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OIL'S SECOND CENTURY

ROBERT G. DUNLOP

JUST 100 years ago, by the slimmest of margins, Edwin L. Drake found a small, stray sand containing oil at 69½ feet in a well drilled near Titusville, Pennsylvania. Call it a miracle or an accident, no one else among the thousands who took to drilling wells in the woods of Western Pennsylvania ever produced oil from the same shallow sand. On the slender thread of this discovery hung the incentive that led men to give their time and invest their money in the search for oil. If they found it, it was theirs – and it could make them rich. Many of those who followed Drake did find oil. Many others, of course, found none.

Mr. Dunlop is President of the Sun Oil Company. This article is from his remarks before the Delaware Oil Men's Association at Wilmington, September 14, 1959.

Above: Gleaming like a giant Christmas Tree, this Houdriflow catalytic cracking unit at Toledo, Ohio, shines brightly in the moonlight. The development of catalytic cracking grew out of competition among oil companies to produce larger yields of higher quality gasoline. Photo: Courtesy Sun Oil Company

To regard Drake's success as an accident is less fitting than to regard it as a miracle. (I suspect it is only oil men who are tempted, in the throes of the vexatious problems thrust upon them, to think irritably that it was an accident that the oil industry was ever born!)

To say that Drake's success was a miracle, however, is to deny credit to the dogged determination of that lanky, bearded man; it would be to renounce the axiom of our heritage that the Lord helps those who help themselves.

It surely may be regarded as a miracle, however, that in God's scheme of things, millions of years ago there lived and died lower forms of marine creatures which became buried, and compressed, and transformed, that Man might one day have heat and light and an abundance of power. It is in this sense that we speak of natural resources – nature's gifts. Yet how significant it is to recognize that one hundred and *one* years ago the United States had *no* petroleum resources. We are forced to conclude that the petroleum resources we enjoy today are equally a product of the resourcefulness of men. Those who contend that oil and gas are nature's gifts and so belong to all the people are, to say the least, insufficiently critical in their analysis. Primitive, tribal, and civilized societies for generation upon generation trod the ground over the vast oil reserves of the Middle East. Yet it was not until the 1930's that the major discoveries were made and the development began of Middle East oil as we know it today – the richest single oil area of the world. If oil is truly a gift, why did not all those preceding generations accept it and use it?

The answer, of course, is that natural resources are not wholly natural; nor are they resources until they are useful to people. Natural resources, plus *man's resourcefulness,* equals progress.

I know of no study, but I would venture that nine-tenths of the world's presently known oil was discovered by Americans or with American methods and equipment. Americans, as a group, have proven themselves to be the greatest oil finders and developers in the world. I contend that this is so because the *incentive* to Americans to *be resourceful* has been uniquely powerful under our economic concepts of competition, private management, and private property.

Oil Men Take Pride in Achievements

At this juncture in their history, oil men share two feelings. One is the feeling of pride in what their resourcefulness has accomplished in just 100 years . . . aided and abetted, it is true, by the resourcefulness of interdependent industries – the automobile and aviation industries, machine tools, chemicals, and many others – all motivated by the same incentives. If the oil industry had done no more than light lamps and grease wheels, it would have made a great contribution to the material well-being of the American people. For it would have created resources where none existed before – it would have found the oil that hadn't been found – and it would have made useful the raw, unusable crude that came from the earth.

But it has done much more.

Today the glamour attaches to new petrochemicals created by petroleum science – the raw materials for synthetics of many types. Crude oil and natural gas constitute a vast storehouse of such wonders today and even greater marvels yet to come. But basic to all else is the major contribution petroleum has made to the plentiful availability of low-cost energy. This has given the United States unsurpassed economic leverage. We account for more than 40 per cent of the world's energy consumption, with only 6 per cent of the world's population. Nearly 70 per cent of our energy requirement is supplied by oil and gas. It is no wonder that we have enjoyed a standard of living unequalled anywhere at any time. As *Newsweek* magazine so aptly put it in an article this summer, "the whole bountiful civilization of the mid-twentieth century is petroleum and the myriad economic and scientific reactions that it has stimulated or helped make possible."

In exercising their resoucefulness, oil men have been neither spoilers nor exploiters.

True, there was waste in the early boomtowns of oil, resulting from greed and also from insufficient technical knowledge and inadequate equipment. It was from within the industry itself, however, that the initiative and statesmanship came for the establishment of sound conservation principles and methods.

Despite the inflation of which we are all so conscious, petroleum products are a bargain in price. One of my associates joined the oil industry in 1914, and he likes to keep track of what has happened since then. His figures show that the price of the industry's principal product – gasoline – is about 50 per cent higher today than in 1914, compared with a rise of nearly 300 per cent in the so-called cost of living index. In some countries, low-priced products reflect low-paid workers, but my associate's records show that wages in the U. S. oil industry are up 1,000 per cent since 1914, and in addition petroleum industry employees are the recipients of fringe benefits of unequalled liberality.

By the tests which may be used to measure the social and economic performance of an industry, the petroleum industry ranks high in maintaining adequate (in fact, more often overabundant) supplies, in conserving resources, in developing new products, in improving the quality of conventional products, in competitive pricing, in treatment of employees. It has sought to reward its stockholders commensurately with their risks, but if there is a weakness on the industry's scorecard I confess it is in this regard.

Restrictions Cause Profound Concern

Reviewing the facts of the petroleum industry's performance, it is perhaps understandable that oil men regard their industry with pride. But as I mentioned a moment ago, oil men share two feelings. The second is a profound concern.

In one of Edgar Allan Poe's short stories – "The Pit and the Pendulum" – a man is trapped in a room whose hot metal walls are slowly closing in on him, forcing him toward a pit containing a horror so monstrous he cannot describe it. The terror in Poe's tale lies in the man's utter helplessness. Oil men are not so helpless, but the analogy is useful otherwise. Slowly, but inexorably, the freedom of the managers of oil companies to conduct their business in accordance with the dictates of the market place is being restricted. The walls are closing in. And the pit, as we know from the experience of all nations which have embraced totalitarianism, is too horrible to contemplate.

Already, half of the proved hydrocarbon energy reserves of the country are under federal government control. The discoverer of natural gas can neither sell it in interstate commerce—nor stop selling it once he has started – without federal government approval. The price at which he sells, should the sales be approved, is controlled by the federal government. Many of the contracts producers had made in good faith with buyers have been swept aside as invalid by administrative action of the federal government. Today, the terms of tentative agreements between buyers and sellers are often changed by administrative action of the federal government during the lengthy process of contract approval – a process which not uncommonly consumes two to three years. By administrative action of the federal government the buyer of natural gas is as likely as not to be required to pay less than he was willing to pay, and the seller has the choice of accepting the lower price or nothing.

In natural gas controls, the oil man is twice injured. Not only does the price he is permitted to receive for his gas limit his financial ability to search for new reserves to replace those he has committed to sale, but the arbitrarily-established gas price is a regulator – and a depressant – of the price the oil man receives for his distillate and residual fuels. Such fuels comprise more than a third of the total yield of petroleum products from crude oil. Thus oil men live daily with an example of the truism that the imposition of controls on one part of a free economy breeds additional controls in the other segments. Direct controls on gas producers who sell in interstate commerce also indirectly regulate prices of gas in intrastate commerce and the prices of a substantial percentage of our hydrocarbon energy supply which is in liquid form.

Liquids represent the presumably free half of our proven hydrocarbon energy supply. But oil men do not need to be reminded that managerial discretion in selecting sources of crude oil to meet refinery requirements has been substantially supplanted by the administrative discretion of the federal government.

In the interests of national defense the federal government has decreed that crude oil and petroleum product imports should be limited. This limitation is being accomplished through the mandatory oil imports program under which a quota has been assigned to each importer. Surely equal treatment for all must have been a consideration of those who designed the quota system, but its result is unequal treatment. Worse yet, it freezes-in the unequal treatment and denies to the managements of individual companies the opportunity to work out their own salvations, all facing an identical deterrent to importation. A realistic tariff that would apply to all importers would constitute such a deterrent. Its great advantage is that it would leave the managements of the separate, competitive companies free to exercise their ingenuity and to discharge their responsibilities to their stockholders, employees, and customers according to their individual capabilities.* Such is the traditional method of a society which believes in a competitive economic system.

Oil men also find the walls closing in on them as they attempt to meet price competition in the markets for gasoline – their major product. In this area they are suffering uncommon harassment. This is disquieting enough. But the oil man's greatest concern is over the ultimate destination of the course we are being required to take. What the federal government appears to be saying to the oil industry is that a sheltered position must be maintained for everyone who engages in gasoline marketing; that large marketers must not

*I am not here arguing for protectionism but merely saying that, if the government insists on a policy of deterring oil imports, the tariff is a more equitable device than is an import quota system.

compete very vigorously with smaller marketers; and that price inflexibility is to be preferred – all in the name of preserving competition!

If a large marketer reduces prices to a *large* number of dealers, he risks a judgment – not by a court, but by a quasi-judicial federal government agency – of having engaged in "predatory" pricing. It he reduces prices to a *few* dealers, he risks a judgment of having engaged in "discriminatory" pricing. Oil men listen in amazement as a regulatory agency policy-maker asserts in one breath that "hard competition" is to be fostered, and in the next breath that the defense of a seller who has reduced prices should be disregarded if he pleads, when he is brought to the bar, that he made the price reduction in good faith to meet the lower-priced competition of other sellers!

But price reductions are not alone suspect; price increases also are a source of difficulty – this time stemming from a different federal agency. This is a matter which may be unbecoming of me to discuss, since we will have quite a bit to say about it later on – in a Federal District Court.

If I appeared before you today only to recite the accomplishments of the petroleum industry in the past and to describe the troubles oil men face today, I would be guilty of wasting your time on superficialities. I have taken time for both, however, to sharpen a contrast which must concern us if we are to get beneath the surface to the heart of our difficulties—which, I believe, are America's difficulties as well.

Issue Will Decide Nation's Future

If oil men's problems were their own, unique to them, they would not be worthy of exceptional public notice and concern; all of us could regard them simply as conditions of the business – factors to be weighed by those who contemplate engaging in petroleum. But the fact is that such problems as I have touched upon are manifestations of an issue that will decide our nation's future.

Approximately 120 years ago Alexis de Tocqueville, reporting on his observations, wrote: "In America . . . the citizen . . . never thinks of soliciting the cooperation of the government; but he publishes his plan, offers to execute it himself, courts the assistance of other individuals, and struggles manfully against all obstacles. Undoubtedly he is often less successful than the State might have been in his position, but the sum of these private undertakings far exceeds all that the government could effect."

De Tocqueville's description fits

the climate of American ideas and ideals as Edwin L. Drake came on the scene.

Not much more than 80 years before Drake – 60 years before de Tocqueville – the independence of these United States had been declared by men whose experience made them wise in the ways of governments. They were determined not just to make this new nation free from domination by any foreign government, but to keep the people free from domination by their *own* government. The unique political system they established enjoyed as its harmonious counterpart a unique economic system which, for the first time, put self-interest to work for the public interest. For a long time – certainly far beyond the days of Drake – those who followed were disciples and practitioners of the new meanings of liberty and independence. They were, if you please, skilled in dialectic Americanism.

We need such believers and advocates today; articulate men fired with the conviction and the missionary zeal to bring about a rebirth of faith in freedom, to restore pride in self-reliance, to reestablish success as a worthy goal. We need such men because we have come to another of the periods in our history when we need imperatively to know what we stand for. Do we stand for the system of political and economic freedom which the patriots of 1775 fought to secure for us? Or do we stand for a hybrid system which has borrowed some of the worst from feudal, socialist, and dictatorial systems we rejected so vigorously at an earlier time?

Let's Not Let Freedom Die

The answer should be clear, yet the walls have closed in to a dangerous degree. I hope that succeeding generations cannot say of us that we lived in the grabbag era of American history, out for what we can get today, unrooted in the past, uncommitted in our philosophy, unsure of our own capabilities, unconcerned about responsibilty to the future. I hope they cannot say that we let freedom slip through our fingers because we didn't understand or didn't care.

