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C. HOWARD HARDESTY, JR.

Objectivity and Accountability:

A one-way street

THE TITLE for these remarks indicates that I have a bone to pick – and indeed I do. It may be sticking in your throat as well as mine and, if so, it's time to stop choking and do something.

As background, permit me to quote the first paragraph of the publisher's summary to a recent best selling book:

> This well documented exposé reveals the incorporated rulers of the United States and, indeed, much of the world. It shows them to be private governments which, as effectively as legitimate public governments, decide whether large numbers of us live and die. They levy taxes in the form of price increases, unrestrained by competition. They manipulate legitimate governments, turning nations into welfare states for corporations. And they are generally responsible only to themselves.

This book, *America, Inc.*, was on the best seller list for 17 weeks and *Time* magazine in its review described it: "in the best muckraking tradition it is thoroughly documented to present a look at the seamy side of business."

As it happens, in a recent speech I used the term "muckraker" and to be sure we understand what is meant by it, let me quote from the term's political originator, Theodore Roosevelt:

> The men with muckrakes are often indispensable to the well-being of so-

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From remarks by Mr. Hardesty, senior vice president of Continental Oil Company, before the annual meeting of the American Mining Congress in Washington, D. C., January 17, 1972.

ciety, but only if they know when to stop raking the muck and to look upward to the celestial vision above them, to the crown of worthy endeavor.

There are beautiful things above and around them and if they gradually grow to feel that the whole world is nothing but muck their power of usefulness is gone.

It would be naive to suggest that inaccurate criticism is unique to the last half of the twentieth century. It is as old as speech, but perhaps T. H. Huxley put it best when he said: "There are men to whom the satisfaction of throwing down a triumphant fallacy is as great as that which attends the discovery of a new truth."

Lack of objectivity and nonaccountability seem these days to be the fashion. Too many people are "throwing down a triumphant fallacy" and others are treating it as "a new truth." To compound the felony, no one is held accountable.

The Antipreneurs

I also have a new name for the muckraker of the 1970's. If you accept "entrepreneur" as the generic term for "businessman", perhaps we can refer to these single-minded, persistent and totally myopic critics of businessmen as "*anti*preneurs." The negative prefix in "antipreneurs" is quite appropriate since those who hammer away at the business community are for the most part a negative lot. They reject, and they rebuke, and they reproach, and they frequently view with alarm, but hardly ever do they come up with anything constructive.

The enemies of private industry are active today as never before, they are influential today as never before and – most disconcerting of all – they are *succeeding* today as never before.

In what ways are they succeeding? Well, for one thing, they are changing some basic attitudes in this country. They are converting the United States of America from a nation that once respected initiative and economic achievement, that honored the rags-to-riches hero, to a nation that imputes to its businessmen the most venal motives and most despicable conduct, that is coming to idolize the reverse-twist, riches-to-rags *anti*-hero.

Think I'm exaggerating? Then consider for a moment a few statistics.

In 1966, Social Research, Incorporated, conducted a study on public attitudes toward businessmen. Twenty-eight per cent of all Americans polled agreed to the statement that "big business is dangerous to our way of life." Twenty-eight per cent. A sizeable fraction, but not nearly so sizeable as it was to become. Five years later, in 1971, the same organization asked the same question and this time the "yes" vote was forty-six per cent. In other words, nearly half of all Americans now regard you, the nation's businessmen, as a threat to their existence.

Dr. Burleigh Gardner, President of Social Research, interpreted the results of his survey as evidence that "the public will no longer rise to the defense of business against extremists or protest groups." And I would say that this was a reasonable assumption.

Another set of studies, this one conducted by Opinion Research Corporation, showed a similar pattern. Four years ago, 55 per cent of all Americans questioned by Opinion Research felt that new laws were needed to protect the consumer from unscrupulous businessmen. Two years later, a follow-up poll found that 68 per cent – or more than two-thirds – of the nation favored additional consumer protection laws. The increase in just two years was substantial – and significant.

Regardless of how much has been done to transfer control of American industry from private hands to government hands, the antipreneurs cry out for more. Could it be that our antipreneurs will be satisfied with nothing less than de facto nationalization of industry through a system of comprehensive rules disassociating all phases of production and distribution?

The recent suggestion calling for the Federal chartering of all corporations with the government empowered to control not only hiring and firing but also the establishment of production standards and marketing procedures is no longer deemed extreme by its proponents.

What makes this pell-mell rush toward government control of industry all the more tragic is the fact that its public support stems from the widespread acceptance of slanted investigations, blatant falsehoods and political pre-judgments.

But I don't have to give you second-hand reports on the activities of the antipreneurs. Let me provide you with some personal, firsthand experiences.

The Energy Gap

Perhaps I should start by providing some background information. The United States today faces an energy gap. This is the growing disparity between the amount of energy-source materials produced in our country and the total consumed.

This energy gap was the focal

point of an unprecedented message by President Nixon to Congress last June and also of a report issued several months ago by a special committee of the National Petroleum Council, an industry board established under government guide lines to help advise the Secretary of the Interior.

The report was the result of thousands of hours of research by 200 experts in their fields, the best qualified staff people, finance specialists, government officials, and by teams of scientists and technologists.

The American Mining Congress accurately summarized the conclusions reached in the NPC Report:

1. The current natural gas shortage will increase in severity.
2. We will become increasingly dependent on imports of foreign crude oil from the eastern hemisphere.
3. The energy industries will find it difficult to raise the estimated $374 billion in capital by 1985 to "provide for our burgeoning energy requirements."

On October 28th in Houston, Ralph Nader breezily dismissed any such situation and described the energy gap as "a promotion" of the fuel companies' advertising departments. Actually, said this self-designated authority on natural resources, there is no shortage of fuel in this country. They are finding resources, he assured everyone, faster than the public can consume them.

Mr. Nader's headline news that there is no shortage of fuel is at complete odds with the unanimous findings of government and industry and can only serve to confuse the public. Do we or don't we have a shortage? I rely on the experts who say we do, and I charge that incomplete and inaccurate data were used as a base to demonstrate we don't.

Bias Also Showing in Halls of Congress

But it is not the consumer lobbyists alone whose bias is showing. The Halls of Congress are no less overrun today with antipreneurs – whose zeal, if nothing else – can only be admired. But I despair over their lack of accuracy, their lack of objectivity and their lack of accountability.

I cite as an irrefutable example of this situation the 1971 report of the House Subcommittee on Special Small Business Problems. The transcript of the Subcommittee Hearings and its final report reflect the mounting and highly biased attack upon the association of oil companies with coal companies. That this bias is not based on fact is apparent from a reading of the transcript and report in which wholly unsubstantiated innuendoes of monopoly and collusion abound.

A good example of the totally unsupported charges of unlawful conduct found in the report is the allegation that coal-related research is being stifled by the oil companies.

All the factual evidence submitted to the subcommittee showed that the oil companies entering the coal industry have accelerated and expanded research efforts and projects related to synthetic conversion of coal and new and safer methods of mining. There is no factual evidence to the contrary, yet the report recommends a reassessment of research and development of the liquefaction and gasification of coal in order to eliminate conflicting priorities in the attainment of economically feasible synthetic fuel processes. The suggestion that priority conflicts exist is nothing more than gratuitous fiction.

Who's Dominating Whom?

The report repeatedly refers to the domination of the coal industry by oil companies, yet the facts show that all oil-associated coal companies together produce only about 20 per cent of the nation's coal and that Continental and Humble Oil combined own less than 2 per cent jointly of this nation's recoverable reserves of coal. Almost 65 per cent of this country's more economic deposits of coal are neither presently owned nor under lease to any coal company. "Domination" by oil companies is, again, fiction.

Finally, the report does not set forth any of the advantages – increased production, accelerated capital investments, expanded research – which have resulted from participation by natural resource companies in the coal industry.

Since the natural resource industries appear unable to obtain fair treatment from self-styled consumer protection groups, and from self-dealing politicos, it has but the executive branch of government or regulatory agencies to look to for objective evaluation of the described groundless charges. Can help be expected? I am afraid not – and let me tell you why.

Recently, Continental announced that it was voluntarily responding to an inquiry from the Federal Trade Commission regarding the FTC's desire to review Continental's acquisitions of Consolidation Coal Company. This request was made notwithsanding the fact that prior to the association of these two companies in 1966, the entire transaction was reviewed in depth by the Justice Department, and they indicated no intention to contest it. However, the fact that at this late date the Federal Trade

Commission chose to reevaluate 1966 determinations by the Department of Justice did not concern Continental nearly as much as certain recent public statements voiced by several members of the Commission's staff.

Note these dates: Due to the mass of documentation requested, Conoco did not file the requested information with the FTC until January 7, 1972. Yet, on October 28, 1971, in the course of appearing before the House Special Subcommittee on Small Business Problems in Nashville, Tennessee – Mr. Lawrence G. Meyer, Director of Policy Planning for the FTC stated to the press assembled:

"The Federal Trade Commission will file the first of three or four anti-trust actions against oil companies invading the coal industry within six months."

It's shocking to learn that three months in advance of voluntary filing relating to a review of a previously approved transaction, a high official representing the prospective prosecutor, judge and jury – the FTC – pronounces judgment. Is this objectivity? Is this impartiality? Or is this prejudgment and public pandering in the worst sense?

From Whence the Evidence?

One might inquire: Where did Mr. Meyer and his staff obtain the evidence which they relied on to prejudge a matter of such importance to the future of the energy industries and this Nation? Not from the energy industries! Not from Continental's submission.

The answer may be found in the record of the House Subcommittee Hearings. On Page 61 of the transcript of the Hearings, Worth Rowley, an attorney representing the American Public Power Association, an association dedicated to fragmenting the coal industry, and Mr. Rayburn, Counsel to the Subcommittee, engaged in the following exchange:

Mr. Rayburn to Mr. Rowley: What did your association have to do to get the Justice Department to transfer the Consolidation Coal/Continental Oil case to the Federal Trade Commission? You make that statement on page 6.

Mr. Rowley: When we met with Assistant Attorney General McLaren in March, just to start the proceedings, I asked him if he would release it – release the matter to the Commission for investigation, and he said he would. We did not have to go to very great lengths. We just had to assemble our committee members and pop the question. Then there was a delay of about 6 weeks and a little more pressure from us, and that which had been promised came to pass.

Mr. Rayburn: What can your association do to aid the Federal Trade Commission's investigation in this energy field? What do you envisage?

Mr. Rowley: Well, one thing we did, of course, was to turn over what information, economic insights, and legal insights we had to them, and made available certain of our members for purposes of consultation. From then on, the initiative rests with the Commission. Anything they want which we can produce we are producing.

Doesn't this exchange tell you something about the source of Mr. Meyer's evidence?

It is clear from the record that a special interest group has exerted a powerful and effective influence on the supposedly impartial activities of the Federal Trade Commission. And it is not surprising to also note that the previously mentioned best seller, *America, Inc.*, while devoting a great deal of attention to corporate influence, mentions not one word about the vast – *wholly unregulated* – power of the liberally oriented pressure groups which constantly seek to influence government.

Help From the Media?

Well, now if not consumer protection groups, the legislative branch or the regulatory agencies – who can we look to to present the real facts? The media? I think not; omissions as well as errors provide a yeasty breeding ground for compounded error among some of the media representatives who cite unsupported allegations as truths.

For example, in a recent issue of *The New Republic* an article contains this serious charge: "High and steady profits have lured the oil companies into the field and they now control a majority of the 50 largest coal firms."

As for the fact of controlling a majority of the 50 largest coal firms, it is nothing better than a figure plucked out of the air – totally false.

As for the suggestion that "high and steady profits" have attracted oil companies into the coal business, according to information from the National Coal Association, the net income of all coal companies that had an income, less the deficit of those showing a loss, was $105 million in 1965. In 1966, it was $96 million. In 1969, it was $14 million. Is that a case of "high and steady profits?" No! Steady decline? Yes!

Corporate Hurdles

If I must also exclude the media as a source of unbiased and informed reporting – what is left? I think only the industry – suspect as it may be. But even this source is limited, and that is why I charge that objectivity and accountability is a one-way street.

Consider the hurdles a corporate executive must scramble over when he chooses – all too infrequently – to address himself to a major public issue!

The economics division reviews the text to make sure that all the facts are correct.

The legal division examines every word to make sure that all rules and regulations of the SEC, FTC, Justice Department and a multitude of other government agencies are complied with.

The public relations function reads every word for hidden implications or possible backlash, and makes sure that it accurately represents the situation and is consistent with company policy.

The finance group reviews the text to make sure that the interests of bankers and analysts are considered.

And finally, the pulse of the Chief Executive Officer must be taken to protect your job in the probability that non-business oriented media headlines will quote your statements out of context.

Can anything be done to improve the restrained posture of the business community vis-a-vis wholly unrestrained critics?

I'm a perennial optimist and believe that over the long haul we can reverse the current trend. Walter Lippmann recently summed it up this way: "I've never known a time when people had so little confidence in the future. They're afraid they're not sure they are equal to it and there is a great diffidence about the future. But I don't think that is irremediable. I think even with all our size and complications and so on, if there comes a group of leaders – and there may well be – and they can strike the right note, the country will respond."

Changing the Trend, a Matter of Leadership

Personally, I believe he is right and that people will respond if leaders – and I suggest the leaders of enterprise – intensify their activities to provide truth in a massive dose. Truth is the only antidote to the exaggerations of the antipreneur. If you are to conclude pessimistically that the job can't be done, then let's fold up our tents, go home and join the opposition.

So let me close with these few thoughts.

The natural resource industries of this nation are faced today with challenges which, if not resolved, endanger their continued existence. These challenges have the potential of destroying the economic ability of free enterprise to respond to society's needs. I believe that these predictions are objective and I am willing to be held accountable for their ultimate accuracy.

