroughly grounded in Biblical studies, were also the classicists of the times. They quoted Aristotle, Thucydides, Cicero and Tacitus on the nature of government and public polity, and they referred again and again to John Locke, "that very wise man." God ruled in accordance with natural law, and when the governmet of King George III broke with natural law, the 18th century parsons, still representing the 17th century view, refused to tell their flocks to turn the other cheek.

Verna Hall's compilation is by no means limited to 18th century documents. The Centennial Oration made at Valley Forge by Henry Armitt Brown in 1878 is the most searing evocation of the patriots' terrible winter that I have ever read. Brown describes in detail the deportment of the various generals (Mad Anthony Wayne, "Teufel Pete" Muhlenberg, Baron von Steuben, DeKalb and Lafayette, "the boy of twenty with the old man's head") and the miserable huts of the Connecticut and Pennsylvania brigades as they must have appeared to the starveling common soldier of 1778.

George Bancroft, the 19th century historian, is Verna Hall's chosen authority on the European background of the revolution. He is superb in his analysis of the differences between the traits of the English "aristocratic republic" and those of continental countries, and his essay on Ireland, the victim of an "English oligarchy," is a marvel of objectivity. Bancroft is great, but there were excellent historians in America before he trained himself for his scholarly exertions. The story of the prelude to the revolution, by Mercy Otis Warren, a friend and contemporary of Samuel Adams and the other great Bostonians, was set down in 1805 when memories were still fresh. David Ramsay's Southern view, first published in Philadelphia in 1816, is equally vivid.

The Iroquois Indians figure in a "Christian history" of the Revolution, partly because some of them—the Mohawks in particular—had been converted to Christianity. But the quoted *Documentary History* of New York State does not labor the religious angle. The Iroquois—the Five (or Six) Nations—held the pivotal geographic position in New York between the coastal colonies and Canada. Verna Hall's historical compilation doesn't depart from common sense in its assessments. It is part of the anthologist's point, however, that the right to private judgment assumes that commonsensical economic and military principles will not be violated. We did not happen to have fools for ancestors. George Washington is pictured in Verna Hall's book in a memorable pose praying at Valley Forge. But, with Washington and his ragged army, the Lord helped those who helped themselves.

LIFT HER UP, TENDERLY

by Bob LeFevre
(Pine Tree Press, Box 2353, Orange, California 92669)
202 pages ■ $7.70, cloth.

Reviewed by Beverly Anderson

WHOEVER has tried to present economic ideas in a simple way, and still more, to make the learning attractive, has discovered it is no simple task. Add a third dimension—teaching economic ideas to a preteenage adolescent—and the task appears overwhelming.

It is to Bob LeFevre's credit that he has attempted it and, moreover, has done an enormously successful job in what he describes as "a novel." *Lift her up, tenderly* is based upon his own experience as a guardian for a young girl in her preteen and teenage years.

The book is written for both parent and child. The parent will benefit from the author's method in approaching economic ideas and from his simplified explanations of various economic concepts. The young reader will find the dialogue format readable and the text interesting, for the author has introduced a "real" girl who suffers through an amazing variety of teenage problems common to the species, and which he records with noteworthy gentleness and empathy.

"Gigi," our heroine, wants to know about "life." Her guardian, "Papa," explains that economic understanding is the best common-sense approach to life. By "economics" we mean an explanation of how we make or obtain the things we must have in order to stay alive. This study teaches us to deal with things as they are—reality—rather than how we wish or imagine them to be.

Economics, furthermore, leads to discussions of inequality and fairness, showing how all things, people, their abilities, land, resources are all different and unequal and can never be made equal; of value, how our estimations of things continually change in relation to one another; of scarcity, how we want the things we do not have enough of and are willing to work hard to obtain; of selfishness, how man acts to increase his own "good" as he perceives it; of charity, that the only person capable of helping another is the one who has successfully learned to take care of himself; of "good selfish" and "bad selfish"—the difference between looking after oneself by being productive as opposed to living off someone else's efforts; of profits, how man seeks "plus factors;" of fair exchange; supply and demand; competition; value and price; tools (capital); the business cycle; money—in short, all you would expect in an elementary text on economics except that it is presented in simple form, with mundane illustrations that the mind of a teenager can grasp and appreciate.

The relationship between parent (guardian) and child becomes important here since parents are prone to see it as a one-sided economic relationship, while the rebellious teen is likely to bring home the word "exploit" from schoolmates, as Gigi did. LeFevre emphasizes the "profit" motive, but uses a less-loaded term, "plus factor" to show that individuals (including children) act to increase these "plus factors." The pleasure a parent derives from a child and the knowledge that everything possible has been done to see that child into mature and productive adulthood is as much a "profit" as any investment stated in dollars.