This is a serious concern, for there is abroad in the land today the idea that if there are obstacles in the path, one should not struggle manfully against them, but should ask Washington to remove them. If there are problems, let Washington solve them. If *he* has succeeded and *you* have failed, ask for a transfer of funds. As this idea grows, our government comes to resemble less a republic than a perpetual plebiscite through which various groups seek to vote themselves large shares of the good life.

Many Americans are already deluded with the notion that we can simply vote full employment, high incomes, short hours, low prices, and complete economic security. Of course, we can no more do those things with impunity than we can vote to require that objects fall up rather than down. The consequences of the attempts already made are there for all to see in a vast federal bureaucracy, a swollen national debt, and a cancerous inflation that has distorted values, penalized the prudent, rewarded the improvident, and, most unfortunately, undermined morality.

Such evidence does not in the least deter those who advocate greater governmental regulation of business, additional restraints on the functioning of free markets, and more onerous disincentives to achievement. It is proposed, for example, that Congress build new rigidities into the price system by requiring large companies to file advance notice of any price increase and to appear within thirty days thereafter to justify their intent at hearings conducted by the Federal Trade Commission. If we are to prohibit prices from regulating the employment of the factors of production, our only alternative is government dictation.

It is proposed that Congress act to curb inflation by enacting a full set of price, wage, and rent controls to be imposed on the authority of the President under prescribed conditions – an example, if there ever was one, of attacking the symptoms rather than the disease!

It is proposed that graduated income taxes be imposed on corporate profits. Here the idea is apparently that the more people want the goods or services of a particular company, and the more efficient that company is in supplying those wants, the more it should be penalized and the more stockholders should be encouraged to invest their funds instead in other companies which aren't doing such a good job, or which are producing goods or services that people don't want so much.

I will mention just one more – out of a long list, I might say – because it relates specifically to the petroleum industry. A determined effort is being made to have Congress reduce percentage depletion for oil and gas wells under the Internal Revenue Code. A number of supporters of the reduction joined in sponsoring a bill for a graduated cut, the idea being that small producers would continue to be eligible for a 27½ per cent rate, medium-sized producers would be eligible for a 21 per cent rate, and large producers for 15 per cent.

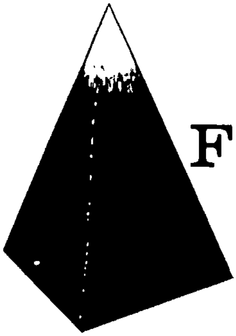
Now the truth is that there is a percentage which represents capital – the value of the producer's oil in the ground – which he depletes every time he produces and sells a barrel of oil out of a field or a cubic foot of gas out of a reservoir. That value is either 27½ per cent – limited as it now is by the provision that the deduction may not exceed 50 per cent of net income from each lease – or it is some other percentage. But it isn't one percentage for one producer and another percentage for a second producer. Yet the most vocal advocates of a cut in percentage depletion for oil and gas have joined in proposing different percentages. This simply unmasks the campaign of this particular group as inspired by the idea that the way to make political hay is by penalizing those who have managed to succeed.

I'm sure I need not labor further the point that we Americans need to decide what system we believe in. Tomorrow [September 15], Mr. Khrushchev, who happens to believe in his particular system, will arrive for a visit on our shores. A month or so later, Mr. Eisenhower is scheduled to visit in turn in the USSR. We may hope that these visits will contribute to an honorable easing of world tension. But we cannot ignore the announced goals of the Soviet Union, nor the long history of our difficulties with communist regimes. Mr. Khrushchev has both asserted that he will bury us and proposed that we engage in friendly economic rivalry. He and his associates are goal-centered, tough-minded, articulate believers in the superiority of government planning, ownership, control, and direction of the means of production. Realistically, his nation has discarded the socialist idealism of equal incomes for all – and even more the communist theory of from each according to his ability, to each according to his needs. Soviet production today is spurred by an array of incentives, both monetary and non-monetary. Indeed, the Soviet Union appears to have added incentives to achievement as fast as we have crushed them.

After more than a quarter of a century of intimate association with the oil industry as an outstanding example of the achievements possible under a system of economic freedom, I have no doubts about the superiority of competitive capitalism over communism. And this is so whether the test is building a strong nation, improving the material welfare of all the people, contributing to science and the arts, or in advancing moral and spiritual values. But in the contest, we must make sure it is truly Freedom that contends with Communism.

That is our challenge in oil's second century.

Leonard E. Read



FLIGHT from INTEGRITY

Some years ago the public relations officer of a large corporation summarized for me his guiding principle: "Find out what the people want and do more of it; find out what they don't want and do less of it."

While seldom so succinctly stated, such an external, "other directed" guide to behavior is finding ever wider acceptance in American life. Implicit in its acceptance is a flight from personal integrity; and here may be found an important explanation for some of the mischief presently besetting our society.

Doubtless, this is good enough as a formula for getting rich. However, if an individual looks upon wealth as a means to such higher ends as his own intellectual and spiritual emergence or realizing those creative potentialities inherent in his nature, then the formula has its shortcomings. And, in certain areas, it is downright destructive.

This is a serious charge. Let's explore it. In order to get this matter into perspective, contemplate the countless specialized subjects known to mankind. Take any one of them – landscape painting, for instance – and arrange the population of the U.S.A. in a pyramid according to proficiency or quality. There would be some one person at the very peak. Under him would be a few competent landscape painters; there would follow perhaps one million having a discriminating appreciation of such art; after which there would be the great mass – millions upon millions, unconscious, unaware, utterly ignorant of the art or the standards by which its perfection could be attained or judged.

Rearrange the population in proficiency pyramids for all of the countless subjects which engage human interest and each of us would find himself near the base of most of the pyramids. Few are leaders or among the highly competent – except rarely and momentarily, if at all. Each of us has a potential for growth and development – especially if advantage is taken of the help available from those on higher levels.

With the above in mind, let us explore the implications of integrity to the situation we are contemplating. It involves the accurate reflection in word and deed of that which one's highest insight and conscience dictate as true and right. Now, a person's concept of what is true may not in fact be truth, but it is as close to truth as he can get. It is the individual's nearest approximation to truth, his most faithful projection of that approximation, the most accurate reflection of his best lights.

Adverse Selectivity

With the pyramid picture and this conception of integrity in mind, let us now observe what happens when the skilled in any subject – the competent who are near the peak – adopt the practice of finding out what the people want in order to "do more of it" and finding out what they do not want in order to "do less of it." In such circumstances, from whence comes the instruction for what each of the skilled is to do? From the best that is in each skilled person or available to him? From the highest conscience of each? Indeed not! The instruction and leadership in such circumstances is tailored to the level of the "know-nothings" of the given subject, to the values at the base of our imagined pyramid where over 90 per cent of the people are. Integrity is forsaken. Potential leadership is diverted from higher aspiration and, instead, panders to the tastes and foibles of the ignorant.

The fields of art and music, where new "lows" are now so much in evidence, illustrate the flight from integrity. Consider the following confession, ascribed to the famous painter, Picasso:

"In art, the mass of the people no longer seek consolation and exaltation, but those who are refined, rich, unoccupied, who are distillers of quintessences, seek what is new, strange, original, extravagant, scandalous. I myself, since cubism and even before, have satisfied these masters and critics, with all the changing oddities which passed through my head, and the less they understood me, the more they admired me. By amusing myself with all these games, with all these absurdities, with all these puzzles, rebuses, and arabesques, I became famous, and that very quickly. And fame for a painter means sales, gains, fortune, riches. And today, as you know, I am celebrated, I am rich. But when I am alone with myself, I have not the courage to think of myself as an artist in the great and ancient sense of the term. Giotto, Titian, Rembrandt, and Goya were great painters; I am only a *public entertainer* who has understood his times and has exhausted as best he could the imbecility, the vanity, the cupidity of his contemporaries. Mine is a bitter confession, more painful than it may appear, but it has the merit of being sincere."[1]

I have a TV program in mind. The star is an accomplished actress with an attractive voice. Does she sing the lovely songs of which she is capable?

Only now and then. For the most part, she and those in charge of her TV appearances insist on the stuff which nickels in juke boxes indicate as mass-popular. Instead of the millions at the lower part of the pyramid being lifted in their musical tastes by this singer at her creative best, we observe her descending and catering to the lowest or base tastes – an imitation of ignorance, so to speak. Thus is the music of our day degraded.

However unhappily we may view the wreckage which these responses to ignorance have brought to the fields of music, art, literature, entertainment, journalism, and the like, we must concede that the individual who cares anything about himself has the choice, in these fields, of turning off the TV and not reading or viewing the rubbish that is so overwhelmingly served up to him. He can, if he chooses, go his isolated, unmolested way.

The Realm of Politics

But no such freedom of choice is allowed the individual when flight from integrity occurs in the realm of politics. The individual, irrespective of his scruples, his morals, his ideals, his tastes, is helplessly swept with millions of others into the miserable mess which the dull weight of ignorance gradually but inevitably inflicts on everyone.

A candidate for the Presidency, supposedly brighter and better educated than average, nevertheless polled the mass of voters to find what they wanted from government. As could have been foretold, they wanted the very things that crumbled the Roman Empire – "bread and circuses." The farmers wanted subsidies, not for outstanding performance, but for not farming. The labor unions wanted grants of coercive power that they might extort more pay for less work. Many businessmen wanted various protections against competition. Vast hordes wanted the guaranteed life: pensions, ease, retirement; in short, to be relieved of

[1] Broderick, Alan Houghton. *Mirage of Africa*. London: Hutchinson & Co., Ltd., 1953. p. 203.

responsibility for self. These are the things our candidate professed to stand for and promised to deliver, if elected. Instead of standing consistently for the highest principles of political economy known to him, he imitated the lowest common denominator opinion of the population. His campaign manager confided that he had to do this to get elected; that once in office he would then do what he regarded as right. This opportunity never came; the candidate was defeated. And, defeat was his just due. One who runs a campaign without integrity proves openly that he would, at any time, forsake integrity if it appeared expedient for him to do so.

This explains why the two major political parties in the United States today stand for the same things. Both have chosen to receive their instructions from precisely the same source, the lowest common denominator of popular opinion. The result is a one-party system under two meaningless labels. This deplorable situation can never be remedied until there is a return to integrity, with candidates whose outer selves and actions will reflect their own best thoughts, regardless of the effect this may have on their political fortunes.

Edmund Burke, addressing those who had just elected him to Parliament, put the case for integrity in unequivocal and unmistakable terms:

"But his [the successful candidate's] unbiased opinion, his mature judgment, his enlightened conscience, he ought not to sacrifice to you, to any man, or to any set of men living. These he does not derive from your pleasure — no, nor from the law and the Constitution. They are a trust from Providence, for the abuse of which he is deeply answerable. Your representative owes you, not his industry only, but his judgment; and he betrays, instead of serving you, if he sacrifices it to your opinion."

George Washington had the same practical and lofty sentiments in mind when he reportedly said to the Constitutional Convention:

"If, to please the people, we offer what we ourselves disapprove, how can we afterwards defend our work? Let us raise a standard to which the wise and honest can repair. The event is in the hand of God."

Socialism Leaves Little Choice

No individual, whoever he may be, can escape the immediate consequences of ignorance in politics, as he can in art, music, journalism. There is no way to avoid the pains which bad political action inflicts. For ignorant political action encompasses all – one's life and the sustenance of life which is the fruit of one's own labor; one's freedom to choose how one shall live his own life. Political collectivism – the pattern consonant with political ignorance – means what it says: Everyone swept indiscriminately into a human mass, the collective.[2]

When an individual, in his thinking and actions, unhitches himself from integrity, he "lets himself go," so to speak. He is anchored to nothing more stable than whimsy, momentary impulses, mere whiffs of fickle opinion. He is adrift and without compass. This shows through in much current art, music, poetry, and unquestionably accounts, in a very large measure, for the rapidly growing socialism, collectivism, decadence – call it what you will. There remains, however, the task of discovering why integrity is so easily, casually, even eagerly abandoned. Why this wholesale divorce from personal conscience, this shameless acceptance of mass ignorance as our Director of Doing?