My belief arises not from a fear that the business community is incapable of meeting our nation's demands for energy and other basic natural resources. Rather, it stems from a recognition that our critics, if not questioned and held accountable for false or misleading criticism, will divert business, government and the public from the pursuit of a common purpose.

Now what can we do about this state of affairs?

Come Out Fighting

First: Come out fighting for a cause you believe to be just and fair. Recently, I attended a trade association meeting to consider the response to charges of a prominent member of Congress which bore no relationship to uncontroverted facts. I was astounded that not one of many outstanding business leaders present would risk an open fight. When top level management is so afraid to stand on a platform of truth, how can you expect one of your juniors to risk a black eye?

This whole philosophy of low profile must be discarded and the business community must stand up, fight back ánd lead. Conditions won't turn around overnight. There will be some stitches and sutures applied, but your critic will begin to think twice before he plays loosely with the facts once he gets nailed to the cross.

Second: Mr. Roalman, Vice President of CNA Financial Corporation, in a recent article on "Why Business Is Losing Its Case" said that, "management needs to go more often into the arena. Too often, top management confines itself to talking to its boards of directors, its peers and trade-related people. Its efforts miss, grossly, most Congressmen, legitimate consumerist-critics, young people and the bulk of the educational community." Of course it's important to communicate with our boards and industry people, but such talk alone will not wrestle with and resolve criticism being leveled in classrooms, on the streets and in the press. That's where the action is and we can no longer ignore it.

See the Reporter

Third: I'll never cease to be amazed why most business executives feel that a friendly luncheon with the publisher of a newspaper or president of a T. V. network will solve our problems. A story is created and subjective feelings expressed at the typewriter level — the reporter. Industry must open up its doors, its knowledge, its experience and facts to this young group of Americans who are gathering and reporting news. Most of them are products of a very liberally oriented undergraduate school — an area deserving much greater time and attention — and are totally inexperienced in business affairs. Until they know more about the business community, why shouldn't they accept the preachings of *America, Inc.*? It's our job to give them a true insight into what goes on and the good things the muckraker ignores. I consider characteristic the observation of a fairly radical conservationist we hired. After observing our operations and the extent of our efforts to eliminate pollution he commented, "I would never have believed it."

Coordinate the Efforts of Business and Government

Fourth: We could spend hours talking about the social responsibility of business as it faces the future. One fact is clear — the world is changing and society has the right to expect us to lead and not follow. We must provide the catalytic tool to coordinate the efforts of business and government as we approach tomorrow. We should not wait until a muckraker, a Federal agency or a committee of Congress prods us into defensive action. We have the ability to plan, organize and coordinate an effective means of goal attainment, whether it be social or economic. At this moment, such an effort has not been given a sufficiently high priority.

Those four suggestions are aimed at actions the business community itself can take. But perhaps the biggest turnaround in this area of objectivity and accountability would be achieved if the regulatory agencies and the Congressional committees would require our critics to operate under the same ground rules and laws of disclosure and accuracy to which we in industry are subjected. Until that goal is miraculously achieved, we must continue to make those critics accountable to the final regulatory body: public opinion. And this can only be accomplished by continuous vigilance on our part and a determination to participate rather than merely to decry.

IDEAS ON LIBERTY

Value

"THE VALUE of anything is not what you paid for it, not what it cost to produce, but what you can get for it at an auction."

WILLIAM LYON PHELPS

The Nature of Modern Warfare

DAVID OSTERFELD

IN REFLECTING upon the intensity of the sentiment and the methods utilized in contemporary antiwar protests, it seems manifest that the preference is always for peace; that nobody wants war. So, one must ask why, if no one wants war, do wars continue to occur?

Perhaps wars result, not from the direct intentions of "warmongering capitalists" or any other group for that matter, but as Edmund Opitz observed, they are the "unexpected by-product," the inevitable culmination, of particular political or economic policies not intended to be aggressive and, in fact, even humanitarianly motivated. What one must, therefore, attempt to discern is the generic nature of these particular policies whose underlying elements propel us toward war. Only if we are cognizant of the processes that cause wars can we ever hope to obviate these warlike tendencies.

The crux of this thesis, however, is nearly diametrically opposed to today's prevailing ethos which attempts to explain war, more often than not, as the result of the insidious machinations of the industrial magnates or the "warmongering capitalists," or insists that by its nature the capitalist system must culminate in violent conflicts and, ultimately, its own catastrophic demise. The position here is to equate classical liberalism and capitalism with peace rather than war. Conversely, it considers the factors begetting war as endemic, not in socialism per se, but in any type of government economic intervention of which socialism is merely one form.

Mr. Osterfeld is a political science major, working toward a Master's degree in International Relations at the University of Cincinnati.

Aggressive Nationalism follows Intervention

While everyone is agreed that the cause of war is aggressive nationalism, the position here is that aggressive nationalism is the necessary outcome of government intervention. In other words, statism fosters nationalism. An in-depth study of nearly 1000 wars fought in the West from 500 B. C. to A. D. 1925 was conducted by the sociologist, Pitirim Sorokin. In contrasting the size of the casualty list to the corresponding population, he determined that the war magnitude of the first quarter of the twentieth century stood at 52 per 1,000,000 (compared with 17 for the nineteenth century) leading Sorokin to conclude that "the twentieth century will unquestionably prove to be the bloodiest and most belligerent of all the twenty-five centuries under consideration."[1]

These figures are in accord with the two salient contentions of this article. If a general date can be given for the beginning of the abandonment of the principles of laissez-faire for those of government intervention and control, it would be the 1870's, highlighted by events such as Germany's appointment of Bismarck as Chancellor and the emergence of the first effects of Britain's Reform Bill of 1867. Since that time, the trend has been conspicuously away from limited democracy and laissez-faire and toward government economic interference. We can say, generally, that the age of classical liberalism was the nineteenth century and that the age of statism extends from the latter part of that century to the present.

In applying Dr. Sorokin's findings to that of our historical sketch, two things we have noted become manifest. On the one hand is the relative peace and tranquility enjoyed by a world embracing largely laissez-faire principles. On the other we see, with the substitution of the deification of the state and rise of the controlled economy for the principles of classical liberalism, the concomitant rise of war and international conflict.

The question to be considered now is why government intervention – whether it be socialism or a "mixed" or welfare economy, and whether for humanitarian or insidious purposes – engenders international conflicts and war.

Domestic Ramifications of Statism

The free market is perpetually heading toward equilibrium. Wages and prices are always heading toward a point at which

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[1] As quoted by Edmund Opitz, *Religion and Capitalism* (New Rochelle: Arlington House, 1970), p. 268.

the supply of laborers and of commodities equals the demand for them. Any attempt to interfere with the natural operation of market pricing is destined to engender economic imbalance, begetting in turn, international conflict.

To illustrate how this occurs, we will follow the linkage of events in any government interference. We will assume, moreover, that the intervention occurs under the most propitious circumstances; that it is, in other words, humanitarianly motivated. We will say, for example, that the government has intervened in an endeavor to raise the wages of the hard-pressed or to set a minimum standard for the lowest strata of the working force. Surely, most would exclaim, this is a generous act; surely there could be nothing sinister or pernicious about such a policy; surely this would ease, not aggravate, tension. However, let's examine it more closely.

If wages are forced up, prices also may rise. Either they will rise nearly simultaneously, or the increased wages will reduce the income of the entrepreneurs, thus driving the marginal producers out of business and discouraging additional investment in those fields. This diminution in the amount of capital investment will entail a reduction in the quantity of commodities produced, thus causing prices to rise. And the same thing is true of endeavors to hold prices down. At the lower prices, more is bought. But the reduced price discourages investment and once again forces the marginal producers out of business, thereby engendering shortages that can only be corrected by either (1) removing the controls and permitting prices to rise or (2) carrying on production through means of subsidies, which requires higher prices in other fields. Any government intervention, therefore, must inevitably create imbalances in the economy; these, in turn, tend to bring a rise in production costs and therefore in prices.

This rise in prices, moreover, must have catastrophic international ramifications. Since domestic wages and prices are artificially held above the level set by the free market, the lower prices offered by imported goods will encourage the buying of the imported commodities in preference to domestically produced goods. As long as prices domestically are maintained at bloated levels, this foreign underselling ultimately will force the domestic firms out of business. Moreover, maintaining wages domestically above their respective equilibrium levels will attract immigrants from abroad. The influx of new laborers will either force the bloated wage level down or engender institutional mass unemployment.

The apparent solution for such problems is a policy of autarchy, viz., economic isolation, as best manifested by recource to tariff and migration barriers, exchange controls, and the like.

International Ramifications: War

It should now be evident that a country intent upon controlling wages and prices cannot permit either imports or immigration. Such penetration would easily and obviously frustrate the planners. Statism, therefore, becomes synonomous with autarchy. With the possible exceptions of the U.S. and U.S.S.R., hardly any nation is adequately blessed with the means of self-sufficiency; statism and autarchy, therefore, must manifest themselves as a policy of aggressive nationalism. As Lionel Robbins observed: "It is really ridiculous to suppose that such a policy is possible for the majority. . . . To recommend autarchy as a general policy is to recommend war as an instrument for making autarchy possible."

It may be well to consider this passage further. In the long run, exports must always equal imports. The only reason one gives up an object in trade is to acquire that which he does not possess but values more than what he is giving up; similarly, the only need for exports is to pay for the required imports. Thus, the greater the imports demanded for subsistence, the greater the exports required to pay for them.

A nation, in endeavoring to preserve domestic wage and price increases through recourse to tariff and migration barriers, thereby eliminates the possibility of exporting its surplus commodities and thus acquiring the foreign exchange necessary to purchase imports. There are only three ways to procure the necessities of life: (1) to produce them at home, (2) to trade for them, or (3) to go to war and take them. If a nation does not possess the kind or the necessary quantities of natural resources, and if it does not possess enough fertile agricultural land to provide for its population, then it must trade for these necessities. If it erects tariff barriers and prohibits imports – or if other nations erect tariffs that prohibit exports – a nation is then unable to trade for its necessities. Unless one subscribes to the unlikely proposition that the people of one nation will passively acquiesce in permitting either starvation or a substantial reduction in their standard of living, there is only one recource left: war.

World Wars I and II are replete

with support for this hypothesis.[2] It is important to note that between the wars, for example, all European nations resorted to very strict anti-immigration laws, in most cases prohibiting immigration altogether. Every nation was eager to protect its wage level against enchroachment from nations with still lower wage levels. Such policies were bound to engender serious international friction.

Moreover, like the "Sozialpolitik" of pre-1914 Germany, Hitler's Germany endeavored to raise the wage rates of its workers. In doing so, prices were forced up. Since this would have encouraged imports and thus thwarted the statist schemes, tariff barriers were established. However, the German ban on imports meant that no nation could acquire the necessary German exchange to purchase German exports. Germany, an industrial nation, was largely dependent upon foreign foodstuffs. It had to export its industrial commodities in order to obtain much of the needed food. By eliminating imports, it eliminated, in a like degree, the only means by which it could peaceably attain these necessary agricultural and other products. So, Germany had but one alternative; it had to go to war and take them.

Rise of Aggressive Nationalism

The nineteenth century was governed largely by classical liberal principles. It was, for the most part, a peaceful century. The onslaught of war accompanied the abandonment of these principles. The question to be considered, therefore, is precisely why these policies were discarded. The answer can be perceived if one realizes that an integral element of this liberalism was democratic rule. It is imperative, however, to appreciate that this was the democracy of Tocqueville; that is, a limited democracy. Under the classical liberal ideal, the power of the state – the apparatus of compulsion and control – was severely circumscribed. The crux of this concept was the recognition of individual rights; the sole function of the state was simply the suppression of attempts by individuals to suppress other individuals, that is, to provide a secure and peaceful framework to facilitate social cooperation. While the means for determining who held the reins of government was to be decided democratically, the power and functions of government were significantly curtailed; the democracy of the classical liberal

[2] Easily the most lucid and cogent delineation of this position is to be found in Ludwig von Mises' *Omnipotent Government* (New Rochelle: Arlington House, 1969).

tradition was a strictly limited concept.

Before this ideal could be fully implemented, it began, like most ideals, to be abused. As suffrage was extended – which was not necessarily inimical in itself – this democracy became ever less limited. In exchange for votes, the politicians began to promise more and more. The function of the state, accordingly, could no longer be restricted to the protection of the life, liberty, and property of its citizens. The interventionist state thus began to supplant the laissez-faire state, even before the latter had been fully established. These statist measures were, in many cases, humanitarianly motivated, that is, aiding the poor, assistance for the jobless, and so on. Nevertheless, the inevitable corollary of this proliferation of government intervention was the precipitation of aggressive nationalism. It was the inevitable result of an ethos that sanctioned the extension of government into all phases of life. It was, in short, the emergence of the total state. Whether it came as autocracy or as the "despotism of the majority" was irrelevant.

Significance of National Boundaries

In a planned, autarchic economy, territorial boundaries are of supreme importance. An isolated nation must possess all of its required natural resources. The larger the area under control, the better it can provide for its wants and needs. Yet, no country is blessed with a position of complete economic self-sufficiency. Autarchy, accordingly, must manifest itself in aggressive nationalism, in the desire of every country for the control of ever larger areas. What is required to make peace viable, therefore, is a lessening of the significance of boundaries.

This could only be attained, however, if the governments of the world were confined in their activities to protecting the life, liberty, and property of their citizens. Only then would international boundaries lose their significance. It would then make no difference whether a nation were large or small; its citizens could derive no benefit or sustain any damage from the extension or loss of territory. Under a laissez-faire system, where all transactions would take place between individuals unimpeded by government, the size of a nation would not matter. No one would be aided or hurt by a transfer of territorial jurisdiction, since all property would be held by individuals and all transactions would take place between individuals.