It is not enough to feed, clothe, house and love your children; the parent has an obligation to teach his youngsters the meaning and common sense of life—that common sense being the economic realities of everyday living. Children accumulate a vast variety of facts and opinions, but they need a context, a set of concepts (ground rules), a coherent structure . . . some way to organize and judge the data for themselves.

Do we wonder that youngsters graduate from our educational system believing that anything is possible *and right* if a majority votes for it? We have failed to introduce common sense into the system—the ideas of scarcity, cost/benefit, and "tanstaafl" (no free lunch)—simple economic concepts about reality.

Oddly enough, the young emerge from adolescence girded in moral self-righteousness, with mouthfuls of "should-be's" and "ought-to-be's," and "fairness" and "equality." Yet they proceed to stomp on any impediment in their reformist paths, including the legitimate rights and properties of others. Reality seems to be a giant obstacle that must be subdued. It is this incongruity that LeFevre focuses upon throughout the book.

One of his most effective dialogues occurs in his discussion of value and price. He points out the obvious: that you cannot spend a dollar twice; you cannot be in two places at once; you cannot get married and stay single. Whenever you make a decision, it is a total commitment, and you automatically eliminate all alternatives.

> There is no such thing as a cost-free decision. So nothing comes without its price. But that's not quite the way I'd define freedom. Freedom isn't the ability to avoid cost or the ability to avoid the consequences of your actions. Freedom is the ability to decide which actions you will take.

For those parents and children who have encountered the current "let-it-all-hang-out" fad, with all its ramifications, LeFevre offers a thoughtful dialogue about "honesty" and "privacy," suggesting comparative implications between a collective concept of society and an individualistic private concept. He carries the discussion on to deal with teenage sex and drugs, both of which become real situations in the context of his "novel."

Finally, there is the political discussion and critique of government for which LeFevre has earned his reputation. It is a coherent, thoughtful, humane presentation. Although the book will be rejected by some because of this critique of government, it should not deter those who recognize the issues involved and accept his ideas for what they are: an alternative—presented in good faith.

The book is cogent and should be acceptable to all free-market thinkers. The ideas are basic to an economic system centered on the Austrian or subjective theory of value. The ideas are presented simply because that is what they are—simple laws of economics—common sense. It is refreshing to see them offered at last on a level for our twelve-year-olds to enjoy too.

GROW OR DIE!
by James A. Weber
(Arlington House, New Rochelle, New York)
255 pages ■ $11.95

Reviewed by David A. Pietrusza

THIS BOOK marshals a variety of statistics to show clearly that population growth and prosperity have generally gone hand-in-hand, and it offers a reasoned case to show why this relationship exists. Mr. Weber demolishes the zero population growth argument, and shows that the human race is not facing catastrophe. Dealing with the dubious contention that we are exhausting the planet's resources and energy, Weber points out that we can count on an expanding economy and an improving technology to resolve today's quandaries. Man's greatest and most productive resource, he continues, is not the earth he stands on (although the riches we still have not utilized are vast) but the capabilities of his intellect and the resultant tools and methods he has developed to extract and develop the raw materials of the planet—and these powers have never been greater.

Official estimates of known mineral reserves have perennially fallen on the short side. In 1908, the federal government was alarmed over shortages; a commissioned survey turned up many more reserves than were previously thought to exist. A 1944 survey—if correct—would have meant exhaustion of tin, lead, zinc and manganese by 1973. It never happened; actually more deposits of these minerals were discovered in the 1950's than in the previous quarter of a century.

And, of course, we have not even begun to meaningfully tap the largess of the oceans. The World Bank estimates that within 10 to 20 years we could harvest annually from the seas 572 per cent of our yearly manganese production, 28 per cent of our copper, 320 per cent of our nickel, and 1,200 per cent of our annual cobalt yield.

Noting that U.S. companies have already invested or earmarked $50-100 million for such "nodule" mining and at least 3 international conferences were held within one six-month period on the question, the World Bank commented that it "was a mark of the subject's vast dimensions that at one of these conferences the focus was on 'how to prevent potential *drastic declines* in mineral prices resulting from nodule mining.' "

Grow or Die! is recommended as an antidote to the scare tactics of the zero population fanatics, whose prophecies of doomsday prepare the way for the draconian political controls they advocate.