Doubtless, there are numerous reasons, some of which may be too obscure for ready discovery and examination. One possible explanation has to do with a false economic assumption. We, having paid so much heed to material progress and well-being, to ever higher standards of living, let our economic concepts pattern other aspects of our lives. Erring in our economic assumptions, we compound the error in our social, political, moral, and spiritual judgments.

Here is the error in economic diagnosis: We assume that "Find out what the people want and do more of it" has been the formula for our success, for our prolific production of goods and services. Thus, in the economic area, so we think, our guidance has come from the mass market rather than from conscience or higher realms of mind. The current cliché, "The consumer is king," tends to support this view.

The Spiritual Nature of Progress

Actually, instruction from the mass market has to do only with duplication. The market determines whether or not an economic good is to be duplicated and, if so, to what extent.

Duplication, sometimes called

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[2]This dim view of political collectivism is not to be mistaken as a backhanded endorsement of the "philosopher king" idea of Plato and its modern counterpart: that society should be wholly governed by committees of the creative elite. There is no political process of knowing or selecting in advance the persons who will be most creative. The only process that will bring the creative minority to the top, that will encourage their effectiveness, is complete freedom.

"mass production," admittedly controlled by the market, is not, however, the secret of productivity. The secret lies back of that. It has its genesis in the creation, the invention. Ralph Waldo Trine helps with this explanation:

"Everything is first worked out in the unseen before it is manifested in the seen, in the ideal before it is realized in the real, in the spiritual before it shows forth in the material. The realm of the unseen is the realm of cause. The realm of the seen is the realm of effect. The nature of effect is always determined and conditioned by the nature of its cause."[3]

The noted economist, Professor Ludwig von Mises, reputedly the greatest free market theorist of our time, adds his judgment to this view:

"Production is a spiritual, intellectual, and ideological phenomenon. It is the method that man, directed by reason, employs for the best possible removal of uneasiness. What distinguishes our conditions from those of our ancestors who lived one thousand or twenty thousand years ago is not something material, but something spiritual. The material changes are the outcome of the spiritual changes."[4]

[3]From *In Tune with the Infinite.* Indianapolis: The Bobbs-Merrill Co., 1897.

[4]From *Human Action.* New Haven: Yale University Press, 1949. p. 141.

Where, for example, did Thomas Alva Edison get his ideas for the electric lamp? Not from the mass market! How could a people give specifications for something about which they were totally unaware?

In reality, the productive process works outward from that which is first presented uniquely to an individual mind as awareness or consciousness or insight (the reception of ideas – ideation) and is then accurately (with integrity) worked out or reflected in the material good or service. There is a distinctively spiritual accomplishment before the good or service is held up to view before the mass market.

Let Each Do His Best

American economic progress has been truly phenomenal. But this progress has been founded on inspiration from the highest insights of individuals, not on advice from the lower levels of ignorance. In this manner the masses progressively are freed from poverty and slavery, free men's material needs gratified as never before, and opportunities opened to everyone to pursue and develop those creative potentialities inherent in his own personality.[5] If we would succeed

[5]Touched upon here is the moral function of wealth. Whether or not people use wealth to free themselves for higher effort is beyond the scope of this essay. Many do not.

with our political institutions, we have in the productive process a model to emulate. However, we must understand how this process really works: that it finds its power in highest conscience and the accurate reflection thereof, in short, in integrity.

One's highest conscience, regardless of the step it occupies on the Infinite Stairway of Righteousness and Wisdom, is sensitive to the way one treats it. Lie about it, distort it, reflect it inaccurately, take contrary instruction from inferior sources or yield to the temptation of fame or fortune or popularity or other weaknesses of the flesh *at its expense* and it will become flabby and flaccid and will be incapable of rising to higher levels.

Now and then we observe individuals who can be depended upon to state accurately that which they believe to be right, persons unmoved by fickle opinions, by the lure of applause, or by the sting of censure. We may disagree with such persons, but be it noted that we trust them. For their creed appears to be:

> This above all, to thine own self be true;
> And it must follow, as the night the day
> Thou canst not then be false to any man.

Such persons are possessed of integrity!

IDEAS ON LIBERTY

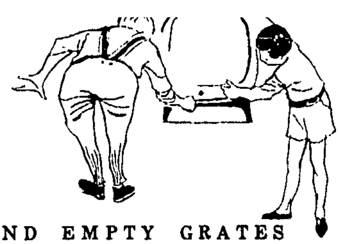
The Major Problem

THERE IS ONLY ONE major problem in the whole world, and that is the salvation of the individual soul.

Our own personal problem is quite the same as that of every other sane, red-blooded, earnest man or woman in the whole wide world. It is to make ourselves as big and fine and useful and human as we possibly can and, were we so fortunate as to have wellborn sons and daughters, to help them to be bigger and finer and more useful and more human than we are. It is a much less spectacular job than the artificial problems of government, dynasty, empire, ecclesiasticism, trade unionism, socialism, communism, commercial supremacy, dictatorship, and all the other aggressive mass movements; but it is the one real and important problem whose solution will bring peace and tranquility and worth to a world now very much distraught.

HANFORD HENDERSON, "Hands Off"
From *The North American Review*, December 1924

CHRISTMAS EVE in ENGLAND



OR—FEATHER BEDS AND EMPTY GRATES

It was a cold December day
At story-telling time.
Old Kaspar chose a fresh cigar
And poured a rum-and-lime,
While Peterkin and Wilhelmine
Warmed up the television screen.

They saw a mob of cheering men
Upon an empty quay,
Who stood with happy faces turned
Toward the open sea,
Where rusty freighters, one by one,
Appeared against the setting sun.

"Now tell us what it's all about!"
The little children cried.
"It's Christmas Eve in England, dears,"
Old Kaspar soon replied;
"Those cheering men are feeling gay,
For they'll have coal on Christmas Day."

"Those rusty ships," said Kaspar then,
"Are full of Yankee coal;
They've sailed for days across the sea
And now they've reached their goal,
Where English mothers wait and pray
For coal to burn on Christmas Day."

"But doesn't England have some coal?"
Asked little Peterkin.
"There's lots of coal in English mines,"
Said Kaspar with a grin;
"But mining coal is slow and late
Where folks have got a Welfare State."

"A Welfare State," Old Kaspar said,
"Means Equal Shares for all –
For all the lazy, sick, or weak,
Or strong, or short, or tall;
It means for each an equal share
Of labor, feather beds, and hair."

"Since miners work just twice as hard
As other people do,
The Planners set each miner's share
At one day's work in two.
So that's why folks in Welfare States
Have feather beds, but empty grates."

H. P. B. JENKINS
Economist at Fayetteville, Arkansas

Competition, Monopoly, and the Role of Government

SYLVESTER PETRO

The great monopoly problem mankind has to face today is not an outgrowth of the operation of the market economy. It is a product of purposive action on the part of governments. It is not one of the evils inherent in capitalism as the demagogues trumpet. It is, on the contrary, the fruit of policies hostile to capitalism and intent upon sabotaging and destroying its operation.

—LUDWIG VON MISES, *Human Action*

IN THE free society government keeps the peace, protects private property, and enforces contracts. Government must do these things effectively, and it must do nothing else; otherwise, the conditions absolutely necessary to genuine personal freedom in society are absent. Whether or not a genuinely free society is attainable no mortal man can know; the limits of our knowledge are too narrow. But one thing we do know: that until at least the advocates of the free society are fully aware of the conditions necessary to its existence, it can never come about. For they must ever be on guard against new movements, ideas, and principles which would endanger its realization. And on the other hand, they must be sharply aware of existing impediments so that they may direct their energies intelligently to the removal of the causes of current imperfections.

I take up with considerable trepidation the task of arguing that government should quit trying to promote competition by means of the antitrust laws, especially since some proponents of the free society believe that vigorous enforcement of those laws is absolutely indispensable. Yet, antitrust laws are inconsistent with the

Professor Petro of New York University School of Law reveals here some results of his special attention to labor and antitrust legislation and policy.

basic principles of the free society, private property, and freedom of contract; they deprive persons of private property in some cases and outlaw certain contracts which would otherwise be valid. Moreover, they expand the role of government far beyond that envisaged by the theory of the free society and thus amount to an unconscious admission that the fundamental theory itself is incoherent; for antitrust policy implicitly accepts the Marxian premise that an unregulated economy will result in the decay of competition and in the emergence of abusive monopoly. Finally, and this may be the most pressing reason for the present article, in their attempt to promote competition the antitrust laws may in fact be inhibiting it.

Vague and Uncertain Laws

One of the basic evils in the antitrust laws is the vagueness and uncertainty of their application. They have produced mainly confusion. Sixty years ago the antitrust laws prevented the Great Northern Railway and the Northern Pacific from merging, although but a minor fragment of their respective lines overlapped in competition. But a few years later United States Steel was permitted to consolidate a vast preponderance of the steel production of the country under one management. Now we are off on another antimerger binge, and so Bethlehem and Youngstown are enjoined from doing on a smaller scale what U.S. Steel did on a grand scale. Socony and other integrated oil companies were told that they might not buy up distress oil at prices set in competitive markets. But only a few years earlier the Appalachian Coals Association was permitted to act as exclusive marketing agent for most of the coal production of an entire region. Forty years after its foresight, courage, and capital had been instrumental in developing the great General Motors productive complex, the du Pont Company was ordered to give up control of its G.M. stock because of a relatively picayune buyer-seller relationship between them. Only space limitations preclude an almost endless listing of equally contradictory and inequitable results of the unpredictable eruptions from the antitrust volcano. At present, the allegedly competitive policies of the Sherman Act are mocked by those patently anticompetitive components of the antitrust laws, the Robinson-Patman Act and the fair-trade laws.

Thus, to the careful and honest observer the antitrust laws appear to be a charter of confusion, rather than the "charter of economic liberty" which oratory calls them.

They have been transmogrified by the political vagaries to which their vagueness makes them susceptible into an insult to the idea that laws should apply equally to all. Some may regard these consequences as merely unfortunate incidents of a generally praiseworthy program. Yet we need continually to remind ourselves that law is for the benefit of the citizenry, rather than for the sport of government and of the legal profession. The main function of law is to provide people with clear and sound rules of the game, so that they may pursue their affairs with a minimum of doubt and uncertainty.

While aggravating the existing uncertainties of life, the antitrust laws can make no demonstrable claim to improving competition, despite the contentions of enthusiastic trustbusters. I have heard it said that the result of breaking up large firms is to create competition among its fragments, and thus to contribute to social wellbeing. But a moment's reflection will expose this as a bare and unsupportable assertion. Even though additional firms may be created by breaking up large businesses, the result is not necessarily in the social interest, nor does it necessarily create or improve competition. The social interest and competition are not automatically served by an increase in the number of firms. It is a commonplace that competition may be more vigorous and the service to society greater when an industry has few firms than when it has many. The question from the point of view of society is not how many firms there are, but how efficiently and progressively the firms – no matter how few or how numerous – utilize scarce resources in the service of the public. Maybe production will improve after a single large producer is split into fragments; but it is equally possible that it will not. No one can tell in advance, and it is also impossible to do so after the fact. The only thing that can be said with certainty about the breaking up of businesses is that government's power has been used to deny property rights rather than to protect them. If we really believe that private property is the most valuable institution of the free society, and that in it lies the strength of the free society, then it is wrong to abrogate that institution on the basis of pure guesswork.

Monopoly Unionism

The antitrust approach to improving competition loses even more of its glamor when one understands that the most abusive and socially dangerous monopoly which exists today in this country is the direct product of special governmental privileges. Labor unions are today the most destructive monopolies in our system, and they are also the greatest beneficiaries of governmental special privileges.

First and foremost, there is the virtual privilege of violence, which trade unions alone enjoy. Neither individuals nor other organizations are so privileged. Memory is strangely short as regards union violence, and yet every big union in America has used it habitually, in both organizing and "collective bargaining."

Of the men who resist union membership, many are beaten and some are killed. They have much more to fear than do persons who reject the blandishments of sellers of other goods or services. And this is true despite the fact that the right *not* to join a union is as firmly entrenched in legal theory and the theory of the free society as is the right to buy as one wishes or to refuse to buy when one so wishes.