If the primacy of private property and free trade were the rule, at least one of the major causes of war would be all but eliminated. No one would be artificially or forcibly excluded, by tariff or immigration barriers, from acquiring any needed goods or natural resources. No one would be penalized for having been born a foreigner or of a different race or in a country of limited natural resources. Under these terms, then, at least one of the causes of war would be effectively ameliorated, if not eliminated entirely.

Conclusion

Statism, in so far as it begets autarchy, engenders international antagonisms for which no peaceful solution can be found within the context of our contemporary politico-economic ethos. These antagonisms can be relieved only by a change in ideologies. What is needed to make peace viable is the acceptance of the prinicples of limited democracy and its economic corollary, the free market. Only by such an advance can we ever hope to surmount at least one of the underlying factors precipitating international conflicts and war.

If this analysis possesses any cogency at all, then at least one thing is surely manifest: all the antiwar marches, protests, demonstrations, and peace songs from here to China cannot improve the situation one iota. While they may be fun, they are nevertheless futile. They are futile because they are premised upon a misunderstanding of war. Yet, wars continue to occur. Accordingly, war will not be ameliorated, much less abolished, by the mere utterance of platitudes or by shock tactics designed to scare us into peace. Only the elimination of its root cause can greatly diminish the threat of war. Such a policy, to repeat, entails a change in attitude, a policy impossible until the leaders and the people of the world are prepared to accept it.

To Discipline a Nation

IDEAS ON LIBERTY

WHILE AN INDIVIDUAL peacebreaker can easily be punished and isolated in a penitentiary, a collectivist nation conducting policies of economic nationalism can be disciplined and subjugated only through a full-scale war and subsequent occupation of its territory. To discipline a nation that refuses to embrace the doctrines of freedom and free enterprise is an endless and hopeless task.

HANS F. SENNHOLZ, *"Welfare States at War"*

SYLVESTER PETRO

THE ECONOMIC-POWER SYNDROME

NATURE goes its own way, following laws of its own, shaped by forces in which human action – passion, will, thought – is irrelevant. Man's laws and man's societies are something else. The works of Ludwig von Mises, summed up in the monumental *Human Action,* demonstrate more powerfully than those of any other writer the role played by human will and human thought in the universe which affects and is affected by human action.

Not everything is possible to human action. Nature goes its own way. In the generous realm of the possible, however, man's laws, his rationally directed values, make a difference; perhaps *the* difference. As a part of nature we share the universal conatus, the striving to *be*. But our conatus is generic and undefined; we are more than the birds and the bees, or perhaps less, but different, anyway. And our intelligence is correspondingly different. We can kill ourselves, and we can err.

More strangely still, we are capable through intellectual error of killing ourselves by policies which we believe necessary to our survival. I believe that what I call here the "economic-power syndrome" constitutes one of the most destructive combinations of moral and intellectual error that mankind has ever suffered, and I propose to disperse this dark syndrome with the aid of one of Professor Mises' most brilliant contributions to the formulation of sound social policy: his insistence upon a central role for the concept of consumer sovereignty.

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Anti-Business Bias in the U.S.

For a hundred years, more or less, the policies of the United States have had a characteristically anti-business thrust, sometimes compelled, sometimes condoned, by dominant voices of popular opinion. For public opinion in this country has always been infected to a degree by dread, distrust, even hatred of "big business." Thus Mr. Nader and his raiders, J. K. Galbraith, Vance Packard, even Marcuse, are far from representing a new attitude. They express the same fear, the same suspicion, that brought about the Interstate Commerce Act and the Sherman Act in the nineteenth century and the mountain of restrictive legislation and court decisions of this century. In a word, what they fear and suspect is *economic power*.

The populist antipathy to economic power in general and to big business in particular has not swept all before it. Ambivalence among the populists themselves, the achievements of American big business, and a persistent minority in favor of liberty and its political corollary, laissez-faire, have also influenced our public policies. Politicians and bureaucrats have known, too, that they could have $300 billion to spend each year only if the economy produced $700 billion to $1 trillion a year — an unattainable result without large-scale economic activity. Hence they have been astute over the years to balance the Sherman Act and other anti-business laws with appropriations small enough to guard against absolute frustration of the need of businessmen for flexibility and freedom. Likewise they have been careful to mitigate populist insistence upon confiscatory income taxation with many loopholes, and with taxes upon capital gains modest enough to guarantee the continued growth of capital and the survival of the capital markets upon which the progress and well-being of the American economy rest.

However, the dominant trend in the public policies of this country has nevertheless been toward ever-increasing regulation of business. Congress and the state legislatures year by year add to the burden of restrictive legislation. The courts, especially the Supreme Court of the United States, zestfully enforce far beyond its letter and spirit all legislation limiting the freedom of businessmen; at the same time, they read virtually out of existence laws, doctrines, and principles which would tend to preserve to businessmen the rights and the freedom recognized in the classic common law.

In so deciding, the courts leave little room for doubt of the philosophy underlying their decisions. Whether we speak of antitrust or labor-law decisions, or even of private-law decisions in which the common-law courts take sides against business, the same theme prevails: *Economic Power* – it is as much to be dreaded, and therefore to be confined, apparently, as the threat of conquest by enemies from abroad or of chaos by criminals from within.

Such views and policies, the works of Ludwig von Mises demonstrate, are full of disastrous fallacies. The person who follows Mises' argument emerges, on the contrary, with the conclusions that, far from being an object properly of fear and doom, economic power is in all ways good and wholesome; that there are few, if any, capabilities at once so innocent of social harm and so productive of social benefit; and that the fear of economic power which now threatens to tie up the economy in knots is the product of ignorance, confusion, and superstition.

The Nature of Power

Much of the confusion traces to conceptual complexity in the term "power" itself. The word "power," integrally associated with the problem of causation, refers basically to the capability of affecting reality, of bringing about effects, changes, results. Some results are brought about by strictly individual action, as when primitive man fells a tree with his bare hands or with a tool fashioned by himself. His will, his act, his *power* is the only human one involved there. In society, things are different. In society, all *power*, whether of the economic or political variety, rests upon cooperation. This is true of the capacity of a criminal to compel a change in the location of money, from his victim's pocket to his own. Without the cooperation of all those sectors of society which feed, clothe, and arm him, the criminal is helpless to bring about the result he seeks – unless of course he does it with no aids other than those available to the bushman, in which case his power analyzes out as the same, equally modest and precarious.

In society, and especially in respect of operations of a certain scale, power of all kinds, to repeat, rests upon cooperative activity; and, more than that, cooperative activity resulting from a coincidence of opinion. Although he was referring to only governmental or political power, David Hume was correct generally in relating power to opinion. One way or another, directly or indirectly, both economic and political power are founded in opinion.

Ortega y Gasset thought it necessary, in *The Revolt of the Masses*, to distinguish in his discussion of governmental power between political aggression and political rule. Observing the plain fact that Napoleon's conquest of Spain obviously did not accord with the opinion of the Spanish people, he said: "It is necessary to distinguish between a process of aggression and a state of rule." The distinction, however, is both unnecessary and misleading; Napoleon could subjugate Spain only because its whole people, relative to the people of France from whom Napoleon derived his power, amounted to a minority. The same situation prevails between the people of Russia and the people of Czechoslovakia today. The power of Russia to quell the Czech revolt was founded in the opinion of the Russian people, or at any rate of the ruling majority of Russians, that it was better to support their government in its domination of the Czechs than to withhold such support. I dare say that the same phenomena of majority rule determined the events in this country in the period 1861-65. The opinion of Northerners prevailed over the opinion of Southerners because there were more of them and they had more hardware.

It is important to observe the comprehensiveness and uniformity of the relationship between opinion and power. *Within* Spain during the Napoleonic wars, or Czechoslovakia today, or the Southern States during the War between the States, the situation was not different in kind from the situation *between* those countries and the aggressors who subjugated them. *Within* each, the government, resting upon the opinion of the majority, similarly subjugated nonconsenting internal minorities. The government of Napoleon had to deal with recalcitrants not only in Spain but also in France; and the same was true within the Northern States in 1861-65 and is true today within Russia.

The internal government of any state, in brief, while resting as long as it lasts upon the opinion of the consenting majority, *imposes* its will by force upon a nonconsenting minority. *That is the specific nature of government power.*

I have had to emphasize the point because it is common in our time to overlook this feature of political power, and because, in overlooking this obvious feature, much of the confusion relating to economic power rests.

The sharp difference between economic power and political power does not reside in their respective foundations; both kinds of power rest in opinion. The significant difference between economic and political power rests in the *purely* consensual character of economic power as contrasted to the only partly consensual character of political power. For no businessman, *qua* businessman, can ever compel a nonconsenting minority to deal with him. It is the very essence of government, however, to impose the will of the majority upon the nonconsenting minority. The difference, then, lies not in the foundations of economic power and political power but in their respective effects and modes of operation.

The productive power of any business has its beginning in the man or men who found it and who are able to convince others to invest their capital and their talents in it. However, the business succeeds only if the consumers approve its production. In a market economy there is no way for a firm to compel anyone to deal with it or to purchase its goods and services. As Ludwig von Mises has said so often, the consumers daily vote for and against the products of American business. Those firms which gain the patronage of the consumers prosper; those which do not, lose ground. In rewarding those who best serve the consumers, the profit system constantly insures that current allocation of resources which best suits the current wishes of the community. It expands the assets of those firms endorsed by public opinion; it enhances their capacity to bid in the market for other factors of production and thus to increase their economic power – by which I mean their power to produce.

The secret of the so-called ambivalence of American public policy toward big business resides in the phenomena just described. On the one side, mainly from "intellectuals," we hear much about the abuses, the evils, the dark powers of big business to destroy small business, to exploit workers, and to impose its will upon consumers. But these charges, however often made, and however well publicized, have only a limited effect, frequently no more than the crackling of thorns under a pot. They resound hollowly against the prodigious fact that business grows big only because and to the extent that public opinion favors it with its voluntary purchases. More than that, if the polls are correct, Americans favor and admire big business in greater numbers than they do any other institution, including the government. However, since the anti-business opinion has an effect also, we emerge with fragmentary, inconsistent, and ambivalent policies.

It is impossible to understand properly either the meaning of economic power or the real standing of business in the community without a full and accurate grasp of this fact of consumer sovereignty in the market economy. The late Mr. Adolph A. Berle, in many ways a learned man and a keen observer of contemporary society, illustrated in his well-known writings a characteristic error, tracing to inadequate grasp of consumer sovereignty. Although year by year he grew more moderate in his criticisms of big business, yet, even in his latest book, *Power* (1969) he continued to hold to a confused view of economic power. He attributed to that power a species of capability, a capacity for decision and action which it simply does not possess. He spoke as though big business had unlimited power in the disposition of resources, the direction of investment, choice of product, amount of production, and level of price. From others, such as J. K. Galbraith, such a blunder might be expected. But Mr. Berle was a different case: he frequently displayed a genuine understanding of consumer sovereignty. For example, in his latest book, he had this to say:

> In economic life, every decision made affects, in some way, every life in the modern world. This is the peculiar quality of economics. The impact of economic-power decisions may be imperceptible or great, but it is always there. The woman who chose nylon stockings instead of silk (a choice she still has, though nylon has clearly won the campaign) affected the lives of silk growers in Japan, China, and Southeast Asia.

Consumer Power

Once one grasps the significance of the female preference for nylon hosiery, it is no longer possible to mistake the locus of ultimate power. The Dupont Company has power, of course, but it is only the same kind of power to propose, to offer, that everyone else has, in business and out. Business proposes, the consumer disposes. If she disposes favorably the business prospers and may expand. If not, the business must mend its ways or retire from the field.

The business must do more than propose an attractive product. It must have the capability to deliver that product at an attractive price which still exceeds production costs. When it demonstrates *that* capability, it demonstrates at the same time its social qualification. Profitability and social utility are two names for the same thing. The business that makes losses has abused the society in which it operates; the business that makes profits has served it; and, remarkable as it may seem, it follows that the higher the profit, the greater the service.

Much current literature views the word "profit" and its referent in reality as downright obscene. Nevertheless, the facts are what they are. The firm that must sell below cost and which, therefore, experiences losses rather than profits, has done society in, and deserves to be penalized rather than praised. It has directed factors of production improperly, from the point of view of consumers and society as a whole. It has engaged in a course of production the full costs of which the consumers are unwilling to pay. In refusing to pay those full costs and thus imposing losses upon the incompetent producer, the sovereign consumers redirect production in a manner more to their liking.

Literature of the "New Left"

Current "new-left" literature – faithful to its mentors, Messrs. Galbraith, Packard, Marx, and Marcuse – rejects the foregoing analysis. It insists that economic power involves a form of compulsion even more objectionable than the physical compulsion exerted by gangsters or by the armed forces of the state. Professor Mises' principle of consumer sovereignty, they say, is a pure myth; the fact is that the concentrations of economic power in big business compel the consumers by way of advertising to want certain things and to fulfill those wants in ways which serve the interests of big business, not of the people.

No conscious human being with normal sensory equipment can fairly dismiss these charges out of hand. All media of communication bombard us constantly with commercial exhortations, appealing to every aspect of human nature, from the most elemental to the most sophisticated, from the subliminal to the most obvious and coarse. There can be no doubt about it. Advertising has us all in siege. And its objectives are among others to expand, shape, and direct our desires.

The *question*, however, is whether, in what circumstances, and to what extent advertising succeeds. It will not do, in seeking an answer, to confine our attention to the claims of advertising agencies and Messrs. Galbraith, et al. They beg the question; they do not resolve it.