Last spring, the United Mine Workers engaged in one of its periodic purges of the nonunion mines which spring up continually owing to the uneconomic wage forced upon the organized mines by the UMW. I have before me an Associated Press dispatch, dated April 10, 1959, which reports that "one nonunion operator has been killed, five union members charged in the fatal shooting, and three ramps damaged by dynamite since the strike began March 9. It has made idle more than 7,000 men over the union's demands for a $34.25 a day wage, a $2.00 increase." The grimmest aspect of the dispatch lay in the news that Governor A. B. Chandler of Kentucky was *threatening* – after a full month of terror and pillage by the union – to order National Guardsmen into the coal fields.

The Pattern of Violence

This is no isolated case. On the contrary, violence and physical obstruction are standard features of most strikes, except where the struck employers "voluntarily" shut down their businesses, in accordance with the Reuther theory of enlightened management which I have described in a recent book, *Power Unlimited: The Corruption of Union Leadership* (Ronald Press, 1959). A special dispatch to *The New York Times*, dated August 5, 1959, reports that "a siege was lifted today for 267 supervisory employees at the United States Steel Company's Fairless Works here . . . From now on the supervisory personnel will be allowed to enter and leave the plant at will for maintenance." The dispatch is silent concerning the probable consequence of any attempt by the steel companies to maintain production. But the fact that supervisors were besieged because of maintenance operations suggests that rank-and-file workers who attempted to engage in production would be mauled. It is not out of order to infer that the siege of the supervisors, otherwise a pretty silly act, was intended to get across that message.

The careful student of industrial warfare will discern a pattern of violence which reveals an institutionalized, professional touch. Mass picketing, goon squads (or "flying squadrons" as they are known in the Auto Workers union), home demonstrations, paint bombs, and perhaps most egregious of all, the "passes" which striking unions issue to management personnel for limited purposes – these are the carefully tooled components of the ultimate monopoly power of unions.

As a matter of fact, we have become so befuddled by, and so weary of, the terror, destruction, and waste of the unions' organizing wars that we view with relief and contentment one of the most prodigious contracts in restraint of trade ever executed – the celebrated "no-raiding pact" of the AFL-CIO. No division of markets by any industrial firm has ever achieved such proportions. The "no-raiding pact" divides the whole organizable working force in accordance with the ideas of the union leaders who swing the most weight in the AFL-CIO. It determines which unions are "entitled" to which employees. The theory of modern labor relations law is that employees have a right to unions of their own choosing. Reversing that principle, the "no-raiding pact" asserts that the choice belongs to the union leadership. If any business group were so openly to dictate the choices of consumers, it would be prosecuted by sundry federal agencies and hailed before the eternal Kefauver Committee. It would not receive congratulatory telegrams from the chief politicians of the nation.

Government Intervention

The more one examines American labor law the more one becomes convinced of the validity of Professor Mises' theory that no abusive monopoly is possible in a market economy without the help of government in one form or another. If employers were permitted to band together peacefully in order to *resist* unionization, as unions are permitted to engage in coercive concerted activities in order to *compel* unionization, it is probable that the purely economic (nonviolent) pressures of unions would not be as effective as they have been in increasing the size and power of the big unions. But the government has taken from employers *all* power to resist unionization, by peaceful as well as by violent means. At the same time it has permitted unions to retain the most effective methods of economic coercion. And so picketing, boycotts, and other more subtle modes of compulsory unionism are in many instances as effective in compelling unwilling membership – in the absence of countervailing economic pressures from employers – as sheer physical violence.

Monopoly unionism owes much, too, to direct and positive help from government. Consider the vigorous prohibition of company-assisted independent unions which has prevailed for over twenty years. Although such small unions might at times best serve the interests of employees, the early National Labor Relations Board practically outlawed all independent unions, and recent decisions continue to favor the big affiliated unions.

The Majority-Rule Principle

But perhaps the most significant contribution of government to monopoly unionism is the majority-rule principle which makes any union selected by a majority of votes in an "appropriate bargaining unit" the exclusive representative of all employees in that unit, including those who have not voted at all, as well as those who have expressly rejected the union as bargaining representative. Majority rule is a monopolistic principle; it is always to be contrasted with individual freedom of action. But it is particularly prone to monopolistic abuse in labor relations. Determination of the "appropriate bargaining unit" is left to the virtually unreviewable discretion of the National Labor Relations Board. And that agency has in numerous instances felt duty-bound to carve out the bargaining unit most favorable to the election of unions. Indeed, politicians might learn something about gerrymandering from studying the unit determinations of the Labor Board.

Even if the gerrymandering could be eliminated, the majority-rule principle would remain a source of monopolistic abuse, based on monopoly power granted and enforced by government. A union may be certified exclusive representative in a 1,000-man bargaining unit on the basis of as few as 301 affirmative votes, for an election will be considered valid in such a unit when 600 employees participate. If a bare majority then votes in favor of the union, the remaining 699 are saddled with the union as their *exclusive* bargaining representative, whether or not they want it.

Competitive Safeguards

Society has nothing to fear from unions which without privileged compulsion negotiate labor contracts and perform other lawful and useful jobs for workers who have voluntarily engaged their services. For they are then but another of the consensual service associations or agencies which a free society breeds so prolifically. Moreover, the free society has demonstrated that its fundamental mechanism, free competition in open markets, is tough and resilient enough to defend against exploitation by any genuinely voluntary association. The critical problem arises when a man or an association destroys society's chief defense mechanism by violent and coercive conduct, or when that mechanism is blacked out by special privilege from government. For then, without the checks and balances of free men vying against free men in civilized competition, society lies as prone to exploitation by the unscrupulous as a rich store would be without guards and burglar alarms.

When the sources and components of union monopoly are understood, it becomes clear that the antitrust laws cannot cure the problem. The fundamental source is to be found in failures and errors of government which the most elaborately conceived antitrust laws could not cure. The basic job of government is to keep the peace. It has not kept the peace in labor relations. Local, state, and federal governments have all failed to prevent labor goons and massed picket lines from interfering with the freedom of action of nonunion employees and of employers in bargaining disputes. A similar failure in organizing campaigns has permitted unions which would be pygmies, if they represented only workers who wanted them, to become giants. The antitrust laws would equally clearly do nothing to remedy the monopolistic consequences of the positive aids granted by government to the big unions, such as the majority-rule principle and the virtual outlawry of small independent unions.

I am convinced that the socially dangerous aspects of big unionism have been brought about by the errors and failures of government which we have been considering. Government has on the one hand been tolerating the violence and economic coercion by means of which the big unions have attained their present power, and it has, on the other hand, positively intervened in their support. Moreover, for the last generation officers of the national administration have played a critical role in the key industrial disputes which have set the pattern of the so-called inflationary wage-cost push.

The latter is a much more important fact than it may seem at first view. It suggests that the checks and balances of free enterprise are adequate to protect the public even from the artificially constructed compulsory labor monopolies which we now know. Moreover, it is not unreasonable to infer that those checks will work even more effectively if politicians not only stay out of negotiations but also enforce the laws against compulsory organization. These considerations suggest that the logical first step for those concerned about union power is to insist that government remove the present special privileges which unions enjoy and then wait patiently, to see if the problem will work itself out without further government intervention.

Government's Limited Role

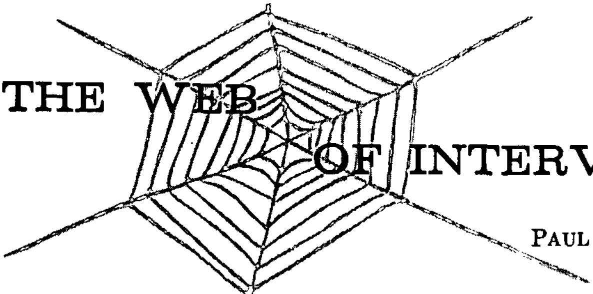
I believe that the same approach should be taken in respect to *businesses* suspected of monopolistic abuses. Rather than following the hit-or-miss political vagaries of the antitrust approach, it would be better to make sure that all special privileges, such as tariffs, exclusive franchises, and other governmental devices for blocking access to markets are withdrawn. Repeal of the tax laws which unfairly prevent high earners from amassing the capital necessary to compete with existing firms would also help much more than antitrust prosecutions do in promoting competition. In short, if government would confine itself to protecting property and contract rights, and if it would desist from impairing those rights, it would be doing all that government can do to promote competition. And we should not need to be greatly concerned about monopolies and contracts in restraint of trade. For, as Mark Twain's account of the career of the riverboat pilots' monopoly in the nineteenth century demonstrates, the free enterprise system is in itself fully capable of destroying all abusive restraints upon competition which are not supported and protected by government.

In the years before the Civil War, Twain writes in *Life on the Mississippi*, the river steamboat pilots formed an association which was to become, as Twain put it, "the rightest monopoly in the world." Having gone through many trials in building up its membership, a sudden increase in the demand for pilots gave the association its first break. It held members to their oath against working with any nonmember, and soon nonmembers began having difficulty getting berths. This difficulty was increased by the association pilots' safety record, which grew out of an ingenious method evolved by the association for current reports on the ever-changing Mississippi channel. Since the information in these reports was confined to members of the association, and since nonmembers had no comparable navigation guide, the number of boats lost or damaged by the latter soon became obviously disproportionate. "One black day," Twain writes, "every captain was formally ordered (by the underwriters) to immediately discharge his outsiders and take association pilots in their stead."

The association was then in the driver's seat. It forbade all apprentices for five years and strictly controlled their number thereafter. It went into the insurance business, insuring not only the lives of members but steamboat losses as well. By United States law the signature of two licensed pilots was necessary before any new pilot could be made. "Now there was nobody outside of the association competent to sign," says Twain, and "consequently the making of pilots was at an end." The association proceeded to force wages up to five hundred dollars per month on the Mississippi and to seven hundred dollars on some of its tributaries. Captains' wages naturally had to climb to at least the level of the pilots', and soon the increased costs had to be reflected in increased rates. Then society's checks and balances went to work. This is Twain's summation:

"As I have remarked, the pilots' association was now the compactest monopoly in the world, perhaps, and seemed simply indestructible. And yet the days of its glory were numbered. First, the new railroad . . . began to divert the passenger travel from the steamers; next the war came and almost entirely annihilated the steamboating industry during several years . . . then the treasurer of the St. Louis association put his hand into the till and walked off with every dollar of the ample fund; and finally, the railroads intruding everywhere, there was little for steamers to do but carry freights; so straightway some genius from the Atlantic coast introduced the plan of towing a dozen steamer cargoes down to New Orleans at the tail of a vulgar little tugboat; and behold, in the twinkling of an eye, as it were, the association and the noble science of piloting were things of the dead and pathetic past!"

The moral: government's job is done when it defends the right of competitive businessmen or workers to take over functions which are being abused by monopolistic groups. The deeper moral is that monopolistic abuses rarely survive without a basis in one form or another of special privilege granted by government. The steel strike would not have lasted nearly so long if government had effectively protected the right of the steel companies to keep their plants operating and the right of employees to continue working during the strike.



THE WEB OF INTERVENTION

PAUL L. POIROT

OUTDATED is the story of the farmer who had almost taught his mule to eat sawdust in place of oats – when the critter died. But a modernized version might tell of the motorist who tried to fuel his car with government in place of gasoline.

The 1-cent hike in the federal gasoline tax on October 1, 1959 brought the national average of state and federal gasoline taxes to 10.2 cents a gallon. In addition to these direct state and federal levies, there are corporate income taxes, payroll taxes, real estate taxes, and numerous other assessments by all levels of government, all along the line from production to consumption, that also are reflected in gasoline prices. All told, well over half the retail price of gasoline goes for taxes. With every gallon of gasoline purchased, the customer must take at least a "gallon of government." And motors respond no better to such a fuel mixture than does a sawdust-fed mule.

One clear consequence of the government-boosted price of gasoline is the current popularity in the United States of small, fuel-conserving, foreign-made cars. Domestic auto manufacturers are doing their utmost to cope with the situation, by adjusting motor and chassis design and by other measures which eventually will bring pressure upon the U.S. government to impose tariffs, quotas, and other barriers against auto imports. This illustrates how governmental interference with the market at one spot, as in the taxing of gasoline, inevitably brings demand for corrective intervention at other spots.

The web of intervention also may be traced backward to the reason behind the ever-increasing gasoline taxes: the now almost unquestioned view that road building is a function of the government. The more roads demanded of government, the more taxes needed to defray mounting costs. One departure from the free market method of providing the goods and services people want leads on to other departures – and to more substitution of coercive intervention for voluntary production and exchange.

Closely related to these matters of gasoline prices and taxes and intervention is *The Question of Governmental Oil Import Restrictions,* examined by New York University associate professor of economics, William H. Peterson, in a 69-page booklet published by the American Enterprise Association, August 1959, $1.00.

Dr. Peterson briefly traces the background and growth of government oil import policy since the launching of the oil industry a century ago at Titusville, Pennsylvania. The policy was essentially one of free trade in oil up through the end of World War I, the limited government intervention for the most part being to encourage the development of foreign sources of oil. The Great Depression marked a change of policy, however, with tariffs imposed in 1932 and import quotas the following year. Since then, the policy has wavered somewhat through hot and cold wars, but culminated in a Presidential proclamation of mandatory import control, effective in March 1959, primarily on grounds that national defense requires virtually a self-sufficient oil industry.

Behind this argument lies (1) the fact that known domestic reserves of oil have failed to keep pace with rates of extraction in recent years, (2) the fear of depletion of domestic supplies, and (3) the presumption that government protection against foreign oil would encourage exploration and development of new domestic reserves at a faster rate than known reserves are being consumed.

Dr. Peterson's analysis of these facts and theories finds no justification for restricting oil imports. "Quite the contrary;" he concludes, "study of the program in practice indicates that it is harmful to the foreign relations of the United States, disruptive to the defense position of the armed forces, depletive to domestic oil reserves, injurious to the vitality of the American oil industry both at home and abroad, costly to American consumers, and finally it establishes precedents for further intervention incompatible with the precepts of a free society."

So, we are faced again with these *precedents for further intervention incompatible with the precepts of a free society.* The government is asked to build roads, the precedent for gasoline taxes, which in turn are the precedent for import restrictions against foreign-made cars. And who can say that high gasoline taxes are not also responsible for many of the government regulations and controls over domestic output and imports of petroleum products? By the early thirties, state and federal gas taxes averaged more than 5 cents a gallon – 28 per cent of the average service-station price consumers were paying. If that 5 cents – now doubled – had gone for gasoline instead of government, who is to know or say what might have been the effect on discovery and development of additional oil reserves during the past quarter century? And what was the effect of these taxes on exhaustion of known reserves and on imports of foreign oil? Would there have been more, or less, stringent prorationing of domestic crude oil production in the absence of gasoline taxes? Did the state and federal gas taxes have anything to do with the 27½ per cent depletion allowance made available to oil producers? And how do each of these and numerous other governmental interventions interact on one another? Just how would the property of taxpayers have been used had the government not intervened to deny that personal freedom of choice? No one knows or can know that answer, any more than anyone knows or can know how to govern the creative activities of those other than himself.

All we can possibly know in this regard, supported by growing mountains of evidence, is that one governmental intervention leads to another in an endless chain of retrogression from the best of which free men are capable. What peaceful persons are forced to give and receive, through governmental intervention, cannot help being less satisfying than would have been the consequences of their voluntary efforts, cooperation, and exchange. For the effort expended in forcing individuals to produce other than as they choose is that much effort subtracted from the gross productive potential.

Mules cannot live on sawdust. Motors cannot run on government. Human beings cannot realize their potentialities for progress if restrained and coerced. *Coercive actions are precedents for further intervention incompatible with the precepts of a free society.*

THE LAST BILLIONAIRE

DEAN RUSSELL

A MAN named Albert Strelow once passed up a large fortune because he thought the profits of Ford Motor Company were too small.

Strelow was a hard-working carpenter who had established a successful paint and carpenter business in Detroit around 1900. In 1903, he reconditioned an old wagon shop he owned, and rented it out for $75.00 a month to the newly-formed Ford Motor Company as its first headquarters and factory.

The founders of that company had lots of ideas and plans, but not much cash. So they offered their landlord a 5 per cent interest in the company for $5,000. He took it.

The new company was successful from the start. Strelow got more than $15,000 in dividends over the next four years, plus an exceptionally high increase in the value of his stock. Then he heard about a promising gold mine in Canada. So he sold his 50 shares of Ford stock for $25,000 – and bought into the gold mining venture. As sometimes happens, the mining venture proved to be more glitter than gold, and Strelow lost his money. Some years later, he applied to the Ford Motor Company for a job.

If he had held on to his stock for another 12 years until Henry Ford bought out his minority stockholders, he would have received a total return on his $5,000 investment of about $18 million.

A Detroit school teacher risked her savings of $100 in the new venture in 1903. When she sold her single share in 1919, she had received a total return of $355,000 on her investment.

A young clerk invested $1,000 in cash – plus a note for an additional $1,400 – and went to work for the new company. He used a

Dean Russell, formerly of the Foundation staff, is Professor of Economics at Rockford College. This article is from a study he has recently made on the automobile and its impact on the American economy and government.

small part of his dividends to pay off his note and to buy a few more shares of stock. After 16 years, he sold his stock for $30 million.

Nobody really knows how much Henry Ford himself got. At one time, he was offered a billion dollars for his company. By then, he had drawn many millions in dividends and salary, and had extensive other holdings.

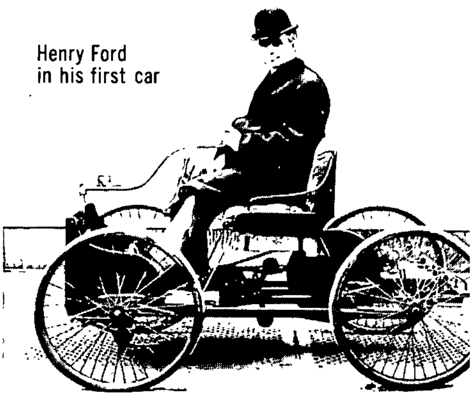
Did He Really Earn It?

Can the effort and contribution of any one man really be worth a billion dollars to his fellow men? This writer casually put that question to 29 of his friends, associates, and acquaintances. All of them are college graduates. All of them hold executive positions in various companies. The question was put to them in such a way that they had no idea they were being interviewed. In different ways and in different words, each of the 29 replied that no man could possibly be worth a billion dollars to his fellow men. Admittedly, 29 is a small sample, but it is here assumed that the result of the test generally represents the viewpoint of most business leaders in America today. Perhaps their viewpoint is the correct one. Perhaps it isn't. At any rate, the career of Henry Ford should be examined before a final decision is made. Just how did he manage to gain control of a billion dollars and more? Did he really earn it?

Henry Ford had already been in two unsuccessful automobile manufacturing ventures before 1903 and the founding of the Ford Motor Company. In none of the three ventures did he put up any actual cash. In each instance, he swapped his mechanical know-how and improved motor for an interest in the company – always a minority interest – and went to work for the company on a salary basis.

In the third and successful venture, Henry Ford and most of his partners were soon in strong disagreement on company policy. Ford wanted to use almost all of the company's earnings for expansion. Most of the other stockholders favored a more even split between expansion and dividends.

But most controversial of all



Henry Ford
in his first car

Courtesy Ford Motor Co.

was Henry Ford's obsession with the idea that he could make a good car for $500 that would be bought by millions of Americans! That's what he wanted the company to do. But in the early 1900's, Ford's vision of a mass-produced and low-priced car to put an entire nation on wheels seemed like a crazy idea to his partners and stockholders.

The controversy continued. So Ford decided that the best solution to the problem was to gain control of the company for himself. And that's what he did.

Alexander Malcomson, the man who was Henry Ford's equal partner in establishing the company, sold his 255 shares to Ford for $175,000. That was about seven times their original value. That purchase – added to his own original 255 shares – made Ford the majority stockholder in the 1,000-share company. Thus, in 1906, he became his own boss, and thereafter did mostly as he pleased.

In 1919, after a suit by the minority stockholders compelled him to pay bigger dividends, Ford decided to buy out the remaining stockholders and become sole owner of the company. He did, and the company became a totally family-owned enterprise.

There may have been no Ford Motor Company without the original financial backing of Malcomson. That is a debatable proposition. But this much is certain: There would have been no Ford Motor Company – and no Model T – without Henry Ford.

This study is not intended to deny in any way the vital contributions of men like Edsel Ford, John and Horace Dodge, James Couzens, Walter Flanders, Norval Hawkins, Peter Martin, Harold Wills, Charles Sorensen, William Knudsen, and the many others who devoted their genius to the success of the Ford Motor Company. Henry Ford could not have done it without their help. But while acknowledging the vital part played by Ford's partners and employees, this is primarily the story of Henry Ford himself. Was *his* contribution to the American people worth the billion dollars he got from them in profits? Just what did he do for that money?

New Uses for Old Ideas

Some of Ford's critics claim that Henry Ford himself contributed few, if any, truly new and original ideas to the development of the automobile. For example, they point out that Ford once defeated a patent infringement suit against his company by proving that his automobile engine was basically the same engine that had been invented in France in 1860 by Jean Lenoir.

Who deserves the credit for the

mass production and efficiency concept of an assembly arrangement that brought the work to the man, instead of the other way round? At the Ford Motor Company, that idea was developed into an art that astounded everyone who saw it. But as Ford himself wrote, "The idea [for a moving assembly line] came in a general way from the overhead trolley that the Chicago packers use in dressing beef." Actually, the basic idea had been used successfully more than a century before either the meat packers or Ford Motor Company adapted it to their particular needs. In fact, the original idea may well have been conceived by the Venetian shipbuilders who were "mass producing" boats in the thirteenth century.

Ford's policy of taking a small profit on many units, instead of a large profit on a few units, had been profitably used by many producers in other lines long before Henry Ford began producing his Model T. And several of those earlier manufacturers were also aware that it's good business to service the product you manufacture and sell.

Specialization, division of labor, and interchangeable parts were standard practices among American gun makers long before Henry Ford was born. (The builders of the great cathedrals in Europe during the eleventh century were also familiar with those ideas.) And the first manufacturer who ever had trouble with a supplier of raw materials or parts was well aware that vertical integration – Ford's program to own or control his sources of supply – may be profitable from several different viewpoints.

Operating Policies

According to Mr. Ford himself, he gained his success by basing his actions on these five ideas and principles:

1. He observed that the American people could use millions of cars.
2. It was obvious to him that a durable and inexpensive *single* model was necessary to meet that need and demand.
3. He decided that the needed millions of vehicles could be produced both cheaply and profitably by weaving together both new and old technological elements into an industrial complex designed to mass produce the type of car he had in mind.
4. His actual experience soon confirmed his belief that price reduction would result in market expansion.
5. He was of the opinion that high wages would mean more customers and, as a result, more profits.

Whether or not Henry Ford

contributed new ideas, or merely improved upon existing ideas, is not at all vital to this story. The important question is this: Why was he so much more successful than his early competitors who had full access to the same ideas and inventions?

Well, there were two primary reasons. First, he and his associates applied and perfected all the above ideas (and many more) better than had ever been done before. Second, Henry Ford had a vision that drove him on. He actually *wanted* the American farmers and factory workers to own and drive their own cars. He dreamed of a world in which everyone would be prosperous and happy. As he said, he put service first and the profits just naturally followed.

It can't be proved, but perhaps Ford's vision was a more powerful incentive than his profits. At any rate, he often claimed it was. We are safe in assuming that if either the profits or the vision had faltered in the beginning, there would have been no Ford Motor Company as we know it today.

The Model T

Let's examine that vision – Henry Ford's "crazy idea" that he could build a car so cheap and so good that millions of people would buy one. When he first talked about it, most of his listeners tended to dismiss him as a crackpot. But as we know, Mr. Ford stayed with his idea. And his famous Model T made its appearance late in 1908.

In the beginning, the price was not $500 but $825. But even so, as the advertisements said with some justice, "No car over $2,000 offers more except in trimmings."