Condensed to its meaningful point, the charge is that, by advertising, big business substitutes *its* will for that of the consumers, thus making the principle of consumer sovereignty a *mere* myth.

The fundamental weakness in the Galbraithian thesis is its disregard of certain evident aspects of human nature. For better or for worse, mankind is so constituted as to preclude the substitution of one man's will for another's, except fragmentarily and temporarily, and then only by brute force, not by any other means. No matter how often persons may be bombarded by an appeal to buy Pepsodent, or Colgate, or Crest, the actual decisions when they stand at the counter as to whether to buy toothpaste at all and, if so, which brand, must be made inside each person's mind. In all but the autonomous functions of the body, human beings must act, must choose, as Mises says, and their choices, their actions, proceed necessarily from within. Our limbs and organs are all inner-directed.

Some weight might justly be accorded the Galbraithian thesis in a socialist society, where control of all production and all media of communication were concentrated in the same men who controlled also the physical power of society. In such a society the faculty of choice would still remain, but it would, so to speak, lack traction. It would have nowhere to go, like an automobile with bald tires on slick ice. The government control of all media, from the schools to television, would come close to brainwashing the public, and the lack of variety in consumer goods would carry forward the demolition of practical choice. Consumers would still retain their indestructible humanity; notwithstanding the brainwashing attempts, they would still have wants and still have to make their own choices; but they would have little scope to exercise their power or faculty of choice.

Even so, however, traces of the sovereignty which is fully theirs in market economies would remain also in socialist societies, for so long as man is man, he must choose if he is to live. So, in Russia today, there are shortages in some lines of consumer goods and surpluses in others. To that extent, the consumer remains king, even in Russia, though only in rags.

In a market economy, the Galbraithian thesis makes no sense at all. The characteristic features of a market economy all tend toward providing traction for the faculty of subjective choice. Authority to use physical force is confined to the state. The media of communication are free. The consumer is encouraged on all sides to choose from a vast array of competing goods and services. American Motors, Chrysler, Ford, and General Motors must not only compete with each other; they have also to contend with Volkswagen, Mercedes-Benz, Toyota, and Fiat. And all the motor companies must compete with the airlines, the bus lines, the railroads, the subway systems, as well as the firms which encourage consumers to stay at home or enjoy themselves in their gardens. Even American Telephone and Telegraph competes. It urges us to call, not write. The much maligned soap manufacturers have only one thing to say: *"Buy our product."*

Ultimately, when one thinks things through, that is the basic message of all commercial advertising.

Advertising agencies claim, quite rightly, I believe (on the whole at any rate), a special ability to bring products and services to the attention of consumers. Their job is to acquaint the public with the fact that such and such a product exists and to urge that it be given a try. From there on, the consumer and the product must fend for themselves. The product must make good on the claim made for it. Thus understood, the specific function of advertising is to promote competition. Any other claim for it, whether made by advertising men or Messrs. Galbraith et al., is mere puffing.

If big business and its advertising had the power attributed to it by Messrs. Galbraith et al., the avidity of men and women for material goods would be a new phenomenon, observable in human history for the first time only in the last fifty years or so. After all, big business is a new phenomenon in the world, and advertising agencies are still newer. But is it true that men and women have grown remarkably desirous only in the last fifty or hundred years? The question answers itself.

On the first page of the first history book ever written, *The History of Herodotus,* recounting the wars between the Greeks and the Persians, the author reports that "according to Persians best informed in history, the Phoenicians began the quarrel." How was that? Herodotus continues:

> They landed at many places on the coast, and among the rest at Argos .... Here they exposed their merchandise, and traded with the natives for five or six days; at the end of which time . . . there came down to the beach a number of women, and among them the daughter of the king. . . . The women were standing by the stern of the ship intent upon their purchases, when the Phoenicians, with a general shout, rushed upon them. The greater part made their escape, but some were seized and carried off. . . .

Anyone who has ever had the misfortune to be in Macy's on a sales day will know that, whatever Galbraith says about it, big business and advertising have not changed women very much in the intervening two thousand four hundred years.

Nor men, either. Aristotle wrote only for men, it seems, in the *Nichomachean Ethics.* In discussing and urging the virtue of temperance, he admonished against the development of voluptuary habits. More to the point, he focused upon the inner sources of luxurious desires. "It is absurd," he said, "to make external circumstances responsible, and not oneself, as being easily caught by such attractions." There was hardly any business around at all in Ancient Greece, let alone big business, and B.B.D. & O. were still in the far off future. Such too was the case in 17th century England, when John Locke took note of the insatiable desires of mankind for material goods and services. He said:

> We are seldom at ease, and free enough from the solicitation of our natural or adopted desires, but a constant succession of uneasiness out of that stock which natural wants or acquired habits have heaped up, take the will in their turns; and no sooner is one action dispatched, which by such a determination of the will we are set upon, but another uneasiness is ready to set us on work.

The Galbraithian-SDS thesis is out of touch, not only with the most profound and persistent realities of human nature, but also with the available statistical evidence concerning the use of commercial advertising. Far from establishing the contention that big, concentrated business to some marked extent uses advertising to warp consumer desires, recent researchers reveal: (1) that there is no significant correlation between industrial concentration and advertising; and (2) that there is indeed a contrary tendency, with advertising expenditures tending to rise as industrial concentration decreases.

Sources of Misunderstanding

I must deal more briefly with the two remaining major sources of misunderstanding which make up the "economic-power" syndrome – (1) the belief that economic power can buy political power or that, at any rate, (2) economic power can shape the political opinions of the community more or less at will.

The first of these can be dispatched fairly readily. Certainly it is true that public servants at every level of government are "for sale," as every person is, for that matter. The question is, however, in what medium of exchange do they do business? In contemporary representative government, the medium of exchange is votes. While the wealthy and the big businessmen could and do bid vigorously in the medium of exchange which they are well supplied with, namely, money, the sad fact from their point of view is that they are not very extensively supplied with votes – and votes are what count. If Tocqueville was correct, this situation has prevailed throughout American history. Writing in 1840 or so about America, he said: "At the present day the more affluent classes of society have no influence in political affairs; and wealth far from conferring a right, is rather a cause of unpopularity than a means of attaining power."

One may argue that while dollars are not convertible into gold, they are convertible into votes, and this is to some extent correct. But only to about the same extent as it would be correct to point out that dollars can buy officials directly. In both cases dollar convertibility is only marginal: a drunken Bowery derelict will sell his vote for a bottle of whiskey; a faithless official will take a bribe here and there.

But the wealthy and the big businessmen are unable to buy *public policies* with their dollars. If they seek tariffs, exclusive franchises, import quotas, and other such measures, they do not succeed unless the measures they seek coincide with public opinion. Only public opinion to the effect that such policies are good for the country on the whole will secure their adoption. And when the public is convinced of the merits of a particular policy, dollars are incapable of affecting the result one way or another.

Subsidies for the poor, for commuters, for farmers, for the maritime industry, and pretty soon for everybody else in the country – all these are traded by politicians in return for *votes, not in return for dollars.* When industry representatives go to Washington for tariffs and import quotas, they are told to return only when they can show some political currency. If they return with trade-union representatives, men who are thought to command votes, and if the union men join in seeking protectionist policies, the tariffs and quotas are forthcoming; otherwise not.

The current situation with respect to tax exemption for interest on municipal bonds makes the point rather well. By and large such bonds are purchased by more or less wealthy people. But if *their* interest were to be consulted exclusively, there is no doubt that the tax exemption would be removed. The exemption continues because the citizens in local communities, desiring local governmental services, such as public schools, insist upon it. And they insist upon it because, in their (ultimately incorrect) opinion, taxexempt municipal bonds reduce for the taxpayers the costs of the services in question.

For the disinterested observer, his reason unimpaired by passion and prejudice, there is no need to go on at length with this point. It is sufficient to notice that over the past hundred years in this country, the steady trend of legislation has been against the wealthy and the successful businesses. David Hume was correct in stating as the first principle of government that all public policies are founded in opinion. On the other hand, in declaring that government in capitalist countries serves exclusively the interests of the wealthy, Karl Marx was as wrong as he was when he said that profits come exclusively from the exploitation of labor and that increasing poverty for the masses is the inevitable consequence under capitalism.

An Argument Omitted

Strangely enough, the victims of the economic-power syndrome have left almost completely undeveloped an argument which, if they could sustain it, would carry the day for them. They *could* be arguing that, while it is true that all government rests upon opinion — on political votes rather than dollars — the wealthy and the big businessmen control government by controlling the political and social ideas of the citizenry. Why is this argument so rarely made?

I offer as a possible answer the fact that the argument is so patently at odds with reality. If we confine ourselves to reality we cannot help observing a tremendous disproportion in all the areas of intellectual communication and opinion-forming. A vast majority of instructional personnel from grade-school through graduate school roams somewhere left of center. Most newspaper columnists, moreover, consider themselves leftist-liberals and spend little time vaunting the virtues of capitalism. For every best-selling author on the right, there are at least ten on the left. Foundations established by the wealthy spend infinitely greater sums promoting the welfare state than they do in defending capitalism. Professor Paul Samuelson has become a wealthy man as author of an economic text sympathetic with the welfare state, if not with socialism. Galbraith's books become automatic best sellers. The works of Ludwig von Mises, the most powerful protagonist of capitalism in print, do not sell in sufficient quantities to feed him.

Let us now approach the problem more systematically. The contention that economic power translates into political power by way of political indoctrination of the masses would have to establish, in the first place, that the wealthy and the big businessmen are themselves uniform exponents of a particular policy or set of policies, for the first requirement in any indoctrination is a doctrine. But the argument then stumbles at the threshold. The one outstanding and apparent fact about the wealthy and the big businessmen and the institutions they found and support is ideological diversity. If we place H. L. Hunt on the right, as is customary these days, where shall we place the Rockefellers, the Kennedys, the Fords? And should we place all the Rockefellers in the same category? Where exactly would you place the Kennedys, father and sons?

There is no common ideology among the wealthy and the big businessmen, just as there is no common ideology among the masses. There are only vague, half-formed, often contradictory opinions, which veer one way now and another way again. They spend their money accordingly. The foundations and institutions attacking capitalism and free enterprise and the profit system seem to have plenty of money. As far as I have been able to tell, the few foundations and colleges which promote free enterprise rarely, if ever, are wealthy.

Recapitulation

I have tried to make three points:

1. Economic power, like political power, rests upon favorable opinion, the sovereign opinion of consumers; unlike political power, however, it produces wealth in the form of goods and services and has no compulsory capabilities. The consumers reward with profits those firms which serve the community and penalize with losses those firms which do not.

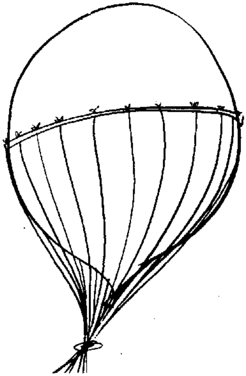
2. There is no way at all in a market economy for business to substitute its will for that of the consumers in respect of demand for goods and services; it proposes, the consumer disposes; the contention that advertising can supplant the will or implant desires in consumers conflicts with everything we know about human nature as well as with the external facts of life in the market economy.

3. Economic power is not convertible into political power. The medium of exchange owned by the possessors of economic power is money; the medium of exchange in politics is the vote. Dollars are produced by economic capability; votes flow in accordance with political opinion. Unless the holders of dollars represent interests which coincide with the independently derived opinions of the voters, the interests of the wealthy are doomed.

I have in this brief paper failed to deal with a number of features of the economic-power syndrome: the relations between big business and small business, the relations between business and employees, the Jeffersonian ideal of a society composed of farmers and small tradesmen, the notion that the managerial revolution heralded by Berle and Means and by Burnham has somehow incapacitated big business for the service of the community. With respect to these I can say only that there was not space. My silence on these points is not to be taken as an admission of their strength. On the contrary, I believe it a simple matter, on the basis of the points which I have dealt with, to demonstrate equal weaknesses in those which I have not had the opportunity to discuss here.

I wish to say but one thing more, and to quote a statement which sums up what I have had to say here. First, I would not have my remarks interpreted as an apologia for the wealthy or for big business as such. My main interest has been to clarify thought on the subject of economic power. Secondarily, my interest is in consumer sovereignty and its principal servant: the system of free competition emerging from those two common-law institutions, private property and freedom of contract. Ludwig von Mises has summed up a large part of what I have been trying to say. As he puts it:

> The rich, the owners of the already operating plants have no particular class interest in the maintenance of free competition. They are opposed to confiscation and expropriation of their fortunes, but their vested interests are rather in favor of measures preventing newcomers from challenging their position. Those fighting for free enterprise and free competition do not defend the interests of those rich today. They want a free hand left to unknown men who will be the entrepreneurs of tomorrow and whose ingenuity will make the life of coming generations more agreeable. They want the way left open to further economic improvements. They are the spokesmen of progress. . . .
>
> It is manifestly contrary to the interest of the consumers to prevent the most efficient entrepreneurs from expanding the sphere of their activities up to the limit to which the public approves of their conduct of business by buying their products. Here again, the issue is who should be supreme, the consumers or the government? In the unhampered market the behavior of consumers, their buying or abstention from buying, ultimately determines each individual's income and wealth. Should one vest in the government the power to overrule the consumer's choices?



The Ballooning Welfare State

HENRY HAZLITT

MOST of the self-styled liberals of the present day would be astonished to learn that the father of the welfare state that they so much admire was none other than the fervent antiliberal and advocate of "blood and iron", Otto von Bismarck.

"He was the first statesman in Europe to devise a comprehensive scheme of social security, offering the worker insurance against accident, sickness, and old age. This Bismarckian 'socialism' later became a model for every other country in Europe. It represented in part the paternalistic function of the state which Bismarck, as a conservative, had always held."[1]

Bismarck's scheme of compulsory insurance went into effect in 1883, and was soon even baptized by German journalists as *der Wohlfahrtsstaat*.