True enough, there were no trimmings – and the car wasn't exactly beautiful to gaze upon. But it was simple to operate and repair, and it generally got you where you wanted to go. If there happened to be a good road handy, the Model T would operate just fine on it. But its specialty was rough roads, mud holes, ruts, and bridgeless streams – just the sort of practical and rugged vehicle demanded by the road conditions of that time. And Henry Ford was right – the people began buying them by the thousands, then by the hundreds-of-thousands, and finally by the millions.

In 1909, the Ford Motor Company produced and sold 10,607 cars. That was less than 10 per cent of the total number of cars produced and sold by the entire automobile industry that year.

By 1914, Ford had 42 per cent of the total business with 248,307 Model T's. Meanwhile, his price had dropped to $440, with a promise to refund $50.00 of that price to all purchasers during 1915 if the company sold 300,000 cars during the year.

That goal was easily exceeded and the refunds promptly made. Anyone could buy a car for $390. And old but still serviceable Model T's could be had for less than $100. Henry Ford's crazy idea of a mass-produced and low-priced automobile was no longer considered crazy. His concept of an America on wheels was well on its way to reality.

$5.00 for Eight Hours

It was also in 1914 that Mr. Ford initiated his revolutionary policy of a minimum wage of $5.00 for an eight-hour working day.

The automobile workers had always earned a higher wage than their counterparts in other industries. If they hadn't, they would never have left their old jobs in the first place – especially not the trained mechanics that the new industry had to have. But Ford's $5.00 minimum was more than double the going rate!

The automobile workers had also generally worked shorter hours than employees in the older industries. But Ford's policy was an eight-hour day at a time when twelve hours was still the standard in many places.

The announcement of that revolutionary labor policy of Ford Motor Company caused a riot in Detroit. More than 10,000 men actually stormed the plant in their frenzy to get jobs.

Also in 1914, the profits of the Ford Motor Company exceeded $30 million. Most of that belonged to Mr. Ford himself, and as majority stockholder he controlled the disposition of all of it.

Here is what Henry Ford gave in return for that multi-million-dollar profit. He produced an excellent car for $390. He paid wages twice as high as his competitors. He cut the working day down to eight hours.

In 1921, a depression year, Ford produced and sold 845,000 Model T's. That was almost 55 per cent of the total passenger automobile business. It was, of course, a better car than the one of 1914. The price was also lower – $325. And the Ford employees were earning higher wages. Henry Ford's *personal profit* for the year was about $75 million.

In 1923, Ford produced more than two million cars and trucks. Every few seconds, a new Model T rolled off the end of that world-famous assembly line. But even so, Ford sales dropped to less than half of the total automobile business for that year.

In 1925, the Ford Motor Company sold about 1.5 million cars –

and its percentage of the total sales for the industry dropped closer to 40 per cent. In 1926, Ford's percentage of the business dropped to about 33 per cent, and the outlook was for a continued steady decline.

On May 26, 1927, Henry Ford produced his last Model T. After making 15 million of them, he stopped production and closed down his plants. Why?

Consumers' Choice

The answer is simplicity itself. The American people had stopped buying them! They bought some, of course, but not as they used to. They were buying cars made by Ford's competitors – Chevrolet, Overland, Dodge, Essex.

In an effort to hold his market in the mid-1920's, Henry Ford chanted his magic formula once again. Raise wages, he said. And increase production, improve the product, and cut prices. It was done. For a short while during that period, the Model T "Runabout" was priced at $260.

That tried and true formula had always worked before. It had always brought *more* sales and *more* profits, not less. It had made Henry Ford a billionaire. But this time, it didn't work. After 1924, sales and profits continued downward. The consumers preferred to pay a higher price for a Chevrolet. Ford's declining profits soon turned into heavy losses. What had happened?

In the early 1920's, Ford's competitors had decided that the American people were willing to pay a higher price for a more stylish car, a closed car, a more comfortable car, a car with a gear shift and similar mechanical improvements. Mr. Ford disagreed, and stayed with his rough-and-ready Model T.

He was wrong and his competitors were right. The consumers said so, with their own money – and Henry Ford's Model T was through. Later on, he came back with his Model A, but that is another story. (Ironically, the vast changes brought about by the Model T seem to have made the instrument of the change itself obsolescent!)

True enough, no one man was responsible for putting America on wheels and for perfecting machines that enabled farmers all over the world to produce more in less time and with less toil. And no single person, however dedicated, deserves more than a fraction of the credit for creating completely new industries and changing the living and thinking habits of the people of an entire nation. It required the full time and best efforts of many men to supply the tools and know-how that enabled millions of workers to earn more by producing more, and thus to lead more comfortable and happier lives. But, unquestionably, Henry Ford was the leader of the few thousands who do deserve the credit for it.

Was Ford's leadership and contribution worth the billion dollars and more that he got in profits? Or did Henry Ford profit at the expense and loss of his customers and the American people in general?

Voluntary Exchange

Well, first, he didn't force anyone to buy his product. He couldn't. Millions of free and independent persons voluntarily chose to exchange their hard-earned money for a Model T, rather than to buy something else with it. In fact, they sometimes put their names on a list and waited many months for delivery.

Those purchasers of Model T's were of the strong opinion that they profited by the exchange. That's the only reason they bought them. And when they no longer considered the Model T a good buy, they bought the product offered by Ford's competitors.

Beyond any question, the employees of Ford Motor Company were sure that they profited by swapping their labor for Ford wages. There were hundreds of eager applicants for every available job.

Ford's dealers, agents, and subcontractors profited greatly from their business with him. There was much competition for those Model T agencies. And many of the dealers became millionaires in their own right.

The Ford Motor Company was naturally one of the nation's largest taxpayers, as well as the source of the earnings of hundreds-of-thousands of other taxpayers. So the government certainly profited in many ways – including war production – from Ford's efforts.

Everyone Gained

From a social viewpoint, Henry Ford was a pioneer in hiring Negroes, physically handicapped persons, and old people who wanted to work but couldn't get jobs elsewhere. He also hired hundreds of probationary ex-convicts who otherwise would have been kept in prison. Certainly they profited. The American people in general also profited greatly when Henry Ford fought and defeated the "Selden patent" that once threatened to monopolize and hamstring the young automobile industry. The living and working conditions of industrial employees throughout the country (and in various foreign nations as well) were improved immeasurably when Mr. Ford gave the architect, Albert Kahn, free rein to express his revolutionary ideas about changing the dark and dismal factories of the early 1900's into the bright, clean, and airy places that are now the general rule. And we should never forget that Henry Ford offered a *new* car at the lowest price the world has ever known – $260.

By any meaningful and realistic test, Henry Ford earned every penny of his vast fortune. It was rightfully his to do with as he chose. It so happens that he chose to establish the Ford Foundation to give most of it away for the purpose of hospitals, education, and other similar projects for the general public.

We American people have now arranged our government and economy so that there can never again be another billionaire. In a democracy, we have the political right to do that if we want to. But that fact has no bearing whatever on whether or not the services of a person may be worth a billion dollars to his fellow men.

THE SYNDROME OF LIBERALISM

FRANK CHODOROV

THE SOCIALIST, or his blood brother the communist, is forthright and honest. He makes no bones about his purpose, which is all written out in his credo in unmistakable language; even though the "party line" he follows is devious and at times self-contradictory, you know that behind its twists and turns is a clearly defined direction. You can do business with him, just as you can with a horse trader, because you know what he is up to.

But, what is a "liberal"? He has no Karl Marx to direct his thinking or behavior, no articles of faith to which he unfailingly adheres

Mr. Chodorov is well known as a preacher and practitioner of individualism. *The Rise and Fall of Society* (Devin-Adair) is his latest book-length treatment of the subject.

and by which you can identify him. In politics, he may be a Republican or Democrat, though differing with others who share his label. He may or may not be a follower of John Dewey, and for his intellectual godfathers he sometimes lays claim to both Thomas Jefferson and Franklin D. Roosevelt. Indeed, in a book written by a recognized mentor of "liberalism" practically every prominent New Dealer is included in a list of American "conservatives." Intellectually speaking, he is a slippery pole.

Under the circumstances, the best one can do by way of identification is to extract from statements and deeds of those who call themselves "liberals" something that will do for a definition; that is, to dig down to their basic premises and prejudices. This, William F. Buckley, Jr., has done in his new book, *Up from Liberalism* (New York: McDowell, Oblensky. 206 pp. $3.50). Taking a parcel of the better known "liberals" – alive and kicking – he attempts to find some pattern of thought by which that breed can be identified. To be sure, a cut-and-dried definition is impossible because the assumptions of "liberals" – that there are no absolutes, no immutable values, that all things are relative and truth is what works – defy all the rules of definitive thinking. What he has done is to come up with what he calls a syndrome – which, in medicine, is "a group of concurrent symptoms characterizing a disease."

And yet, as one reads his lively diagnosis, one can readily identify the disease of "liberalism"; it is simply socialism without Marx. For, despite the tergiversations of "liberalistic" thought and the persiflage with which "liberals" obscure their purpose, the goal to which the clan is constantly driving is the increase of political power at the expense of social power. In economics, no good "liberal" – Republican or Democrat – puts faith in the ability of free enterprise to effect the "general good"; that can be achieved only by an admixture of intervention and free choice – although there is no agreement among these cooks as to the proper recipe. They are generally concerned with the distribution, not the production, of wealth. Social behavior with them is not a matter of personal morals, but of conformity to an amoral pattern laid down by law. They never question the competence of political power, particularly when "liberals" are in charge, to improve the common welfare in all directions. The more government (properly manned), the more freedom. What else is this but freewheeling socialism?

Bankruptcy of "The Left"

Mr. Buckley comes to the conclusion that "liberals" are intellectually bankrupt. What else did he expect? They start without any capital investment, philosophically, and have no means of accumulating any because of their basic assumptions. The denial of principles makes a consistent philosophy impossible. Having no guide for their groping minds, the best the "liberals" can come up with is a congeries of make-shift phrases, more or less related, expressing a general attitude; that is, a syndrome. What Mr. Buckley means by the insolvency of "liberalism" is that experience has made a mockery of their claims, and that whenever the facts disprove their premises, "liberals" shift their position to suit. That is, "liberalism" cannot stand the test of either logic or experience.

Nevertheless, as Mr. Buckley points out, our lives are enmeshed in the works of the "liberals." In the political field, to which they are attracted by their worship of power, they have enacted a flock of interventionary and repressive laws from which there seems to be no escape. They dominate the educational establishment to such an extent that any inclination of the young toward logical and consistent thought, any search for values, is submerged by their amorphous phraseology; "liberalism" is indeed the conformity of the campus. Through control of the press and the air waves they manage to promulgate their bias, to the exclusion of any contrary points of view, while the foundations they have captured give them the wherewithal to pursue their purposes. Despite its lack of intellectual integrity – or perhaps because of it – "liberalism" is riding high, wide, and handsome.

Mr. Buckley believes, however, that a discredited doctrine cannot endure, and he sees signs that bode ill for the future of "liberalism." There are grounds for his hopefulness. Without listing all the evidence of an increasing public disillusionment, one need only cite his own book; fifteen years ago it could not have found a publisher. But, he submits, you cannot dislodge "liberalism" from its high estate merely by pointing out its inadequacies and its failures, nor even by presenting the intellectual superiority of conservatism, its opposite. Conservatives have not yet learned how to present their case cogently.

Ambiguity on "The Right"

Conservatism has a time-honored and definitive literature – from John Locke to the Declaration of Independence to present-day schools of free market economists — but, nevertheless, there are ambiguities in the conservative argument as generally presented. For instance, while conservatives are strong for the free economy and limited government, many of them are advocates of protectionism, which is a denial of the free economy, and very few would maintain that all government interventionism is bad. How many would support a movement to abolish the government monopoly of the postal business, or even to abolish the Sixteenth Amendment? And how many would do away with subsidies from which they derive a profit?

Conservatives are in dire need of a method of presentation that carries conviction in the here and now. It is fatuous merely to point with alarm to what might befall us as a long-run consequence of "liberalism." The "long-run consequences" are upon us, being but another name for the mess we are in. "The revolution was," to use Garet Garrett's words.

Moral Conviction Needed

Does conservatism have a clearly defined next step, and a step after that? If so, what is it? Mr. Buckley stops short of such an approach. He shies away from a program, and leaves us instead with a prophetic admonition: we must return to principles. In the spirit of Patrick Henry's famous dictum, he says:

"I will not cede more power to the state . . . I will hoard my power like a miser, resisting every effort to drain it away from me. I will use *my* power as *I* see fit. I mean to live my life an obedient man, but obedient to God, subservient to the wisdom of my ancestors; never to the authority of political truths arrived at yesterday at the voting booth. That is a program of sorts, is it not? It is certainly program enough to keep conservatives busy, and liberals at bay. And the nation free."

That is to say, conservatism is essentially a moral philosophy, and if conservatives will abide by it at all times, they can leave the politics and economics to work themselves out.

What the book will do for conservatism is difficult to say; perhaps nothing more than an inspiring speech does for a college graduate. But, one can predict with some assurance that it will irritate the "liberals" no end. For the author takes them apart with a sharp and shiny lancet, and puts their intellectual "innards" on public view.

NOTE: *Mr. Albert Porter, Associate Professor of Business at San Jose State College in California, was one of the 64 participants last summer in the College-Business Exchange Program coordinated by the Foundation for Economic Education. His voluntary testimony to the efficacy of the program, being a typical reaction, is here offered for teachers, businessmen, and other students of liberty who may be interested.*

Piercing the Ivory Curtain

ALBERT PORTER

"I SUSPECT that the difficulty in increasing these Fellowships is primarily a financial one," said du Pont's President Greenewalt in reply to my letter of thanks. I had written him about the values received from this summer's six weeks at du Pont, and expressed my conviction that both industry and the academic world would benefit from a great increase in the number of firms participating in FEE's College-Business Exchange Program.

How can a corporation justify to its stockholders an outlay of $800, plus travel costs, to cover one of these fellowships for a professor of business or economics? The limited company participation suggests that many firms either question the value of the program for their purposes or else lack familiarity with the details of it.

Several Applicants for Each Spot

Even from the professor's point of view, there is the financial problem of balancing the *net* return, after the expense of living away from home, against the other summer earning opportunities. Summer school teaching would yield more income! But apparently the professors feel the program is "worth it," since there are about half a dozen applicants for each available fellowship.

I can't prove that a firm gets its money's worth from a fellowship program anymore than I could justify the last thousand dollars spent for advertising or public relations; some things aren't measurable with such exactness. But let me review here some of my thoughts on the matter during these weeks since my return from Wilmington.

Suppose it is your firm that wants to participate in the program. What would happen? Something like this: Months in advance you would have told Dr. W. M. Curtiss of FEE what type of person you'd like to have – his background, field of interest, and the like. Based on these specifications, he would have sent you the folders of several applicants. You'd select one – or perhaps two or more – from these candidates. Dr. Curtiss would notify the person or persons selected, and from there on the communications would be up to you. On the appointed day, your professor(s) would arrive – for six weeks.

I believe each company is quite free to arrange the details of the six weeks. But, briefly, here's how du Pont handles it.

How the Program Started

Incidentally, du Pont pioneered the program about 1938. As I understand it, Mr. Jasper Crane, now a director, but then a vice-president and executive committee member, was attending a meeting and became involved in a discussion of economics with a professor. This started Mr. Crane thinking about a program whereby professors of business and economics could come right into an organization and ask questions of the executives themselves. He felt that an important cause of academic suspicion and mistrust of "business" was that most professors have little or no such direct contact with those on the firing line of industry. Du Pont's executive committee agreed, and the company since then, except for the war years, has sponsored one or two professors each summer. Later, FEE assumed coordination of the program, as other firms became interested in participating.

Hard Work – But Worth It

But, back to du Pont's program: Probably six months before our starting date, Bill Harrison of the Employee Relations Department was telephoning executives throughout the organization, setting appointments for us. "Us," incidentally, included Dr. Paul Nadler, of Rutgers. When we arrived the morning of June 22, the six weeks were fully scheduled – mimeographed and distributed to all those with whom we would be talking.

For us, it was six weeks of intensive, interesting – and exhausting

– interviews with du Pont executives. Three to five or more per day took place at the home office and at two plants: across the river at Deepwater, N. J., and down at Richmond, Virginia.

Yes – like most truly valuable educational experiences – it was hard work. Day after day we talked and questioned our way through all 12 "Auxiliary Departments" (Legal, Traffic, Central Research, and so on) and two of the 12 "Industrial Departments" (Organic Chemicals and Film). Hard work to keep the mental machinery going at top capacity – trying to make the most of this once-in-a-lifetime hour with Mr. Rittenhouse, head of the Legal Department; Dr. Salzberg, manager of Central Research; Mr. Knowles, plant manager of the huge Chambers Works. On and on, through Accounting, Engineering, Labor Relations, and other departments. Concentrate on the executive's summary of his organization and its place in the company. Try not leave unasked that which ought to be asked. Here are the people who come to grips "for real" with those thorny classroom questions like, "Just what should an executive do about a subordinate who is ambitious, but who has, in the executive's opinion, reached his limit?"

I came back with two large boxes of notes, pamphlets, speech reprints – which I hope to distill into a final report. But also, I gained new ideas, new enthusiasms for my teaching of business administration subjects. And as Elbert Hubbard said, "Enthusiasm is the vital ingredient for doing great work." Time alone will prove the value of my ideas; but at the moment I have real hopes of doing a better job of developing my students' abilities to think, to take initiative, to improve their preparation in college for their future careers in business.

Benefits to Business

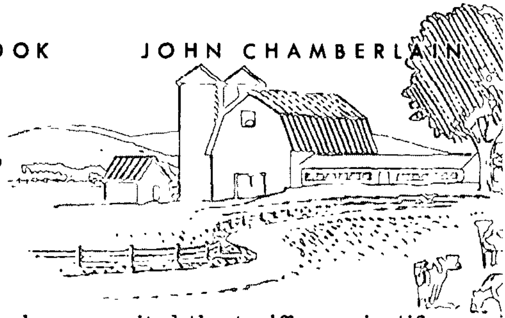
We asked several of the company executives what du Pont expected to get out of the program. Their answers would, I believe, fit under two headings: (1) A contribution to higher education, hence a long-range return to all industry through better, more realistic, college teaching of business and economics; (2) The benefit to the executives of crystallizing in their own minds, in order to explain to us, just what their key functions *are; what are* their most important problems; how *does* each of them and the work of his section fit into the company's forward movement. I think one of the most overlooked aspects of education is the process of learning through being asked penetrating, general questions.

The question which most effectively challenged me on my Ph.D. oral examination came from the Chemistry Department – my minor field. I was fairly well prepared on such matters as the preparation of nylon, the electron configuration of nitrogen, and such details. But I floundered a good ten minutes over the question, "What would you say to a high school senior class in five minutes about the field of chemistry as a subject for career specialization?" I still feel guilty when I walk into Stanford's Chemistry Department. But a few weeks later, a fairly good answer began to shape up in my mind, and since then I have tried to re-evaluate all my fields of study from that viewpoint. Needless to say, du Pont's executives had little difficulty in giving us excellent answers, affording us real insights into managerial practice. But several of them later commented that the experience of formulating these answers was also of some value to them.

A word of advice: two heads are better than one. One professor alone would have an almost impossible task to bear six weeks of continual interviewing. Two, taking turns, can "keep the ball in the air." If a company must limit its participation to one candidate, I strongly suggest that he be given half of each day for studying files and reports – preferably for the department he will visit the next day.

Whether it was "worth it" to du Pont, or would be to your company, I don't know. But in these days when all America seems bent on penetrating the iron curtain through exchange of personnel, may I voice the plea that American industry not overlook the need for piercing the "ivory curtain" between those who teach business and those who practice it.

FAVORS FOR FARMERS



THE FARMER in America has always been a member of a favored class. He was favored in the beginning by nature: there was free land in the colonies virtually for the taking. He was favored in Jeffersonian times by the simple fact that he constituted a majority (a century ago our population was 80 per cent rural, and it took one farmer to feed himself and three others). The political bias in favor of the farmer was written into the Constitution itself, with its provision for two senators – no more, no less – from each state regardless of population densities. With the Constitution as his shield and buckler, the farmer – by way of Farm Bloc "logrolling" trades with the industrial states – has always had his political way.

He has, of course, had to reckon with the shade of Alexander Hamilton, who went "one up" on Thomas Jefferson and his agrarian supporters by putting over the idea that industry deserved its subsidy in the form of the protective tariff. I blush to recall that I once cited the tariff as a justification for the counter-subsidizing of the farmer through the AAA. Superficially considered, it seemed plausible to assert that one good bit of graft deserved another.

But, in retrospect, one wonders just how much the farmer actually suffered from the tariff. The argument used to be that he sold his crops at free world market prices and then had the devil's own time trying to stretch his income so that he might meet the protected prices of industry. What he spent his big sums of money on, however, was machinery – and our mass production machine-making industry (cars, tractors, and so on) has never been particularly favored by the protectionists. As for the farmer's food and housing, they ordinarily came cheap – far cheaper, indeed, than the city man's food and rent. Besides, in the period after the Civil War, the farmer could get a quarter section of land in the West merely by complying with the easy terms of the Homestead Act. Railroads, of course, got a comparable land subsidy – but other industries had to pay for their real estate.

Special Treatment Forever?

Since the American farmer, historically, has been a very decent member of society, no one begrudges him his original free land. But does the fact that he was originally favored by the emptiness of the North American continent give him a claim to special treatment forever? In his *The Great Farm Problem* (Regnery, 235 pp., $5.00), William H. Peterson, associate professor of economics at New York University, says "no." Farming may be a way of life, but it is a way that loses all its historic virtues of independence and democratic freemasonry once it is made the object of a "charity" that is not forthcoming in proportionate amounts to other ways of life. Blacksmithing and carriage making were once "ways of life," too – but the village smith of Longfellow's poem never was sufficiently numerous to get a pressure group going for him in the U.S. Senate, so he had to transform himself into a diemaker or an automobile mechanic to live. The farmer, on the other hand, has been able to get his fabled "independence" underwritten at the automobile mechanic's expense – and in getting something for nothing he has become hypocritical.

Professor Peterson goes deep into the colonial origins of agrarianism. The historical sections of his book present a succinct recital of the problems, mainly revolving around the currency question, of a century and a half of political agitation. Classically, the West and South wanted cheap money – whether in the form of greenbacks or the free coinage of silver at a sixteen-to-one ratio to gold. The argument was that it was not Christian to squeeze a debtor to favor an abstraction such as "Wall Street." But this was to assume that the creditor had originally made his money in some easy, not quite legitimate way, and that he "owed" it to society to lose it. In any case, the stereotype of the virtuous debtor and the wicked "Wall Street" moneylender has been called into question by recent scholarship.

It turns out on investigation that big eastern bankers lent very little to western farmers: as Allan G. Bogue has shown in his *Money at Interest* (Cornell University Press), it was more often the small mortgage company, often situated in the Mississippi Valley, which helped the farmer get cash when he needed it. Since it took only about a thousand dollars in cash plus a government grant in land to get a Nebraska farmer and his family started in life in the eighteen eighties, it is hard to justify the argument that "bankers" were the root cause of the Populist and Bryanite agrarian "crusades." It was nature—in the form of the drought cycle—that was to blame. And it would have taken more than greenbacks or free silver to save the farmer who had moved too far out on the high plains from the consequences of his mistaken judgment about climate.

Wartime Land Boom

Professor Peterson makes it indubitably plain that the twentieth century farmer got into trouble when he was caught up in World War I hysteria. During the years when the European farmer's acres were being trampled by armies, the international price of American foodstuffs naturally rocketed. Anyone with half an eye could have foreseen that the high prices were destined to be short-lived. Yet farmers went greedily into long-term debt to take advantage of what was bound to be a short-term advantage. Naturally, they were stuck with their mortgages when peace brought an end to $3.40 wheat and $2.00 corn. Moreover, many of the mortgages had been taken out on submarginal land which could hardly support even debt-free production in times of world plenty.