The example of Germany was followed by Austria in 1888 and by Hungary in 1891.

It was not till 1912 that compulsory health insurance was introduced in Great Britain, under Lloyd George's National Insurance Act of 1911. In 1925 came contributory old-age, widows' and orphans' pensions. Unemployment insurance was put on a fresh basis in the Unemployment Act of 1934, which set up at the same time a national system of unemployment assistance. In 1945 the Family Allowance Act was passed. It provided for payment to every family, rich or poor, of an allowance for each child, other than the eldest. In 1946 came the National Health Service Act, offering free medical services and medicines to everyone.

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Then, in 1948, as a result of the report of Sir William Beveridge, the whole system of compulsory contributions for social insurance was immensely extended, with wider unemployment benefits, sickness benefits, maternity benefits, widows' benefits, guardians' allowances, retirement pensions, and death grants.

The continuous expansion of "social security" and welfare services in Great Britain is typical of what has happened in most other countries in the Western world over the last half century. The broad pattern has been remarkably similar: a multitude of "insurance" programs, supported in part by compulsory contributions and in part by general tax funds, ostensibly protecting everyone against the hazards of poverty, unemployment, accident, sickness, old age, malnutrition, "substandard" housing, or almost any other imaginable lack; programs expanding year by year in the number of contingencies covered, in the number of beneficiaries under each program, in the size of individual benefits paid, and of course in the total financial burden imposed.

So, year by year, the tendency has been for every working person to pay a higher percentage of his earned income either for his own compulsory "insurance" or for the support of others. Year by year, also, the total burden of taxes tends to go up, both absolutely and proportionately. But direct and acknowledged taxes have tended to go up less than total expenditures. This has led to chronic deficits that are met by printing more irredeemable paper money, and so to the almost universal chronic inflation that marks the present age.

Growth of Welfare Programs in the U.S. since 1935

Let us look at the ballooning welfare state in detail as it has developed in our own country.

We may begin with President Franklin D. Roosevelt's 1935 message to Congress in which he declared: "The Federal Government must and shall quit this business of relief. . . . Continued dependence upon relief induces a spiritual and moral disintegration, fundamentally destructive to the national fiber."

The contention was then made that, if unemployment and old-age "insurance" were put into effect, poverty and distress would be relieved by contributory programs that did not destroy the incentives and self-respect of the recipients. Thus relief could gradually be tapered off to negligible levels.

The Social Security Act became law on August 4, 1935.

Let us see first of all what happened to the old-age provisions of that act. There have been constant additions and expansions of benefits. The act was overhauled as early as 1939. Coverage was broadened substantially in 1950. In 1952, 1954, 1956, 1958 and 1960 (note the correspondence with years of Congressional elections) there were further liberalizations of coverage or benefits. The 1965 amendments added Medicare for some 20 million beneficiaries. The 1967 amendments, among other liberalizations, increased payments to the 24 million beneficiaries by an average of 13 per cent and raised minimum benefits 25 per cent. In 1969, retirement and survivors benefits were raised again by about 15 per cent, effective January 1, 1970.

(It is sometimes argued that these benefit increases from 1950 to 1970 were necessary to keep pace with increases in living costs. Actually, the increases in individual monthly benefits totaled 83 per cent, compared with a 51.3 per cent increase in consumer prices over the same period.)

From $60 to $936

From 1937 to 1950, Social Security was financed by a combined tax rate of only 2 per cent on both employer and employee (1 per cent each) on wages up to $3,000 a year. Since then both the rates and the maximum wage-base have been increased every few years. In 1972 the combined tax rate is 10.4 per cent (5.2 per cent on each the employer and the employee) on a maximum wage-base that has been raised to $9,000. The result is that whereas the maximum annual payment up to 1950 was only $60, it has risen to $936.

In 1947, payroll tax collections for old age and survivors insurance amounted to $1.6 billion; by 1970, these taxes had increased to $39.7 billion.

At the beginning, the Social Security program was sold to the American public as a form of old-age "insurance." The taxes were represented as the "premiums" paid for this insurance. Everybody who was getting benefits was assured that he could accept these with no loss of "dignity", because he was "only getting what he had paid for."

This was never true, even at the beginning, and has become less true year by year. The low-wage receivers have always been paid much more in proportion to their "premiums" than the higher-wage receivers. The disparity has been increased with succeeding revisions of the act. The typical beneficiary even today is receiving benefits worth about five times the value of the payroll taxes he and his employer paid in.[2]

A Bad Mixture of Insurance and Handouts

The OASDI program has developed into a mixed system of insurance and welfare handouts, with the welfare element getting constantly larger. It is today a bad system judged either as insurance or as welfare. On the one hand, benefits in excess of the amounts they paid for are being given, in some cases, to persons who are not in need of welfare. On the other hand, persons who are in fact receiving welfare handouts are being taught to believe that they are getting only "earned" insurance. Obviously, welfare programs can be expanded even faster than otherwise if they are masked as "contributory insurance" programs.

Our concern here, however, is not with the defects of the OASDI program but primarily with its rate of growth. In 1947, social security benefit payments covered only old-age and survivors insurance and amounted to less than half a billion dollars. In 1956, disability insurance was added, and in 1965, health insurance. In 1970, these payments reached about $39 billion.

Unemployment Insurance

Now, let us look at unemployment insurance. This program was also set up under the Social Security Act of 1935. But whereas old-age insurance was on a strictly national basis, unemployment insurance was instituted on a state-by-state basis within the broad scope of certain Federal criteria.

While provisions have differed in each of the fifty states, unemployment insurance has shown the same chronic growth tendency as old-age benefits. In 1937, the states typically required periods of two or three weeks before any benefits were paid. The theory behind this was that a man just out of employment would have at least some minimum savings; that the state would be given time to determine his benefit rights; and that the benefit funds should be conserved for more serious contingencies by reducing or eliminating payments for short periods of unemployment. Now the waiting period has been reduced to only one week, and in some states does not exist at all.

In contrast with the $15 to $18 weekly benefit ceilings in various states in 1940, the maximums now range between $40 and $86 a week, exclusive of dependents' allowances in some states.

Reflecting both legislated increases and rising wage levels, nationwide average weekly benefit payments increased from $10.56 in 1940 to $57.72 in 1971. Even after allowing for higher consumer prices, the real increase in purchasing power of these average benefits was 63 per cent, and they continue to increase much faster than either wages or prices. For example, from its average in 1969, the weekly payment in June, 1971, had increased 25 per cent as compared to an 8 per cent increase in wages and an 11 per cent increase in prices.

Fulltime Benefits

As of 1971, state legislation had increased the maximum duration of unemployment benefits from the predominantly prevailing 16-week level in 1940 to 26 weeks in 41 states – and of longer duration ranging to 39 weeks in the other states. In December, 1971, Congress voted to provide 13 weeks additional benefits in states with sustained unemployment rates of more than 6½ per cent. This made it possible for workers in such eligible areas to draw such benefits up to a total of 52 consecutive weeks.

Total annual benefit payments increased from about one-half billion dollars in 1940 to $3.8 billion in 1970 – more than a seven-fold increase and the highest payout in history. In 1970 alone, total benefits increased 80 per cent ($1.7 billion) over the 1969 level. The combination of legislated increases in maximum weekly benefits and in maximum duration of the benefits has increased nearly *tenfold* the total benefits potentially payable to the individual unemployed worker in a year's period (dollars per week multiplied by the number of weeks).[3]

This is bound to increase still further. On July 8, 1969, President Nixon called upon the states to provide for higher weekly unemployment compensation benefits. He suggested that weekly maximums be set at two-thirds of the average weekly wage in a state so that benefits of 50 per cent of wages would be paid to at least 80 per cent of insured workers. Only one state – Hawaii – responded promptly with the full raise suggested, but other states have scheduled future increases.

There can be no doubt that unemployment compensation reduces the incentive to hold on to an old job or to find a new one. It helps unions to maintain artificially high wage rates and it prolongs and increases unemployment. One economist has likened it to "a bounty for keeping out of the labor market."[4]

Moreover, it is a complete misnomer to call it unemployment "insurance." In the United States the workers do not even make a direct contribution to it (though in the long run it must tend to reduce the real pay of the steady worker). Like so-called government old-age "insurance", it is in fact a confused mixture of insurance and handout. Those who are continually urging an increase in the percentage of the previous wage-rate paid, or the extension of the benefit-paying period (to avoid undisguised relief), forget that it violates ordinary welfare standards of equity by paying larger sums to the previously better-paid workers than to the previously lower-paid workers.

But apart from these shortcomings, what we are primarily concerned with here is the tendency of unemployment compensation, once adopted, to keep growing both as a percentage of weekly wages and in the length of idle time for which it is paid.

Just what success, if any, the increasingly costly Social Security and unemployment compensation programs have had in enabling the Federal government to "quit this business of relief" we shall see in a subsequent article.

· FOOTNOTES ·

[1] *Encyclopedia Britannica*, 1965, article "Bismarck", Vol. 3, p. 719.

[2] Colin D. Campbell and Rosemary G. Campbell, "Cost-Benefit Ratios under the Federal Old-age Insurance Program," U. S. Joint Economic Committee, Old-age Income Assurance, Part III (Washington, D. C., U. S. Government Printing Office, December 1967), pp. 72-84.

[3] Much of the foregoing material on Social Security and unemployment compensation is derived from studies by the American Enterprise Institute, Washington, D. C.

[4] W. H. Hutt, *The Theory of Idle Resources* (London: Jonathan Cape, 1939), p. 129.

Leisure Is Not Free

IDEAS ON LIBERTY

LEISURE IS NOT FREE. To the extent that we choose it rather than productive work, we exchange it for real income. Longer vacations, more holidays, and other time-off practices – like a shorter work week – must all be charged against real income. The average worker has gained about 50 hours in additional vacation time since 1960. The ten-hour, four-day week may not reduce work time; it may even add to the productive use of resources and equipment. But by emphasizing leisure instead of work it is likely to point in an unhelpful direction.

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CLARENCE B. CARSON

THE FOUNDING OF THE AMERICAN REPUBLIC

9

Prelude to Independence

THE ISSUE was joined, and unremittingly pressed, after Parliament passed the Coercive Acts in 1774. George III declared in September of that year that "the die is now cast, the colonies must either submit or triumph. . . ."[1] Young Alexander Hamilton put the matter this way: "What then is the subject of our controversy with the mother country? – It is this, whether we shall preserve that security to our lives and properties, which the law of nature, the genius of the British constitution, and our charters afford us; or whether we shall resign them into the hands of the British House of Commons. . . ."[2] Heretofore, when Britain had been faced by colonial resistance, Parliament had backed down. This time, Parliament held its ground, and the executive prepared to use force. When that happened, a new dimension was added to the issue, the dimension of independence – independence or submission.

Colonial leaders did not rush to formulate the issue in this way. On the contrary, they clung to the connection with Britain, continued to profess their allegiance to the king, and indicated a willingness to negotiate if Britain would at-

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tend to their grievances. Indeed, George III had been ruling for sixteen years before independence was declared, specific grievances had gone unresolved for thirteen years, and British troops were encamped against American forces for more than a year. Colonists did sometimes rush to resist particular measures, but they moved very slowly in conceiving of changing their relationship to Britain.

Nor can it be maintained that the colonists moved slowly in grasping the nettle of independence in order simply to manipulate the British into taking aggressive measures which would determine the outcome of the question. The provocation came increasingly without the aid of colonial inducement. Probably, most Americans did not want independence throughout the years of resistance. What is even more certain is that many Americans did not want the quarrel to eventuate in independence and that others who did begin to think of separation were loathe to alienate this goodly number so long as it could be avoided. So far as we can tell, virtually all Americans opposed various of the British measures, with the obvious exception of Crown officials. This near unanimity was sundered by the question of independence. The slowness of the movement for independence to surface can be attributed to the desire to avoid internal divisions as well as, perhaps, the calculation of leaders not to outrun their followers.

The colonists, in any event, did not move swiftly toward deciding for independence; and on the positive side, they employed deliberative bodies when and where they could to make the decisions. Of course, these deliberative bodies were frequently not legal, but they were the nearest thing to it that the colonists had available. From 1774 into 1776 the colonists were frequently denied their legal legislative assemblies; and when these could not meet, other bodies resembling them were assembled.

The First Continental Congress

The main focus of the Coercive Acts was on Boston and Massachusetts. The Boston Port Act which closed the port of Boston until the tea was paid for might conceivably have separated Boston from the rest of Massachusetts, at least for a time. But when other acts followed to alter the government of all of Massachusetts, this potential effect was nullified by Parliament itself. There was a greater probability that Massachusetts would be isolated from the other colonies and that the British might succeed in a policy of divide and conquer. But the colonial leaders were intent on preventing any such policy from succeeding. The Committees of Correspondence were already in existence. Moreover, other colonies had grievances of their own as well as those shared with Massachusetts.

Confronted with the Coercive Acts, some of Boston's leaders wanted to take immediate economic measures against Britain by way of retaliation. However, there was widespread sentiment throughout the colonies for a congress to be held to decide upon what action to take. Providence called for such a congress on May 17, Philadelphia on May 21, and New York City on May 23. The Massachusetts House of Representatives went along with the idea by issuing a call for a congress on June 17. Within colonies, delegates were elected by provincial congresses or county conventions. The First Continental Congress met in September, 1774, in Philadelphia. Twelve colonies sent 56 delegates. Only Georgia did not send delegates, which was not surprising, since that colony was not very populous, its government was not self-supporting, and it was dependent more than others on Great Britain.

But before the Congress assembled, important new formulations of ideas had entered the stream. In July, Thomas Jefferson's *A Summary View of the Rights of British America* appeared, followed in August by James Wilson's *Considerations on . . . the Legislative Authority of . . . Parliament.* While neither of these works necessarily represented colonial opinion, they do indicate the direction in which it was thrusting. The colonists had held firmly to the idea from 1765 on that Parliament could not lay taxes for the raising of a revenue, but they had shifted to a harder and harder position as to what was the authority of Parliament over the colonies. The main objection to the Stamp Act was that it was a direct tax. The major objection to the Townshend Duties was that they aimed to raise a revenue. The Tea Act was opposed at the outset both because it was monopolistic and would raise a revenue. Jefferson of Virginia and Wilson of Pennsylvania went beyond this position to suggest that the legislative assemblies in America were equals of Parliament in lawmaking and that Parliament really should have no authority over America.

Freedom to Trade

Jefferson's position comes out in part in his criticism of an earlier act of Parliament suspending the legislature of New York. He said, "One free and independent legislature hereby takes upon itself to suspend the powers of another, free and independent as itself...."[3] In a closing impassioned appeal to the king, Jefferson pleaded: "No longer persevere in sacrificing the rights of one part of the empire to the inordinate desires of another, but deal out to all equal and impartial right. Let no act be passed by any one legislature which may infringe on the rights and liberties of another."[4] Through the debates over the years there had been general agreement by colonial spokesmen that it was necessary for Parliament to regulate commerce with other nations. That is, Americans were still very much under the influence of mercantilist assumptions. Jefferson, however, appeared to see no need for such regulation; rather than a benefit to the colonies the regulations interfered with the natural course of trade and set the stage for tyranny. For example, he says: "That the exercise of a free trade with all parts of the world, possessed by the American colonists as of natural right . . ., was next the object of unjust encroachment...." Their "rights of free commerce fell once more the victim to arbitrary power. . . . History has informed us that bodies of men as well as individuals are susceptible to the spirit of tyranny. A view of these acts of Parliament for regulation, as it has been affectedly called, of the American trade . . . would undeniably evince the truth of this observation."[5] In short, the colonies did not need parliamentary regulation of their trade but should rather see it as a usurpation of their rights and an instrument of tyranny.

The Dominion Theory

James Wilson's argument is mainly that the only political connection of the colonies was with the king. To support this view, he reviews American history:

> Those who launched into the unknown deep, in quest of new countries and habitations, still considered themselves as subjects of the English monarchs, and behaved suitably to that character; but it nowhere appears, that they still considered themselves as represented in an English parliament extended over them. They took possession of the country in the *king's* name: they treated, or made war with the Indians by *his* authority: they held the lands under *his* grants, and paid *him* the rents reserved upon them: they established governments under the sanction of *his* prerogative, or by virtue of *his* charters. . . .[6]

The principle toward which Wilson was moving is one which eventually came to be known as the dominion theory of empire, a theory in which each province had its own government but continued to have allegiance to the English monarch. John Adams argued this case more explicitly in the *Novanglus Letters,* which appeared after the First Continental Congress had dissolved itself.[7]

Results of the Meeting

The First Continental Congress had a relatively brief session from September 26 to October 22 of 1774. It dealt with four major points during that time. The first of these was the Suffolk Resolves which were presented by Massachusetts delegates and when confirmed were formal advice from the Congress to that colony. The Resolves declared the Coercive Acts unconstitutional, advised Massachusetts to form its own government until such time as the acts were repealed, recommended that the people of that colony arm themselves and form a militia, and called upon them to adopt economic sanctions against Britain. This was, indeed, a strong stand against British action, and it is not too much to label it defiance.

The Congress next dealt with the Galloway Plan of Union. It was the work of Joseph Galloway of Pennsylvania, and is usually considered to have been conservative in character. Be that as it may, the Plan was intended not only to provide a general government for the colonies but to do so within the general frame of royal and parliamentary authority in the British empire. The Plan was defeated, but there is little reason to suppose that had it been adopted anything would have come of it.

The Declaration and Resolves was the major policy position adopted by the Congress. It set forth the rights of the colonies, enumerated the abuses of recent years, delineated, once again, the limits of parliamentary authority, and called for economic sanctions. A considerable debate occurred within committee as to whether they should found their argument for rights on natural law or not.[8] The issue almost certainly was not over whether there is natural law and natural right but over the impact of referring to them on the colonial relationship to Great Britain. Those determined to preserve the connection with Britain wanted to hold on to the idea of their tracing their rights to Britain. Once the claim went to the laws of nature the basis for making a definitive break would be laid. The outcome, however, was that the Congress confirmed both sources for their rights. The preamble to the ringing statement of rights reads:

> That the inhabitants of the English colonies in North America, by the immutable laws of nature, the

principles of the English Constitution, and the several charters or compacts, have the following rights [among others]:

That they are entitled to life, liberty, and property, and they have never ceded to any sovereign power whatever, a right to dispose of either without their consent.

That our ancestors, who first settled these colonies, were at the time of their emigration from the mother country, entitled to all the rights, liberties, and immunities of free and natural-born subjects within the realm of England.

That by such emigration they by no means forfeited, surrendered, or lost any of those rights. . . .[9]

The line of action they were to undertake was provided for by the establishment of a Continental Association. The men gathered at the Congress hoped to get British policy altered by the use of economic sanctions. They adopted a program of non-importation, non-consumption, and non-exportation from, of, and to Britain, the non-exportation to be put into effect later than the others. Enforcement was to be carried out in this way. "In the first place, the people were asked to pledge themselves not to buy British merchandise – the Nonconsumption Agreement—thus leaving ill-disposed merchants no market for their proscribed wares. Secondly, the enforcement of the Associated was entrusted to local committees. . . ."[10] Economic sanctions are, of course, a two-edged sword: they hurt the imposers as well as those on whom they are imposed, though not necessarily in equal degree. In any case, they were probably the most nearly peaceful means open to the colonists to attempt to inflict damage on the British. In the colonies there was much sentiment that whatever they did without would be good for them, in any case.

Whatever the merits of economic sanctions in general, they did not lead to a peaceful resolution of the dispute between the colonies and England. The great majority of those in power in England favored the use of force now to bring the colonists to terms. Colonial petitions, declarations, and resolutions were rejected with alacrity by Parliament. Colonial agents in London were refused in their request to appear before the House of Commons on behalf of a petition from America by a vote of 218-68. Petitions from London and Bristol merchants were denied an effective hearing by a vote of 250-89. William Pitt, now Earl of Chatham, offered a resolution for the withdrawal of troops from Boston; it was defeated by the Lords temporal and spiritual, 68-18. Charles James Fox's efforts to get the ministry censured by the

House for its American policies was defeated 304-105.[11] On February 2, 1775, Lord North, the king's chief minister, declared that some of the colonies were in a state of rebellion and that more troops should be sent to America.[12]

Since the two sides were now set on a collision course, it was only a matter of time until the contest would erupt into open hostilities. On February 9, Parliament officially declared Massachusetts to be in a state of rebellion. On February 26, British troops attempted but failed to seize colonial military supplies at Salem. Late in the month Lord North succeeded in getting what was billed as a conciliatory plan through Parliament. It permitted the colonies the option of taxing themselves instead of having the tax imposed by Parliament for meeting imperial expenses. The concession hardly interested the colonies. On March 22 Edmund Burke, longtime friend of America in Parliament, made his famous speech calling for reconciliation with America. It did not sway Parliament, but the next day Patrick Henry addressed his fellow Virginians in a speech of a different temper which may have helped to sway a continent. Had it been heard by all colonials in the version with which later Americans are familiar, it would surely have aroused the passions of many of them for action. Henry grew weary of the vain efforts of those seeking peace by some strategem or other. To those of this temper, he cried:

> Gentlemen may cry peace, peace – but there is no peace. The war is actually begun! The next gale that sweeps from the North will bring to our ears the clash of resounding arms! Our brethren are already in the field! Why stand we here idle? What is it that gentlemen wish? What would they have? Is life so dear or peace so sweet as to be purchased at the price of slavery? Forbid it, Almighty God – I know not what course others may take; but as for me, give me liberty or give me death!

Lexington and Concord

No more were Lord North and the king determined upon peace. On March 30, Parliament passed the New England Restraining Act, which barred the North Atlantic fisheries to New Englanders and prohibited any trade between these colonies and anyone else except in Britain and the British West Indies. The next month these provisions were extended to several of the colonies south of New England. On April 14 General Gage got his orders to use force to break up the rebellion in New England. He acted with dispatch by sending troops to Concord on April 19 under orders to seize a munitions depot there. These troops were met by colonials at Lexington, someone fired ("the shot heard round the world," Thomas Paine said), and a small battle took place. It was enlarged during the course of the day, as riflemen gathered from all sides and threatened to destroy the British forces at one point. Reinforcements arrived, however, and the British were able to return to Boston. Seventy-three British troops were killed during the day, and a lesser number of colonials. Fighting on a war-like scale had taken place; the resolution of the British and the Americans would now be tried by arms.

Less than a month after Lexington and Concord a Second Continental Congress assembled at Philadelphia (May 10). The First Congress had voted its own dissolution, but they provided that a new congress should meet if the disputes had not been settled. So it was that a new body was assembled that would attempt over the next half dozen years to guide the affairs of what was not yet the United States. Among the members of the Second Continental Congress were some of the most talented men ever to grace the American scene, men whose names will live as long as the founding of the Republic is remembered. From Massachusetts came John and Samuel Adams along with John Hancock who was elected to preside over the congress, from Pennsylvania came Benjamin Franklin, Robert Morris, and James Wilson, among others, from Connecticut came Roger Sherman and Oliver Wolcott, from Virginia came George Washington, Richard Henry Lee, and Thomas Jefferson, and so on through the roll call of the signers of Declaration of Independence, as well as many who had left the Congress by that time. Some of the most talented followed other pursuits for the states during the war so that during some of the most trying days it was not so lustrous a body. But at its inception it contained most of the men who would play the leading roles in guiding America to independence.

A Colonial Army

Congress was confronted with the task of what to do about the fighting from the moment it met. New Englanders had taken matters in hand partially already, and on the same day that Congress met in Philadelphia Ethan Allen and Benedict Arnold led a force of colonials in taking Fort Ticonderoga on Lake Champlain. And on June 17 the Battle of Bunker Hill took place as a result of a British decision to drive the Americans from a redoubt on Breed's Hill. This battle pitted a British army against a colonial army, and though the British drove the Americans from their positions they did so at the expense of heavy casualties.

Before the Battle of Bunker Hill, however, Congress had acted to take charge of the fighting. George Washington was appointed commander-in-chief of the armed forces of the colonies; he left straightway to take charge of the forces in Massachusetts, which he accomplished on July 3. George Washington had gained considerable military experience in the French and Indian War. He had sided with the colonies from the outset, and while he was never strident in his resistance he was already beginning to show that firmness which was to become his hallmark. A very important consideration at the moment of his selection, of course, was that he was from Virginia, the most populous of the colonies; and the New Englanders could see that it was essential to bring other colonies to their support. The choice of Washington was unanimous, and through all the difficult years and wrangling between Washington and Congress, that body never really faltered in its support of him. Washington chose not to take a salary for his contribution but only to have his expenses paid.

Though feeling was running high in America against Britain, there were those in Congress who believed that they would be remiss in their duty if they did not make yet another effort to achieve reconciliation. John Dickinson took the leadership in drawing up and getting through Congress on July 5, 1775 what is known as the Olive Branch Petition to the king. The members assembled declared themselves "Attached to your Majesty's person, family, and government, with all devotion that principle and affection can inspire. . . ." This being the case, "We, therefore, beseech your Majesty, that your royal authority and influence may be graciously interprosed to procure us relief from our afflicting fears and jealousies. . . ."[13] Recognizing the realities, however, Congress on the next day adopted declarations drawn by Jefferson and Dickinson which explained the occasion for their taking up arms.

Congress adjourned on August 2 to await developments. They were not long in coming, for George III proclaimed the colonies to be in open rebellion on August 23. Benedict Arnold led an expedition to Canada in the fall, with the permission of General Washington. In October, Congress authorized a navy, followed by the opening up of correspondence with other nations in November, with the idea of gaining friends. In

November, the colonies received word that the king had refused to receive the Olive Branch Petition. The House of Commons then defeated a motion to make the Petition the basis of reconciliation by a vote of 83 to 33. Late in 1775 a royal proclamation was issued closing the colonies to all commerce after March 1, 1776.

A Reluctance to Separate

That all these things had occurred and that the colonists still could not bring themselves to declare for independence indicates how reluctantly they took that step. By the winter of 1775-1776, some goodly number had already decided for independence; but many had not. This was a most difficult decision to make, much harder than merely deciding for resistance. Those who took this step must forswear ancient allegiances, must commit the most heinous of crimes (or so they had been taught) by becoming traitors, must hazard their lives and fortunes upon the uncertain outcome of a war, must almost certainly divide the country, and might well let loose domestic disorder on a large scale. Prudent men must ever ponder carefully their course before taking such an irrevocable step. Arguments were made in public for and against independence even as men wrestled inwardly with the difficult question. If men of those times had used such terms as "conservative" and "liberal," which they did not, they might well have debated the question of which was the conservative position. From one point of view, it would have been conservative to have continued old allegiances and connections. But from another angle, Britain was the innovator, and the colonists had insisted all along that they were contending for the ancient constitution and the old order and harmony that had prevailed. Indeed, the father of conservatism, Edmund Burke, saw the justice of their contention though, of course, he could not advise the colonists to become independent.

Probably, much of the waiting was in the hope that England would take some action that would sway the most reluctant toward independence. While this never happened, as time went on, and Britain committed more and more acts, more did decide for independence.