Since the farmer had always been pampered politically, he thought it incumbent on the rest of the population to bail him out for his unfortunate World War I gamble. Accordingly, scheme after scheme was offered in Congress to give the farmer the benefit of such things as the McNary-Haugen "two-price system." To his credit, Calvin Coolidge vetoed the McNary-Haugen scheme for subsidizing farm exports on two separate occasions. "It cannot be sound," he said, "for all of the people to hire some of the people to produce a crop which neither the producers nor the rest of the people want." The Republicans later gave way to the idea of price-propping and created the Farm Board. And when the New Deal came into office, "farm laws," as Professor Peterson says, "came fast."

The Failure of "Planning"

The real dynamite of Professor Peterson's book is packed into the final chapter, "Analysis," which takes up fully a third of the author's space. What Professor Peterson proves, essentially, is that any and all attempts by the government to solve the farm problem by intervention must end by defeating the intentions of the "planners." Ever since 1933 the individual farmer has always been able to outwit the planner. Money paid to farmers for limiting their planting has been spent on fertilizers and tools that have resulted in bigger surpluses from fewer acres. Land taken out of corn has been put into other crops that have also proved to be redundant. The point has been reached where every family in the United States is taxed $100 a year (on the average) in order to pay farmers a total of $6 billion a year for withheld production. Yet the surpluses have increased in spite of such gimmicks as the Soil Bank. Dumped abroad or stuck away in caves and warehouses to decay, the surpluses have not resulted in lower prices to the American city consumer. This consumer pays his taxes to give farmers in the United States an average annual subsidy of $1,300 per farm. And then the consumer pays twice over in higher food prices as the government takes the still ever-mounting food surpluses off the local market by such devices as "nonrecourse" loans.

Welfare for the Wealthy

The irony of the whole performance is that most of the subsidy money has gone to the richer farmers, the productive two million who do not need help to sustain them in their "way of life." The remaining two-and-one-half million farmers who might argue that they need a subsidy to stay on the land actually get very little money from the government. (Professor Peterson's figures show that the small farmer, with less than $2,500 market sales a year, gets a mere $109 in price support and stabilization costs where the big farmer with sales of $5,000 or more gets $1,993.) In consequence of the disparity in supports, the small farmer has been giving up his "way of life." Despite all the crocodile tears shed by the farm interventionists, there has been a drop of 28 per cent in total farm workers since the beginning of World War II. In 1940 there were 1,600,000 cotton farmers; today there are only 850,000. The farmers who have been pushed out into city life are not needed on the farm, for in the past two decades the remaining farmers have increased total U. S. agricultural production by some 35 per cent. By the same token, however, the remaining farmers are not the ones for whom the interventionist theorists used to weep.

Professor Peterson, following Henry Hazlitt, has a solution for the "great farm problem." He would cut subsidies to nothing within a given period of time.

This would bring supply and demand — and future plantings — into a natural balance; and the good farmer would find himself a free man once more. As for the uneconomic farmer, he must accommodate himself to the fact of change. It is not a happy circumstance to give up a cherished "way of life," but his sons are quitting the farm anyway. It is best for him and for the nation to face reality.

Business Cycles and Their Causes

By Wesley C. Mitchell. Berkeley: The University of California Press. 226 pp. $1.50.

American Business Cycles, 1865 - 1897

By Rendigs Fels. Chapel Hill: The University of North Carolina Press. 244 pp. $6.00.

The student of economics is invariably taught a certain mythology about the history of the study of business cycles. That mythology holds (a) that before 1913, nobody realized that there are cycles of prosperity and depression in the economy — instead, everyone thought only of isolated crises or panics, and (b) that this all changed with the advent of Wesley Mitchell's *Business Cycles* in 1913. Mitchell's supposed achievement was to see that there are booms and then depressions, and that these cycles of activity stem from mysterious processes deep within the capitalist system. It is Part III of this work (the other parts being out-dated historical and statistical material) that is here reprinted for the second time, this time in paperback.

It is certainly true that the late Wesley Mitchell had an enormous influence on all later studies of the business cycle and that he revolutionized that branch of economics. But the true nature of this revolution is almost unknown. For there had been great economists who were not only aware of, but also discovered theories to *explain*, the dread phenomena of boom and bust. They did this much before Mitchell's time, and went far beyond him. For one thing, Mitchell and his followers have never tried to explain the business cycle; they have been content to record the facts, and record them again and again. Mitchell's famous "theoretical" work is only a descriptive summary. Secondly, these same economists were discovering a great truth that escaped Mitchell and has continued to escape economists ever since: that boom and bust cycles are caused — *not* by the mysterious workings of the capitalist system — but by governmental interventions in that system.

The real founders of business-cycle theory were not Mitchell but the British classical economists: Ricardo and the Currency School, whose doctrines have unaccountably been shunted by historians into the pigeonhole of the "theory of international trade." They first realized that boom-bust cycles are caused by disturbances of the free market economy by inflationary injections of bank credit, propelled by government. These booms themselves bring about a later depression, which is really an adjustment of the economy to correct the interferences of the boom. The sketchy theory of the classicists was elaborated during the nineteenth century; later, the important role of the interest rate was explained by the Swede, Knut Wicksell; and finally, the full-grown theory of the business cycle was developed by the great Austrian economist, Ludwig von Mises.

Mises' theory shows the complete workings of the boom-bust cycle: the inflationary injection of bank credit, fostered by government; a boom marked by malinvestments caused by inflation's tampering with the signals of the free market; the end of inflation revealing these unfortunate malinvestments; and finally, the depression as the correction by the free market of the wastes and distortions of the boom. Ironically, the work where Mises first outlined his theory appeared about the same time as Mitchell's.

The classical, and now the Mises, theories have been generally scorned by modern writers, and mainly for this reason: that Mises locates the cause of business cycles in *interference with* the free market, while all other writers, following Mitchell, cherish the idea that business cycles come from deep within the capitalist system, that they are, in short, a sickness of the free market. The founder of this idea, by the way, was not Wesley Mitchell, but Karl Marx.

The Mises theory, then, is universally dismissed as "too simple." Professor Rendigs Fels' new book is a typical example of current work on business cycles. Fels deals with the cycles of late nineteenth-century America, and he certainly reveals a great many valuable facts of the hitherto neglected cycles of that era. But how does he explain these cycles? Here he tries to synthesize the most fashionable of current theories, with most emphasis on the theory of the late Professor Schumpeter. Almost every theory is incorporated in some way, *except* that of Dr. Mises. Oddly enough, whenever Fels does mention monetary factors, or the "shortage of capital" aspect of Mises' theory (which he discusses fleetingly and misleadingly, and without mentioning Mises' central role), he has to acknowledge that it fits the facts neatly. But then he is quickly off again, in pursuit of more and better fallacies.

Schumpeter's theory, alone of all theories aside from Mises', has one great merit: it attempts to integrate an explanation of business cycles with general economic theory. Other economists are content to fragment business cycles as if general theory simply does not exist, or is irrelevant to the "real world." But Schumpeter's theory is simply wrong, as can be seen by his conjuring up a large number of "cycles," nearly one for each industry, which are supposed to interact to form the total economic picture. An economist should realize that industries in the market economy are bound up together, so that basically the economy is in the throes of only one cycle at a time.

The reader will gain little enlightenment, therefore, from these works on business cycles. From Mitchell he will obtain only a descriptive summary of a typical cycle; from Fels he will find many important facts, but all distorted by erroneous attempts at explanation. Both authors virtually ignore what we can call the "monetary malinvestment" theory of Mises and his classical forebears.

It is true that, in recent years, the so-called "Chicago School" has been placing more emphasis on monetary causes of the cycle. But these economists have only thought of money as acting on the general price level and still do not realize that monetary inflation creates maladjustments in the economy that require subsequent recession. As a result, the Chicago School still believes that government can eliminate business cycles by juggling the monetary system, by pumping money in and out of the economy. The Misesian, on the other hand, sees government as having one and only one proper role in the economy: to keep its hands off and to avoid any further inflation. This is the only "cure" that government can bring to us.

MURRAY N. ROTHBARD

Two Concepts of Liberty

By Isaiah Berlin. London: Oxford University Press. 57 pp. 80¢.

THIS little book is a brilliant argument for what the author calls "negative" liberty – freedom *from*, as opposed to the prevailing idea of "positive" liberty – freedom *for* or *to*. Champions of the former, aware of the propensity to encroach which power invariably displays, want to curb political authority. Keeping government shackled is their means; the end is to stake out an area of freedom within which each person may have scope to exercise his faculties, grow, and achieve the goals he deems good, right, or sacred. Proponents of the "positive" theory, on the other hand, do not distrust the political authority – provided they are at the controls. Freedom, as they understand it, is equivalent to participation in rule, or the exercise of power.

This book invites comparison with Mill's essay, *On Liberty*. Berlin does, in fact, pick up where Mill leaves off, first stopping to patch up several loopholes in Mill's argument. He finds, for instance, that Mill overstates the concept of individualism and, in addition, blurs the real distinction between individual liberty and majority rule. Mill and his followers tend to neglect the social components which are blended into every person's makeup. The spheres of individual and social life are not as mutually exclusive nor separated by as hard and fast a dividing line as they seem to think. Seldom is any individual's course of action without consequences which might affect other people for good or ill.

Man is not disembodied reason, nor is the individual a solitary Crusoe; human lives mesh in intricate and subtle ways. To some degree, each person's image and estimate of himself is framed in the light of what his fellows think and feel him to be. Asked who he is, he explains his uniqueness in terms of his involvement with his family, his community, his profession, his nation, his club, his church, his party, the philosophical school to which he belongs, and so on. And he makes this explanation in a language which is a common possession. This is part of what it means to be a person, and this is the creature who needs liberty to meet the total demands of his nature.

The proponents of "positive" liberty, on the other hand, are victims of their own semantic confusion, pinning the label "liberty" arbitrarily on various other values. But, as the author says, "Everything is what it is: liberty is liberty, not equality or fairness or justice or human happiness or a quiet conscience . . . . and it is nothing but a confusion of values to say that although my 'liberal,' individual freedom may go by the board, some other kind of freedom – 'social' or 'economic' – is increased."

Almost every moralist in history, Professor Berlin points out, has praised liberty, but the term is so porous that more than two hundred senses of the word have been recorded. This confusion is due in part to the nature of the subject matter – human, civic, and social relationships of almost infinite complexity. Some philosophers, "intoxicated by their magnificent achievements in more abstract realms . . . neglect the field of political thought, because its unstable subject-matter, with its blurred edges, is not caught by the fixed concepts, abstract models, and fine instruments suitable to logic or to linguistic analysis." But "to demand a unity of method in philosophy and reject whatever the method cannot successfully manage is merely to allow oneself to remain at the mercy of primitive and uncriticized political beliefs." Witness the clash of ideologies that currently rocks the world!

Isaiah Berlin is no "single formula" man; the facts of life, as they appear to him, are too various to fit neatly into a single, all-embracing system. No man knows enough to try to trim others to fit his blueprint, according to "the *a priori* barbarities of Procrustes," nor does any combination of men. No individual is to be sacrificed to "the belief that somewhere, in the past or in the future, in divine revelation, or in the mind of an individual thinker, in the pronouncements of history or science, or in the simple heart of an uncorrupted good man, there is a final solution." In the recognition of how little we know, liberty takes root.

EDMUND A. OPITZ

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Prepared by VERNELIA A. CRAWFORD of the Foundation staff

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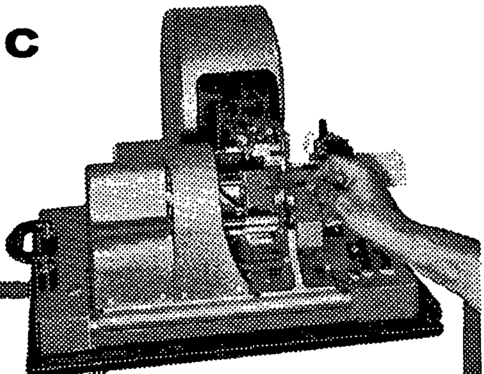

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