Thomas Paine

But it was the little book, *Common Sense,* published by Thomas Paine in January of 1776 which did so much to galvanize American opinion in favor of independence. Within three months, 120,000 copies of it were in circulation. George Washington said that it "worked a powerful change in the minds of many men," and the testimony of other contemporaries as well as historians confirms this judgment.

That this little pamphlet should have had such currency and impact must surely be attributed to the fact that it encapsulated an idea whose time had come rather than to the character of its author. Few would have predicted before 1776 that Thomas Paine would have the niche in history which he gained. He was born in Norfolk, England, the son of a staymaker. He had not done well as a government clerk, as a husband, or as manager of his own financial affairs. Benjamin Franklin encouraged him to come to America in 1774, which he did, to be made editor of the *Pennsylvania Magazine*. Somehow he grasped the tendency of the currents in the new land and was able to render them into language which moved his lately acquired fellow countrymen, the phrases of which still ring with power after two centuries.

Paine took as his task in *Common Sense* the convincing of Americans that the time had come for independence. He sought to convince them that the time was right, that they could succeed, and that their fears of the consequences of independence should be seen in contrast with the certainties of ruin if they did not follow the indicated course.

The body of the work begins in a peculiar way; it is theoretical and apparently remote from his object. He iterates the distinction between government and society, a distinction which, he says, people frequently do not take care in making. Society, he points out, is natural in origin; it arises out of the need of man for his fellows. Government, by contrast, is a construct, albeit a necessary one. The point was quite germane, however. Paine was commending to a people that they cast off the government over them. If government and society can be distinguished one from the other, they can be separated. To rend society might be ruinous, but to cast off a government which was not performing its allotted function would only provide the opportunity for something much better.

Attack on Monarchy

Much of Paine's rhetoric was aimed at monarchy in general and in particular. The colonists, many of them, had shifted in their thinking to the point where they were willing to acknowledge their allegiance only to the king. This was the remaining cord to be severed. Of the institution of monarchy, Paine said:

Government by kings was first introduced into the world by the heathens, from whom the children of Israel copied the custom. It was the most prosperous invention the devil ever set on foot for the promotion of idolatry. The heathens paid divine honors to their deceased kings, and the Christian world has improved on the plan by doing the same to their living ones. How impious is the title of sacred majesty applied to a worm, who in the midst of his splendor is crumbling into dust![14]

Of English monarchy, he had even more scathing things to say. Where did the line originate?

A French bastard landing with an armed banditti and establishing himself king of England against the consent of the natives is in plain terms a very paltry, rascally original. It certainly has no divinity in it. However, it is needless to spend much time in exposing the folly of hereditary right; if there are any so weak as to believe it, let them promiscuously worship the ass and lion, and welcome. I shall neither copy their humility nor disturb their devotion.[15]

George III was disposed of as the "royal brute of Britain," and a long line of monarchs disparaged as hardly worthy of mention. But the whole subject of monarchs soon palls on him: "Of more worth is one honest man to society, and in the sight of God, than all the crowned ruffians that ever lived."[16]

Mother England?

Paine deals with another difficult point for Americans. England is the mother country, or so it has been claimed. He denies the allegation. Europe is the origin of America, he says, in what may be one of the weakest of his arguments. But, in any case, Britain did not mother America; the inhabitants of the New World were driven from her shores and, in contrast even to the behavior of brutes, she was making war on them. Moreover, there is no reason in an island attempting to govern a continent.

Above all, Paine held up for examination the past record under Britain and contrasted it with the vision of what America should and could be. This should move men to an early separation.

O ye that love mankind! Ye that dare oppose not only the tyranny but the tyrant, stand forth! Every spot of the Old World is overrun with oppression. Freedom has been hunted round the globe. Asia and Africa have long expelled her. Europe regards her like a stranger, and England has given her warning to depart. O! receive the fugitive, and prepare in time an asylum for mankind.[17]

It took little more to tip the

scales for independence. In May of 1776 Congress learned that the king had succeeded in hiring German (generally referred to as Hessian) troops to send against them. On June 7, Richard Henry Lee introduced a resolution to the effect that the colonies were now independent of Britain. On June 11, Congress appointed a committee to draw up a declaration. The painful decision was all but made.

· FOOTNOTES ·

[1] Quoted in Merrill Jensen, *The Founding of the Nation* (New York: Oxford University Press, 1968), p. 572.

[2] Leslie F. S. Upton, ed., *Revolutionary versus Loyalist* (Waltham, Mass.: Blaisdell, 1968), p. 21.

[3] Edward Dumbauld, ed., *The Political Writings of Thomas Jefferson* (New York: Liberal Arts Press, 1955), p. 22.

[4] *Ibid.*, p. 32.

[5] *Ibid.*, pp. 19-20.

[6] Jack P. Greene, ed., *Colonies to Nation* (New York: McGraw-Hill, 1967), p. 225.

[7] See Anne H. Burleigh, *John Adams* (New Rochelle: Arlington House, 1969), pp. 122-29.

[8] See Jensen, *op. cit.*, p. 493.

[9] Richard B. Morris, *The American Revolution* (Princeton: D. Van Nostrand, 1955), p. 114.

[10] John C. Miller, *Origins of the American Revolution* (Boston: Little-Brown, 1943), p. 385.

[11] See Jensen, *op. cit.*, pp. 575-78.

[12] *Ibid.*

[13] John Braeman, *The Road to Independence* (New York: Capricorn Books, 1963), p. 275.

[14] Nelson F. Adkins, ed., *Thomas Paine* (New York: Liberal Arts Press, 1953), p. 10.

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

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

[17] *Ibid.*, p. 34.

Next: The Declaration of Independence.

IDEAS ON LIBERTY

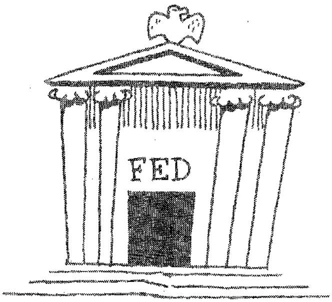
The Law

IT IS IMPOSSIBLE to introduce into society a greater change and a greater evil than this: the conversion of the law into an instrument of plunder.

No society can exist unless the laws are respected to a certain degree. The safest way to make laws respected is to make them respectable. When law and morality contradict each other, the citizen has the cruel alternative of either losing his moral sense or losing his respect for the law.

In order to make plunder appear just and sacred to many consciences, it is only necessary for the law to decree and sanction it. Slavery, restrictions, and monopoly find defenders not only among those who profit from them but also among those who suffer from them.

FREDERIC BASTIAT (1850)



The Federal Reserve System

HANS F. SENNHOLZ

AFTER full use of the presidential influence to get the legislation adopted, President Woodrow Wilson signed the act establishing the Federal Reserve System, on December 23, 1913. The Reserve Banks opened their doors for business on November 16, 1914.

Why? What was the origin of this new System? How does it work? What are its good points, if any, and what are its dangers?

Trade cycles had been an unhappy experience in the United States as well as in Western Europe. The panic of 1907 and the subsequent lethargy of business and finance had increased the widespread clamor for banking and currency reform. "We need a more flexible currency," the advocates of a reorganization of the American banking system asserted; "a currency that can be made to expand or contract in accordance with the needs of business." This flexibility was to eliminate the recurring periods of financial stress and disorder.

The "reformers" pointed approvingly at the currency systems in Western Europe. There was, for example, the Bank of England. It enjoyed a partial monopoly of note issue, and served the government as banker and as agent. All other banks kept accounts with the Bank of England because its currency notes commanded the greatest confidence and widest circulation. At the end of each clearing period, the claims of all other banks were settled through transfers among their respective deposits with the Bank of England. It was the "lender of last resort." In times of financial crisis it was expected to stay liquid, and to grant accommoda-

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tion to the most essential credit needs. It had done so during the crises of 1873 and of 1890. And in 1907 it had allayed alarm in England by merely increasing its discount rate.

There also was the Reichsbank of Germany. It, too, conducted a discount policy for the protection of general banking liquidity. But the Reichsbank differed from the Bank of England in one important respect, which had great appeal for the planners in the United States. This was the "elasticity" in its note circulation. So our central banking institution was fashioned, in general, after the Reichsbank.

While the Bank of England always held a full gold reserve for its notes issued, the Federal Reserve System was required to maintain a gold reserve of only forty per cent against its issue notes; sixty per cent could be held in trade and agricultural paper discounted by member banks. And the Reserve Banks had to keep on hand, in "lawful money," only thirty-five per cent of all their deposits. In an emergency the full reserve requirements could be suspended for thirty days, with renewals of suspension for further periods of fifteen days each – but at a penalty of a graduated tax on the deficiency in reserves. All these features were to give the new bank flexibility and elasticity.

Economic control over the new System was given to seven governors who are appointed by the President and approved by the U.S. Senate. Of course, ultimate control lies in the hands of the President who makes the appointments. In all important policy matters pertaining to American money and credit, his decision prevails.

In this age of radical interventionism and socialism, a sharp distinction must always be made between economic control that is decisive, and legal ownership that is empty and meaningless. The 1913 Congress that created the Federal Reserve System gave control to the President acting through his seven governors, but rested the legal ownership with the commercial banks that were to join the System. The member banks thus could be made to finance the System through the forced sale to them of "stock" that lacked any right of control. After all, the new System was to afford support and stability to commercial banks. Why shouldn't they be made to finance such benefits? At least, this was the rationale of government in 1913.

If the legal ownership of the System should ever be placed with the Federal government – which the U.S. Congress, the creator of the System, may legislate at will – the meaning and substance of the System will remain unaltered.

The Federal Reserve was to accommodate its member banks with emergency reserves and credits. After 50 years of rapid growth of government it now holds complete powers over our money and banking. It works with three important instruments to suit whatever its purposes may be at any given time. In the beginning it had – or at least used – only one. This was the *rediscount instrument.*

Rediscount Rate

Promissory notes, drafts, and bills of exchange, growing out of actual commercial transactions and with a maturity not to exceed ninety days, accepted by the commercial banks and then rediscounted with the Federal Reserve – this constituted, by law, the base and the boundary for the money the Federal Reserve could create. Thus a direct causal connection was to be established between the money supply and the demand for money. Since the total of commodity bills rediscounted was supposed to be determined by the intensity of economic life, basing the money supply on that total was supposed to bring about a perfect adjustment of this supply to the fluctuating "needs of business." This arrangement was to make money "neutral," smoothly rendering the vital service of a medium of exchange without itself affecting prices.

Of course, it did no such thing. The volume of "paper" thus offered the Federal Reserve for rediscount – and hence the amount of currency and credit it could feed into the economy – was determined primarily by the *rediscount rate* which the Federal Reserve itself established and could change at will. As so often happens, the planners had put the cart before the horse.

Also, by 1935, the boundaries in this channel of operations had been materially widened. The paper presented to the Federal Reserve for advances to its member banks no longer had to arise out of commercial transactions. It could even be government securities. If the notes, drafts, or bills of exchange had been drawn "for agricultural purposes," they could now have a maturity of nine months instead of three. Not only banks, but individuals, partnerships, and corporations also had been given access to the discounting facilities of the System. Finally, in 1942, the Federal government was authorized to borrow up to five billion dollars directly from the Federal Reserve. And every loan the Federal Reserve System made to any borrower, for any purpose, under these relaxed conditions, allowed it to issue that much more currency, or credit in the form of a bookkeeping entry subject to the check of the borrower.

Open-Market Operations

The second tool of the Federal Reserve System is its authorization *to buy or sell certain securities in the open market.* The original Act granted it this power to buy and sell obligations of the United States, and of any state, county, district, political subdivision, or municipality in the United States.

By the 1920's it was recognized that these open-market transactions by the Reserve Banks offered an important method of central credit control. So a concentration of this power into the hands of one regulatory body was advocated. Legislation enacted in 1933 decreed that no Federal Reserve Bank should engage in open-market operations except in accordance with regulations adopted by the Federal Reserve Board. To improve and formalize this centralization, the Open Market Committee was organized. And in 1935 an amendment to the 1933 Act finally provided that "no Federal Reserve Bank shall engage or decline to engage in open-market operations ... except in accordance with the direction of, and regulations adopted by, the Committee."

With this tool in familiar use, the Federal Reserve System no longer had to wait for member banks to ask for discounts and advances, at whatever rate it might have set, in order to affect the money supply. It could do so directly, on its own initiative, by buying or selling securities to make the money and capital markets more liquid or more tight, as it might wish. In payment for securities the Federal Reserve merely draws, on itself, a check which constitutes newly created money. Then, as this check is deposited by the recipient in his bank, and redeposited by that bank, it winds up as an addition to the reserve account of some bank with the Federal Reserve.

Open-market operations of the Federal Reserve may deal in long-term securities. Thus they may affect, directly and immediately, long-term interest rates and yields. They are, therefore, a quite comprehensive instrumentality of control. For this reason such operations have high prestige and preference in the plans of the money managers.

Reserve Requirements

The third and perhaps most powerful instrument of credit control in the hands of the Federal

Reserve System is its authority to *change the reserve requirements* of its member banks. Both the rediscount process and the open-market transactions either increase or decrease member bank reserves, and hence the amount of credit which these banks can make available. But changing the percentage of its deposits which a bank must keep as a reserve is an even more drastic form of influence over the money and credit supply.

Suppose a bank has one million dollars of demand deposits. If the reserve requirement is ten per cent, it must keep one hundred thousand dollars in its Reserve Bank. It may loan out or invest the rest. But if the reserve requirement should now be lowered, let us say, to five per cent, our bank would need only fifty thousand dollars as a reserve against its demand deposits. It can now lend or invest the remaining $50,000.

If this were the only effect, only $50,000 of additional money would enter the economy. In reality, however, this is merely the beginning of a chain of money creation. Let's assume that our bank decides to hold the reserves thus set free as "excess reserves." It may then extend more credit to its customers. Of course, it would have to proceed very slowly lest it lose its reserves to other banks or customers demanding cash. It cannot proceed any faster than other banks that also are expanding their credits on the basis of their newly won excess reserves.

This is an oversimplification, of course. But the impact on the capital and money markets of changes in reserve requirements is extremely potent. It is estimated that at present a fluctuation of only one per cent tends to increase or decrease the total volume of bank credit by more than six billion dollars. This authority to vary reserve requirements was given to the Federal Reserve System in 1933, *as a special emergency power*. Since 1935 it has been a permanent instrument of credit control.

A Most Important Tool in the Armory of Intervention

An appraisal of the good points and bad points of the Federal Reserve System depends on the political and economic philosophy of the appraiser. If he favors government control over our economy he will regard the Federal Reserve most favorably, for it holds absolute power over the people's money and credit.

If one is convinced of the beneficial nature of an enterprise economy, he will unconditionally reject the Federal Reserve System. He will condemn it as the controlling body of an important industry. He will blame it for having shattered the American dollar; for having caused booms, busts, recessions, and depressions; and for having made the fifty-six years of its existence a period of unprecedented economic instability.

In the opinion of this writer, this instability has fostered the growth of ideologies that are hostile to individual liberty. The Federal Reserve, through its policies of "boom and bust," helped to usher in the New Deal. And it now acts as midwife to ever more extensive government controls.

Since it began operating in 1914, the Federal Reserve System has put some $55 billion in circulation, has extended some $65 billion in credit, and thereby has depreciated the dollar by almost three-fourths. And it continues to inflate the money supply at an accelerating rate.

First, the economic planners in Washington clamor for an expansion of the volume of money and credit, in order to bring about – or sustain – a boom, prosperity, and full employment. They rejoice over wage boosts, but dislike the parallel price rises and the hardships wrought upon those with fixed incomes. They approve of additional housing construction, but disapprove of higher prices for houses. They like one set of inflationary effects, but decry the inevitable twin set. And the economic planners are always most anxious indeed to do something about these undesired effects. In order to "fight" inflation, they want to curb economic actions with credit controls, price controls, wage controls, and all kinds of other government controls over our economic lives. They want socialism. In my opinion, an acceleration of the present long-range credit expansion will lead us rapidly into the controlled economy they desire.

Under these conditions, the Federal Reserve System is the most important tool in the armory of economic interventionism. In the Governors' own words, it is the system's objective "to help counteract inflationary and deflationary movements, and to share in creating conditions favorable to sustain high employment, stable values, growth of the country, and a rising level of consumption." This is plain interventionism, with all of the planner's usual assumption of benevolent omniscience. An institution which was established as a cooperative undertaking by the banks of the country to pool their resources has developed into the right hand of the government in promoting its "New Deal" and "Fair Deal" objectives. The beautiful fallacies of socialist "central planning" are being substituted for the hard, but lasting and productive, truths of a free market. And the Federal Reserve System supplies the magician's cloth under which the substitution is made.

Its part in the colossal metamorphosis of our country is not limited to the maintenance of cheap money, in order to prolong or create a boom. It also provides the government itself with the money the planners think they should have, beyond the amount they dare take directly in taxes.

The Federal Reserve System facilitates the government's own inflationary financing "in periods of emergency." It makes easy the inflationary financing of budget deficits and the inflationary refunding of government loans. It stabilizes the government bond market through inflationary methods and manipulates this market to the advantage of the government. It does all of this by wrecking the purchasing power of the dollar; by subtly stealing from the people of this country what it thus provides for the government, through a process similar to the coin-clipping of ancient kings – but much more diabolical because so much less visible.

Emergency Banking Laws

No matter how grave our indictment for past and present evils, we must anticipate an even more ominous role of the System in the future. For periods of national emergency, all administrations since that of Eisenhower have issued emergency banking regulations that grant extraordinary powers to the Federal Reserve System. Although these may differ in detail, in substance they are much alike.

For instance, let us look at Emergency Banking Regulation No. 1, issued on January 10, 1961. It is probably the most radical order that ever emanated from an American government. Yet, few voices of protest are heard, for few would dare oppose government preparations for a national emergency.

Emergency Banking Regulation No. 1 is just one of a number of emergency measures that would impose government control over rentals, prices, salaries and wages, and introduce rationing. The Regulation orders the instant seizure of most bank deposits "in the event of an attack on the United States." The Regulation is based on The Trading with the Enemy Act of October 6, 1917, and covers all banking institutions, including every commercial bank, trust company, private bank, savings bank, mutual savings bank, savings and loan association, building and loan association, cooperative bank, homestead association, credit union, and United States postal savings office.

Section 2 of Chapter V is most shocking in its wanton denial of individual freedom and private property. Lest we be suspected of misinterpretation, we quote:

"(a) No depositor or share or savings account owner may transfer in any manner or by any device whatsoever any balance to his credit on the date on which this Regulation becomes effective, except for the payment of (i) expenses or reconstruction costs vital to the war effort, (ii) essential living costs, (iii) taxes, (iv) payrolls, or (v) obligations incurred before the date on which this Regulation becomes effective, to the end that the best interest of the war effort and the public will be served.

(b) Banking institutions shall prohibit the transfer of credit in any case where there is reason to believe that such transfer is sought for any unauthorized purpose.

(c) After this Regulation becomes effective, banking institutions shall retain until released by Federal authority the original or a photographic copy (face and reverse sides) of each check and other evidence of transfer of credit in the amount of $1,000 or more."

In short, your money in the bank is blocked unless you propose to spend it toward the war effort, i.e., buy U.S. Treasury obligations or finance expenditures deemed "vital" by the government. You may withdraw your money for living expenses, but only sums deemed "essential." You may pay taxes and wages, and discharge old obligations. But any other use of your money is prohibited. Let us assume that you were saving for another car, new furniture, or a house, or for your children's college education. As such objectives can hardly be called "essential," neither for the war effort nor individual living, your money could be blocked.

The Emergency Regulation would permit business to pay taxes and wages, but deny all other expenses of doing business. After all, manufacturers need materials, tools, and equipment in order to produce goods and services. Merchants need ever new supplies of merchandise in order to stay in business. Even professional people, such as doctors and dentists, have expenses other than taxes and wages. This is why the Regulation would halt all economic activity but that of government. In fact, no enemy attack no matter how devastating to human life and property could conceivably have a more disruptive effect than the Emergency Banking Regulation.

Chapter VI, Section 1, of the Regulation would radically change the very nature of banking.

"No banking institution may make any loan, extend any credit, or discount or purchase any obligation or evidence of debt, unless it is established and certified in writing by the borrower and a banking institution that the purpose is to pay (i) expenses or reconstruction costs vital to the war effort, (ii) essential living costs, (iii) taxes, or (iv) payrolls, to the end that the best interests of the war effort and the public will be served."

It is ironic that the stated purpose of the Regulation is "continuance of operations and functions" of all banking institutions. Indeed, banks would be required to "remain open and continue their operations and functions." (Chapter IV, Section 1). In reality, the stated purpose should read "cessation of all banking operations and assumption of the exclusive function of government finance." After all, what is banking? It is negotiating credit between lenders and borrowers, and maintaining cash balances for the convenience of depositors. It is obvious that banking ceases to exist if credit can no longer be negotiated and cash no longer be paid upon demand by the depositors. The Emergency Regulation would make all financial institutions agencies of the U.S. Treasury, with the Federal Reserve System as a subtreasury that polices the banking system.

IDEAS ON LIBERTY

Trade in Good Faith

THE ECONOMIC LIFE of the world in 1913 went on in an atmosphere of good faith. Men with liquid capital used the capital themselves confidently in business enterprises or loaned their capital at market rates of interest to others who would use it in productive operations. There were no billions of dollars of "hot money" such as characterized the decade of the 1930's, moving nervously about from one financial center to another through fear of confiscation or through fear of further currency debasement — moving from countries which their owners distrusted more to countries which they distrusted less, but finding nowhere a place which they could really trust.

BENJAMIN M. ANDERSON,
Economics and the Public Welfare

Willmoore Kendall Contra Mundum

I KNEW Willmoore Kendall, who is now presented posthumously in a wide-ranging selection called *Willmoore Kendall Contra Mundum* (Arlington House, $11.95), when he functioned as the book editor at Bill Buckley's *National Review.* I had heard stories that he was a most "difficult" man, forever getting into trouble with his colleagues, whether at Yale or elsewhere, for disputatious reasons that, according to Dwight MacDonald, often ended in the "shouting stage." But, like Jeffrey Hart, who contributes an illuminating biographical introduction to this representative collection of Kendalliana, I found him to be unfailingly considerate at all times.

I could only conclude that most of the difficulties that Kendall encountered came from the "liberal" bias of academia, a bias that refused to accept the fact (which Kendall insisted upon) that older American orthodoxies that still prevailed beyond the limits of the campus had a continuing legitimacy, even though (as in the case of Senator Joe McCarthy) their proponents sometimes made stupid mistakes in arithmetic. It was the standard opinion at the Yale of Willmoore Kendall's time that "McCarthyism" imperiled academic freedom, yet ironically, the only academic causualty of the "McCarthy period" that I know was Willmoore Kendall, who was chivvied into relinquishing his professorial tenure because he insisted on the need for strong means to keep Communist subversives out of sensitive positions in Washington. The actual "McCarthyism" of the campus in the Fifties and early Sixties was practiced by the liberals themselves, and Willmoore Kendall was their most conspicuous victim.

But what were Kendall's actual positions? As one uncovers them in the articles in *Willmoor Kendall Contra Mundum,* they were mostly derived from an intense preoccupation with *The Federalist,* particularly the contributions of James Madison. Kendall had his reservations about John Locke because, as he saw it, Locke's thinking (which trusted to the good sense of the British parliament) provided for no substantial defenses against the possible madness of a majority as represented by a single branch of government. It is the triumph of the American system that it has provided for what Kendall calls "the two majorities." The same electorate that selects the President as the leader of "all the people" also determines the composition of Congress, which, through its committee system and its control of the purse, often acts as a brake on what a Utopian occupant of the White House might want to do. This is the Madisonian system as bequeathed to us by the Founders, to whom Kendall made the unorthodox obeisance of accepting all their goals, the necessity of providing for the common defense and maintaining a more perfect union as well as the desirability of protecting such individual rights as free speech and freedom of assembly.

One thing that made Kendall "difficult" was his refusal to slide around the great enigmas of our time. How does one reconcile a belief in justice with a belief in majority rule? (After all, an absolute majoritarian must concede the right of 50.1 per cent of the voting population to send 49.9 — including nonvoters — to the gas chambers.) How does one square the use of the Fourteenth Amendment to compel many things that were left to the jurisdiction of the States, or to the individuals themselves, by the Ninth and Tenth Amendments? (After all, nobody has ever argued that the Ninth and Tenth Amendments have been repealed.) Kendall could not settle the great contradictions, but he insisted that they be confronted and argued about. And this made him an uncomfortable fellow among his faculty colleagues in the university common room, most of whom accepted an unconscious bias for the Declaration of Independence, which stresses equality, and against the Preamble to the Constitution, which says nothing about it. But if Kendall wasn't liked by his fellow professors, his faculty for directing students to the actual words of our basic documents made him a great teacher.

In his essay on "The Two Majorities" Kendall speaks of the "bias toward Quixotism inherent in our presidential elections" and the "corrective" of "Sancho Panzism" as applied by the off-year and staggered elections for Congress. He himself was Don Quixote in his hopes that universities could actually provide for real confrontation of issues and Sancho Panza in his willingness to undercut the modern liberal orthodoxy. His bloodiest fights came over his insistence that "equality of opportunity" is the *ignis fatuus*, the light of fools, of modern political discourse. To get "equality of opportunity," one would first have to abolish the family, which would be wrong. Secondly, one would have to level off incomes and accept some form of socialism. This would not only be morally wrong in Kendall's opinion, but it wouldn't work.

Kendall trusted the "second majority," that of Congress, to resist the attempt to legislate "equality of opportunity." He didn't live to see what our judges are doing to confuse our educational scene, but he would, if he were still around, almost certainly make the point that it must hurt everybody, the poor included, if superior minds are to be kept by a leveling process from getting a superior education. If it hadn't been for inequality, the poor would never have had the benefits resulting from such modern commonplaces as vaccination, pasteurization or, indeed, the electric light bulb. We all have a stake in letting the uncommon man get all the opportunity that his genes, his family or the pure luck of an unequal draw can give him. This doesn't mean that when compulsorily seized tax money is being spent it shouldn't be disbursed in accordance with a sense of equal justice. But it does mean that nongovernmental agencies, such as the family, the corporation, the foundation and the private school, should be left alone to favor individuals and causes as they choose. Out of the variety of inventions, discoveries and good works that come from letting individuals push their unequal faculties as far as they can, we get a far better quality of life for everyone than would otherwise be the case.

Kendall was always delightfully alive to paradoxes. He multiplied difficulties for himself by his refusal to allow people – such as myself – to ground their assertion of rights on feelings that we must assume are fairly common to human beings everywhere. John Locke, I take it, based his claim that governments are instituted to protect the individual in his right to life, liberty and property not only on what he took to be historical evidence but also on his own interior feelings. Those feelings happened to be in accord with what is asserted as Revelation ("Thou Shalt Not Steal" and "Thou Shalt Not Kill"). In his own thirst for both divine sanctions and human delaying agencies, Willmoore Kendall couldn't admit that Locke was doing the best he could in a pre-Madisonian situation. If Locke had had to corral thirteen separate colonies under one Constitutional roof, he might have done more to eliminate the dangers inherent in a pure majoritarianism as practiced by a single arm of government.